US Assistance, Development, and Hierarchy in the Middle East

Aid for Allies

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I dedicate this book with affection to my husband, Doron Zimmermann, whose provocative questions, generosity of knowledge, and strength struck me from day one—and without which this book would not exist.

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As with any journey that occupies nearly a decade of one's life, this book is not only the work of its author but also of mentors, friends, family, and benefactors who have helped along the way.

I completed a narrower version of this project at the University of Virginia, where my interest in theoretical anomalies led me to write a doctoral dissertation on US assistance and state building in Egypt, Jordan, South Korea, and Taiwan. My dissertation advisor and teacher, David Waldner, provided critical advice in this initial stage of my work, and encouraged me to look more deeply into the concept of parallel institutions. Herman Schwartz was a source of kindness and wisdom, and Bill Quandt made my field research in Egypt logistically possible. I am grateful to the Council of American Overseas Research Centers/American Center of Oriental Research, the US–Egypt Binational Fulbright Commission, and the Miller Center GAGE Program for supporting my fieldwork in Amman, Cairo, and Washington, DC.

As an assistant professor at Wesleyan University, I was inspired to expand the thematic scope of this book to international hierarchy, as well as to limit its regional focus to the Middle East by taking on the well-documented yet complex case of US assistance to Israel. I am grateful to Wesleyan and the Project on Middle East Political Science for supporting my additional research in the Middle East and at the National Archives in College Park. David Lake, Stephen Krasner, and John Owen offered early comments on my joint effort with Sean Yom to operationalize international hierarchy, the framework of which informs part of this book. I am also grateful to the Center for Global Development, the Harvard Middle

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The opinions herein are my own personal views, and do not represent those of my employer or its staff. All errors are my own.

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CHAPTER 1

What Does US Aid "Buy" in the Middle East?

Between 1948 and 2009, the US Congress obligated roughly 1.7 trillion dollars in foreign economic and military assistance, nearly one-quarter of which was destined for countries in the Middle East and North Africa.[1] Like US assistance to many other regions of the world, this aid was intended to serve various geopolitical goals, such as containing the influence of the Soviet Union, projecting US military and economic might, and thwarting international terrorist networks. At the same time, US aid became a persistent feature of many of the region's national political economies from a relatively early stage in their independent statehood, shaping the bargains that leaders made with their own societies, as well as the nature of the state institutions that were constructed to cement these ties. In countries like Iran, Saudi Arabia, Bahrain, and Israel, leaders confronted fundamental dilemmas over supporting US geopolitical preferences in exchange for budget support, technical assistance, weapons, and other forms of aid. Back in Washington, US policymakers struggled with the realization that, in some cases, their government's assistance was not able to "buy" the desired forms of geopolitical quiescence, and, in other cases, continuous access to US aid appeared to cultivate long-term dependencies in aid recipients that harmed their prospects for stability and development. As a result, neither US policymakers nor Middle Eastern political leaders ever fully embraced these relationships, but nonetheless muddled through decades of bargaining and re-negotiation.

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The deposal of Egyptian president Hosni Mubarak by mass protests in February 2011 led to an open condemnation of geopolitically motivated assistance not only to Egypt but also to other US allies. Critics alleged that US assistance had reinforced an oligarchy of senior military officers, businessmen, bureaucrats, and ruling National Democratic Party (NDP) figures that concentrated wealth among themselves and, in later years, refused to comply with American demands to liberalize political contestation and better police the Gaza border. US assistance, they claimed, did not improve the plight of average Egyptians, who suffered from unequal access to capital, a bloated and inefficient bureaucracy, patchy social services, and police brutality.[2] In Cairo, protesters mocked US assistance as a spell from Tel Aviv and later attacked the US Embassy, desecrating the American flag. Such criticism overpowered traditional praises of the US–Egypt relationship, including the US Agency for International Development's (USAID) support of physical infrastructure and economic reforms, and the expedited passage of US military vessels through the Suez Canal—which also bore substantial evidence in their favor.[3] The failure of US military interventions and state building operations in Afghanistan and Iraq, whose shortcomings were meticulously documented, lent additional momentum to these criticisms.[4]

What has US assistance "bought" in the Middle East? This book takes on this question not only as a matter of Beltway pragmatism, but also as a means of locating US aid in a broader understanding of political and economic development in the region. US assistance must not merely be conceived of as an investment by a superpower seeking a geopolitical return. It is also a commodity that various Middle Eastern leaders have coveted as a means to stabilize their own rule and pursue national development and security plans—as well as avoided in fear of restricting their own future options and angering their own publics. The study therefore treats Middle Eastern leaders, and the broader domestic political milieu from which they emerge, as an essential area of inquiry. The nature of US assistance, as well as its broader impact on its allies' state institutions, economic development trajectory, and sovereignty, has not only been manufactured in Washington but also in places like Cairo, Jerusalem, and Tehran.

It would be impossible to meaningfully cover all Middle Eastern cases of US assistance in a single book. The list is simply too long, and, in addition, important variation among the cases would complicate the formulation of first-cut theoretical propositions, an important goal of this study. For instance, Turkey's secular Kemalist regime received abundant US economic and military assistance from 1947 through the early 1970s, a period in which the country also underwent substantial industrialization and democratization. As Great Britain's imperial footprint shrunk following the Second World War, the USA was thrust into basing negotiations with various Arabian Gulf monarchies, whose leaders' posturing was influenced by access to large-scale oil rents and massive domestic opposition to a US military presence. In Iran, the US Central Intelligence Agency (CIA) helped depose the democratically elected government of Muhammed Mossadeq in 1953, leading to several years of US aid dependence that was quickly superseded by two decades of hydrocarbon windfall, and then the 1979 Islamic Revolution. In post-2003 Iraq, the USA not only provided substantial aid for post-invasion reconstruction but also retained a large military, economic, and diplomatic presence after the return of formal sovereignty in 2004. The USA has also, at various points in time, supported specific political leaderships in Lebanon and the Palestinian Territories.

The richness of available cases suggests potential for a fruitful research agenda. However, this study spearheads the effort by focusing on three carefully selected cases: Egypt (1952–2010), Israel (1952–2010), and Jordan (1951–2010). These cases permit a structured, focused comparison that can form the basis for first-cut theoretical propositions about the composition of US aid to geopolitical allies, as well as its developmental and geopolitical effectiveness. In the future, these theories can be tested against other cases of geopolitically motivated aid in the Middle East and elsewhere, and modified or qualified as necessary.

Egypt, Israel, and Jordan share some important features, including several decades or more of British occupation and hegemony prior to their independence; a prominent geopolitical position in the Middle East region; and, as Figs. 1.1 and 1.2 demonstrate, relatively continuous access to large-scale, geopolitically motivated US assistance. They also allow some other potentially meaningful causal variables, such as access to hydrocarbon rents or threat of coercive US intervention, to be held constant. Unlike the Gulf petromonarchies and Iran, Egypt, Jordan, and Israel were not net exporters of fossil fuel. Additionally, there is no evidence that the USA ever considered invading and occupying Egypt, Jordan, or Israel. To the extent that specific leaders made concessions to the USA, then, these were based on a rationale other than staring down the barrel of a gun—obviously not the case in post-2003 Iraq, for instance.

Additionally, these cases displayed marked variation in the composition of their US assistance, the developmental impact of that assistance, and the

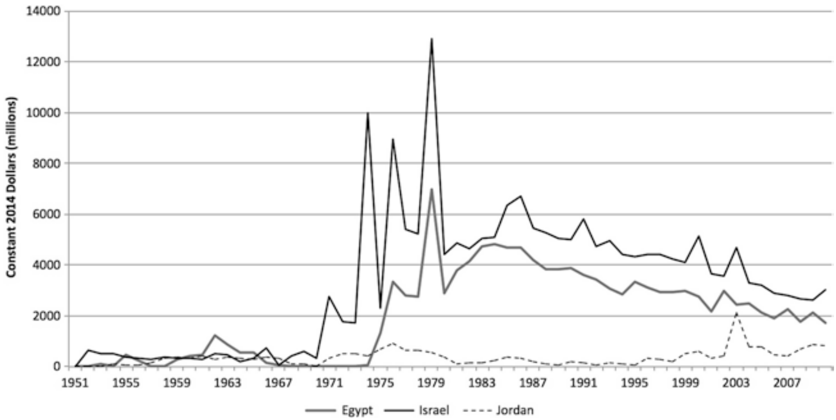

Fig. 1.1 US economic and military aid obligations as constant 2014 dollars, 1951–2010 (USAID, *US Overseas Loans*)

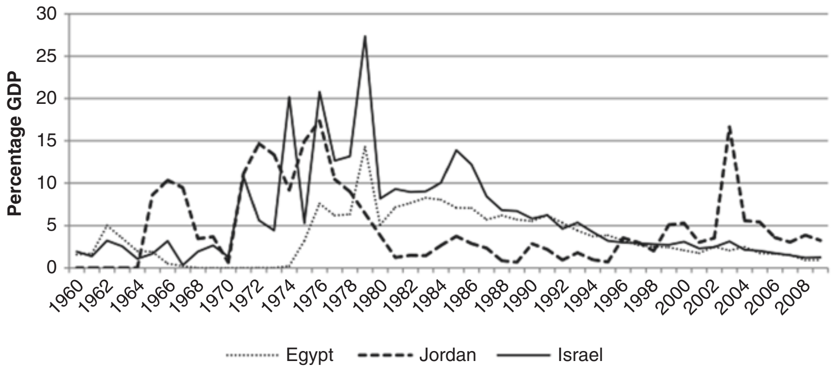

Fig. 1.2 US economic and military aid obligations as percent GDP, 1960–2009 (USAID, *US Overseas Loans*; World Bank, *World Development*)

degree to which sovereignty was sacrificed to the USA as a major donor. Israel received the largest and most discretionary forms of US aid, some of which nonetheless had the intention of restructuring Israel's political economy and upgrading state institutions. Israel graduated twice from its economic assistance program—which, in many ways, sustainably contributed to the country's economic development. However, Israel succumbed to only one instance of US policy conditionality and, in fact, would frequently act against Washington's preferences in several specific policy areas.

Jordan's aid was somewhat less discretionary, but avoided elements that would have fundamentally restructured the country's political economy. It also entailed the direct provision of public goods, such as water and sanitation, by various US aid organizations directly to Jordanian society. While Jordan vacillated among aid donors, namely various Arab oil exporters, it never graduated from its US economic aid program and often made very large concessions in its sovereignty to Washington.

US aid to Egypt was a mix of discretionary and tied traditional aid that sometimes involved restructuring elements but generally avoided them. However, by the mid-2000s, USAID was increasingly embedding restructuring forms of US assistance into more reform-minded elements of Egypt's notoriously large and burdensome bureaucracy. In the decade prior to the fall of the Mubarak regime, US aid was delivering some developmental successes and large concessions in sovereignty, an apparent happy medium for American geostrategists that was subsequently compromised over the subject of political reform, and then swept away by the 2011 protests.

This variation in US aid and its developmental and geopolitical outcomes produces three puzzles that inform three respective research questions addressed by this book. Why did Egypt, Jordan, and Israel receive such different forms of US assistance? Why did the developmental impact of this assistance vary across the three countries? And why were different amounts of state sovereignty ceded to Washington?

Geopolitical Portfolios Are Unique

We have few existing tools with which to understand variation in geopolitically motivated assistance and its outcomes. The field of development economics, which dominates the study of foreign aid effectiveness, generally excludes geopolitical aid recipients from statistical models on the basis that such aid is distinct from development and humanitarian aid. Alesina and Dollar remarked that "Being Egypt" garnered a country 481 percent additional aid, while "Being Israel" was "basically off the scale."[5] Burnside and Dollar's finding of a positive correlation between aid and growth excluded Egypt by coding it as a (highly significant) dummy variable on the basis of its strong alliance with the USA.[6] Easterly et al. then used an expanded dataset that included Jordan as one of several new cases, rendering Burnside and Dollar's initial findings statistically insignificant.[7] Yet the novelty of cases like Israel, Egypt, and Jordan does not mean that generalizations cannot be made among the universe of US geopolitical aid recipients, or even among geopolitical aid recipients in general.

The most important priority of a geopolitically motivated donor is to support and stabilize friendly leaderships, which ensures the presence of a local partner who will assist the donor in the projection of its power in the international system. This dynamic is central to the well-trod concept of patron-cliency.[8] The friendly leadership, the client, is of sufficient geopolitical importance to incentivize the donor to exert sizable political, economic, and military efforts to support the regime.[9] Throughout recent history, most of these leaders have been authoritarian, in which case the donor has supported the survival of a dictatorship, ruling family, or military regime. However, a geopolitically motivated donor can also commit to support democratic forms of rule as long as public views are broadly in alignment with its preferences and there is a slim chance that an anti-US opposition will ever attain power. This logic held up in postwar Europe, Israel, and Turkey, for instance, but not in Latin America, where successive US administrations believed that well-developed leftist opposition groups continually threatened the rule of conservative, pro-US dictators and military juntas.[10]

To a great extent, then, the USA and other geopolitically motivated donors must be conceived of as rational, unitary actors. The donor collects a variety of data pertaining to economic growth and development in the recipient; keeps tabs on the domestic opposition, enemy states, and hostile transnational groups; and carefully scrutinizes the aid recipient's political, military, and economic institutions for potentially destabilizing elements. If the donor perceives weaknesses, it can try to encourage policy changes from the local leadership, and if the needed reforms are themselves destabilizing, the donor can suggest a form of aid that would attempt to patch over the defects. This means not only donating the tools of repression, as is most evident in US aid to right-wing dictatorships in Latin America, but also complementing these leaders' abilities to court local support for their rule. Naturally, the donor's focus must straddle both short- and long-term scenarios, recognizing that whatever forms of support may be most stabilizing today may not contribute to the goal of longer-term stability.

A geopolitically motivated donor is willing to put significant resources into assistance for its close allies. These aid portfolios are usually larger in financial terms than their developmental or humanitarian cousins, employ more staff and superior technology, and entail multi-year commitments. They often contain large amounts of budget support in the form of cash transfers, commodity programs, or interest-bearing accounts. Most include the transfer of advanced weapons systems, military technology, and military training, and some may also include intelligence support and protection for the incumbent leader. And while experts and consultants are common components of humanitarian and development aid, in geopolitical portfolios technical assistance can approach a size and organizational sophistication that looks more like a standalone institution than a couple of consultants for temporary hire.

However, the formulation of US aid to geopolitical allies is not a routine, bureaucratic procedure that is free of internal discord or outside influence. A cursory examination of Department of State and National Security Council (NSC) archives reveals extensive debates over the proper size and composition of US assistance to its allies within and among different Executive Branch functions, the Congress, and the presidency. While the conclusion was often the most "rational" one from a geopolitical standpoint, deliberations were often prolonged and did not always leave consensus in their wake. Apart from the oil and gas lobby, industry groups have generally had less of a stake in the Middle East, and therefore less influence over US aid to the region (which stands in contrast to Latin America, where US commodity firms and financial institutions had large investments in the late nineteenth and early twentieth centuries).[11] Rather, the more powerful interest groups have been lobbies with ethnic, historical, or ideological ties to the aid recipient, such as American Coptic organizations, the "Israel lobby," or, in the case of Egypt, the "democracy community." As the case studies will demonstrate, these lobbies have played an important role in the formulation of US aid during defined periods of time, though not to the extent that is often portrayed in the broader literature on interest groups and Middle East politics, especially pertaining to US–Israel relations.

Geopolitical Aid and Development

A study of geopolitically motivated US assistance, like any study of foreign aid, must define "aid effectiveness." Development economists have favored per capita gross domestic product (GDP) growth as a measurement of developmental effectiveness. However, studies of aid and per capita GDP growth, even among purely developmental recipients, have not been able to identify a stable and significant correlation between the two variables. Burnside and Dollar's incorporation of good governance, the right economic policies, and capable institutions as mediating variables in such models did not withstand scrutiny.[12] In fact, a negative correlation often exists due to the “Dutch Disease” phenomenon, whereby large quantities of external revenues drive up the real exchange rate and erode manufacturing and export industries.[13] These macro-level disappointments can contrast with micro-level studies of projects that have clearly improved basic standards of human development or institutional capacity in individual countries.

Abandoning per capita GDP growth as the key indicator of developmental effectiveness, however, does not mean abandoning inquiries about aid’s broad impact on development. It is widely acknowledged that state institutions mediate developmental outcomes by regulating markets, enforcing property rights, providing infrastructure and security, facilitating successful industrial policies, and so forth. Further, most geopolitically motivated aid accrues to governments rather than to societies, allowing local leaders to incorporate these foreign resources into their own state building plans. It is therefore appropriate to consider the impact of geopolitically motivated US aid on recipient states themselves, specifically the features of those states that form the institutional underpinnings of the national economy.

All late-developing states that have led their economies into higher value-added growth have had two features in common. The first feature is moderate levels of “despotic power,” the range of policies that the state can undertake without routine consultation with society. States with too much despotic power may subject the fate of a country’s economy to the whims of uneducated or kleptocratic leaders, who may arbitrarily change regulations, confiscate private property, or pilfer public resources. States with too little despotic power may be unable to bypass societal rent-seekers that cause public funds to be inefficiently allocated. The second feature is high levels of “infrastructural power,” the state’s capacity to “penetrate civil society, and to implement logistically political decisions throughout the realm.”[14] Infrastructural power is generally a good thing for development, as it means that the state can detect and solve complex market failures, produce public goods, and implement deeper economic interventions across its territory. States with insufficient levels of infrastructural power cannot provide necessary protection or public services to the population, nor can they efficiently regulate markets or lead a successful industrial policy. Together, the despotic and infrastructural powers of the state comprise its “developmental capacity.”

Scholars of state formation have given remarkably little attention to how foreign assistance, let alone geopolitical aid, affects the processes by which post-colonial states have formed and aggregated specific levels of developmental capacity. Tilly's seminal work on early modern Europe, which emphasizes the importance of war to centralization, taxation, and bureaucratic differentiation, considers a period before modern foreign assistance existed. Even theories that have been specifically developed for post-colonial contexts, such as Migdal's scholarship on institutional legacies in Egypt and Israel, or Waldner's study of elite conflict in the Middle East and Northeast Asia, do not incorporate foreign aid as a causal variable even though the countries they study were major recipients of foreign aid. Kohli, who considers postwar US aid and reconstruction efforts in South Korea, attributes much of the US aid's positive influence on Korean institutions to its resurrection of Japanese colonial legacies rather than to any independent and historically divergent American influences.[15]

Perhaps the most influential literature is that of the "rentier state." Originally devised to explain the absence of democracy in Middle Eastern oil exporters, rentier theory posits that external rents exert highly deterministic effects on states, regimes, and societies.[16] According to this line of argument, leaders substitute external rents for domestic revenues, thereby severing the "taxation-representation" bargain with their citizens and aggregating higher levels of "autonomy" from their own societies. Leaders also buy political quiescence through distributing state largesse like government jobs, welfare services, and consumer subsidies, diverting funds from productive investment and causing Dutch Disease. Further, leaders have no reason to be concerned with their country's internal economic profile beyond the oil sector because they have little stake in developing the economy for taxable surplus.[17] As such, access to windfall oil revenues is a sufficient condition for authoritarianism and underdevelopment.

Some development scholars have transposed the exact same ideas onto arguments about aid effectiveness.[18] However, scholars of resource-rich states have spent nearly a decade repudiating various aspects of rentier theory. Hertog has demonstrated that Saudi Arabia possesses both pockets of institutional efficiency and productive state-owned enterprises, which are made possible by powerful princes and the country's lack of populist mobilization.[19] In Africa and Latin America, Dunning finds that resource booms can help mitigate the threat of redistribution, and therefore support democracy.[20] And Smith posits that the timing of oil booms relative to late industrialization affects both the nature of state institutions and the ability of regimes to cope with opposition.[21] In all of these accounts, domestic-level factors like politics, institutional legacies, and critical junctures condition the effects of external rents. These patterns are not random but require researchers to open the black box of domestic politics and start theorizing its contents.

In the Middle East, an understanding of domestic politics and its relationship to state developmental capacity must start with a consideration of the pre-independence period, which was characterized by widespread European intervention. From the sixteenth century onwards, the Ottoman Empire carved out a parallel legal and tax system for Europeans and in the nineteenth century began allowing its European creditors broad control over fiscal policy. French colonial rule was established in Algeria (1830), Tunisia (1881), and Morocco (1912); Italy conquered Cyrenaica and Tripolitania (1912), then united them with Fezzan (1934) to create the Colony of Libya; and Great Britain established the Aden Crown Colony (1939). The British invaded Egypt in 1882 amid concerns related to the repayment of the country's sovereign debt, and, following the Ottoman defeat in the First World War, acquired League of Nations mandates in Palestine (1920), Transjordan (1921), and Iraq (1920, 1926), while France was given a mandate for Syria and Lebanon (1920).

While not all of these interventions were strictly "colonial," most of them created local military and civilian bureaucracies that were staffed by foreigners, intervened heavily in state finances, and remained accountable to European capitals and their administrators. When the great European empires retreated, they repatriated personnel, finances, and technology, and, depending on the degree to which they had trained and used local expertise, often left shell-like remnants of the institutions that they used to govern. The state as a whole often failed to reach territories that had not been relevant to colonial ambitions. Although many European powers had engaged in repression of local populations, they rarely left behind professional militaries and police forces, let alone intelligence services that could gather critical information about domestic society or rival states.[22] In areas that had been important for agro-export, European governments had often built up a powerful conglomerate of landed elites, merchants, financiers, and other service providers that resisted subsequent attempts at taxation. A lack of revenue and bureaucratic incompetence restricted the provision of roads, electricity, education, water, sanitation, and health care—which was especially problematic in rapidly urbanizing areas.[23]

Leaders of newly independent states could, at least in principle, discard these legacies and choose their own course for development. No colonial or occupation power precluded them from destroying parasitic or obstructive social classes, reshuffling government priorities, and building institutions that could enable development and security. However, these opportunities were rarely seized in practice because many leaders, in the context of their own coalition-building activities, saw them as political suicide. Instead, many pursued shortsighted strategies that thwarted likely challengers and ingratiated themselves with important societal groups. In seeking to "coup proof" their militaries, many leaders actually sabotaged their effectiveness through costly and bloody purges, seeding internal rivalries, and using ethnic or religious favoritism.[24] Tax breaks for landed elites and capitalists, as well as expenditure for large-scale public employment and consumer subsidies, diverted funds from investment and development projects. Civil services that were premised upon patronage appointments rather than meritocratic recruitment and promotion increased the costs of doing business, as did strict employment and wage protections for workers. The resulting structural imbalances caused inflation, debt, and liquidity problems, and the diversion of scarce public services to regions populated by political supporters continued to limit the reach of the state.[25]

This historical background is far removed from the traditional, policy-oriented literature on US aid to the Middle East. However, it necessarily highlights why different leaders made different choices about state building, which then logically mediated the effect of US assistance on the state's developmental capacity. If leaders were disinclined to tax their own populations, but also spent heavily on public employment and consumer subsidies, foreign budget support merely supported (or even encouraged) fiscal deficits. If leaders were predisposed to tax their populations and depress consumption, budget support was more likely to be spent on infrastructure or hiring more talent into the civil service. If the budgetary priorities of leaders did not afford civil servants a living wage, the most qualified of them were more likely to join an aid project that offered a higher salary for more challenging work. On the other hand, if the recipient's civil service already paid its employees well, these employees were not only less likely to desert their jobs, but were also technically empowered to work with foreign advisers.[26] Using this logic, no form of aid was inherently more or less effective in driving development—rather, its (in)effectiveness hinged on a historically conditioned, domestic political context.

Geopolitical Aid and the Projection of US Power

Following Hans Morgenthau's claim that "The transfer of money and services from one government to another performs … the function of a price paid for political services rendered or to be rendered," a second aspect of aid effectiveness is the projection of the aid donor's power and influence abroad.[27] Providing assistance is costly in terms of finance, human resources, and technology. A geopolitically motivated donor seeks clear assurances that these resources are somehow extending its power and influence. Recipients that "misbehave" may see their assistance reduced or terminated, and recipients that lose their strategic significance almost certainly will. Unfortunately, the literature on client states, in focusing intently on the details of resource transfers and their relationship to political stability in the recipient, often loses track of why donor country policymakers believe that a country merits their assistance at all.[28]

Power and influence that is purchased with assistance must be distinguished from normal alliance behavior—and must therefore consider the costliness of different forms of reciprocation to the aid recipient. Looking at the correlation between foreign assistance levels and voting patterns in the United Nations (UN) General Assembly is not likely to be helpful, as aligning votes with donor preferences in an international organization may be both cheap for the recipient and, in the case of the USA, meaningless to the donor.[29] Rather, the most costly concession that a leader could make would be to sacrifice a piece of his state's sovereignty in exchange for aid—a move that is usually politically controversial at home and restricts his own future freedom to maneuver.

Lake's groundbreaking work on international hierarchy posits that, even in a world populated by nominally sovereign states, larger states will seek to appropriate the effective sovereignty of smaller states for the purpose of neutralizing geopolitical threats, biasing international policy structures to favor their positions, and maximizing their economic inflows.[30] To the extent that a donor can help them stabilize the domestic arena, develop their economies, access international markets, and protect their national security, leaders of smaller states may be willing to cede elements of their own states' valuable sovereignty. As my joint work with Sean Yom further elaborates, a hierarchical dyad is obtained when a "dominant state" provides an "order-maximizing resource" to a "subordinate state," which subsequently cedes an element of its own sovereignty as payment.[31]

After the end of the Second World War, there emerged a natural market for relationships of international hierarchy between the superpowers and Middle Eastern leaders. As the USA and the Soviet Union combed the region for military-ideological allies and access to fuel, military bases, and transport routes, many incumbent leaders saw opportunity in partnering with Washington or Moscow. Independence had confronted them with the challenges of securing domestic stability, economic development, national security, and access to international markets. Existing institutions were often poorly equipped for these tasks, and the measures that incumbent leaders would need to take to upgrade them were often fraught with political perils. Thus, seeking to acquire the outputs of strong states without actually building their own, many leaders looked to the superpowers to provide resources they needed to both stay in power and pursue their own developmental and security objectives. The USA or the Soviet Union would provide some form of assistance to an incumbent leader, who would in turn cede control over some of his own state's sovereignty as payment. The exchange was contractual rather than coercive, and appeared to benefit both parties. Washington's interests in the region remained anchored by its relationship with Israel, oil price stability, basing requirements, and (after 2001) the need for regional support in counterterrorism operations—allowing the market for international hierarchy to thrive even after the end of the Cold War.

Framework of the Study

How can we account for variation in the composition of US assistance to Israel, Jordan, and Egypt, as well as its variable impact on the state's developmental capacity and sovereignty concessions? This book is built on the premise that US assistance to Egypt, Jordan, and Israel ought not be relegated to historical, case-specific accounts or dismissed as serendipity. In fact, it argues that all three questions have a common answer: the survival strategy of the aid recipient's incumbent leader (Table 1.1).

Incumbents who use "distributive strategies" view the provision of selective benefits to their ruling coalition as their most important domestic priority, and see the principal function of the state as implementing this distribution. Incumbents that use "non-distributive strategies" do not view the provision of selective benefits as their most important domestic priority, and do not envision the state's primary role as delivering selective benefits to their ruling coalition. Israel's democratically elected leaders

Table 1.1 The arguments

Incumbent survival strategy	*Country*	*Type of US aid*	*Impact on state developmental capacity*	*Sovereignty concessions*
Non-distributive	Israel	No parallel institutions, restructuring forms of aid possible	Positive	Low
Distributive	Jordan, Egypt (Nasser, Sadat)	Parallel institutions, restructuring forms of aid not possible	Negative	High
Hybrid	Egypt (Mubarak)	Parallel institutions, limited restructuring forms of aid possible	Mixed	Very high

generally pursued non-distributive strategies, albeit with a brief respite between 1967 and 1985, a period of moderate distribution. Jordan's Hashemite kings, as well as the dictatorships of Gamal Abdel Nasser and Anwar Sadat in Egypt, pursued distributive survival strategies. Mubarak eventually adopted a hybrid strategy that relied simultaneously on distribution and non-distribution, each of which served distinct political constituencies.

In the formulation of US assistance, distributive incumbents resisted types of aid that would have disrupted the flow of selective benefits to important social constituencies. They sought traditional, discretionary forms of assistance that could be easily absorbed into distributive networks, as well as "parallel institutions" that could deliver public goods directly from the USA to their own societies.[32] The USA largely concurred with these preferences, though in times of looming economic or political crisis, US policymakers advocated activities that were believed to facilitate longer-term stability. By contrast, non-distributive incumbents and the USA agreed on forms of assistance that would restructure and upgrade institutions, and eagerly embraced opportunities to transfer and absorb US technology. Parallel institutions were rendered unnecessary because of evolving indigenous capabilities to produce public goods. As a hybrid incumbent, Mubarak sought traditional, discretionary forms of assistance to support distributive networks and rejected aid that would have dismantled them, while simultaneously seeking assistance that could help reformers in his coalition accomplish limited reforms. Again, the USA largely concurred, offering discretionary aid and arming reformers with parallel institutions to assist in regulatory reform. However, Washington also advocated activities that could potentially reinforce longer-term stability. This approach generally worked well until the second George W. Bush administration, when a debate over US democracy and governance activities spiraled out of control, ultimately harming other US aid activities and the overall bilateral relationship (a development which is not theoretically elegant, but which cannot be overlooked!).

Incumbent survival strategies also shaped the effect of US assistance on the state's developmental capacity. Logically antecedent to the receipt of US assistance, distributive strategies locked in tax breaks, large-scale public employment, subsidies, and other selective benefits to members of the leader's ruling coalition, thereby restricting the leader's ability to introduce policies that would interrupt these flows. Forms of US assistance that had extensive contact with local political authorities and institutions became part of these distributive political economies and perpetuated them, undermining infrastructural power. In addition, parallel institutions exerted independent effects, increasing public goods provision but also acting as stopgap measures that disincentivized deeper reforms, posed coordination problems, eroded state-society linkages, siphoned qualified labor from local institutions, and, in some cases provided conditions conducive to corruption. In non-distributive polities, leaders already had the political leeway to introduce new developmental policies and expand the state's core capabilities. As such, these leaders simply incorporated US assistance into existing plans for institutional upgrading, which were consistent with higher levels of infrastructural power. Under Mubarak, US aid's developmental impact remained circumscribed by the distributive element of Mubarak's survival strategy, and after his deposal, even the limited gains achieved within the framework of non-distribution were relegated to history.

Finally, the amount of sovereignty ceded was shaped by the incumbent leader's dependency on American resources. Distributive incumbents undermined the developmental capacity of their own states and, in so doing, curbed their ability to generate distributive and public goods, information, market access, means of coercion, and/or territorial defense. Unable to produce these order-maximizing resources through purely indigenous means, and unwilling to undertake the necessary reforms that would enable them to do so, distributive incumbents subordinated their states' sovereignty to the USA (and sometimes to other donors). This logic did not apply to non-distributive leaders, whose states' indigenous capability to produce order-maximizing resources allowed them to reject Washington's designs on their sovereignty without fear of causing a major domestic political upheaval, or off-roading their development and security plans. Mubarak's use of a hybrid survival strategy did not result in moderate but rather extreme concessions of sovereignty. He needed US assistance to protect and assist the reformers in his coalition, as well as assistance that could help placate the demands of distributive constituencies.

The story told in this book is therefore not only of a key US foreign policy tool, but also a story about the conflicting priorities that have defined the process of political development in the Middle East. On the one hand, incumbents balanced their variable need for assistance alongside the fact that Washington would not only try to extract concessions for its help, but at times also had clear ideas about what forms of aid would best maximize the stability of the friendly regime and the overall bilateral relationship. The USA, on the other hand, was forced to accept that securing friendly regimes in the Middle East often meant throwing a seemingly interminable stream of money, technology, and expertise at its allies—and, to the extent that recipients weaned themselves from these resources, they were in a better position to rebuff Washington's demands.

Plan of the Book

In order to balance theory building with historical evidence, this book presents the general theoretical framework and methodology in Chap. 2 and then substantiates it with separate and largely chronological case studies of Israel, Jordan, and Egypt. Each case study is presented as a unit that is divided into three chapters that consider, respectively, (1) incumbent survival strategies and their effects on state developmental capacity logically antecedent to the receipt of US aid; (2) how the USA made decisions about formulating its aid to a given country over time, and how those formulations aligned with incumbent survival strategies; and (3) the developmental and geopolitical effectiveness of US aid in a given country over time, and how these varying levels of effectiveness aligned with incumbent survival strategies. The conclusion reviews the major theoretical propositions of the study and situates them in a broader research agenda on geopolitically motivated US assistance to the Middle East and other regions.

Notes

1. Author's calculations. This figure is in constant 2009 dollars because it aggregates aid figures over time; yearly figures, however, will generally be presented in historical terms. USAID, *U.S. Overseas Loans*.
2. Bandow, "Foreign Aid;" Froetschel, "Concerned About;" Grimaldi and O'Harrow, "In Egypt;" Rieff, "The Failure;" US Embassy Tel Aviv, "DAS Danin;" Brownlee, *Democracy Prevention*.
3. Pritchard, *Sustainability;* Ricciardone, *Endorsement*.
4. Allawi, *Iraq*; Special Inspector General for Iraq Reconstruction, *Hard Lessons*.
5. Alesina and Dollar, "Who Gives," 40.
6. Burnside and Dollar, "Aid, Policies."
7. Easterly et al., "Aid, Policies."
8. Gasiorowski, *US Foreign*; Sylvan and Majeski, *US Foreign Policy*.
9. Majeski and Sylvan, "Policy Instruments."
10. Rabe, *The Killing*.
11. Maurer, *The Empire*.
12. Dalgaard and Hansen, "On Aid;" Hansen and Tarp, "Aid and Growth;" Rajan and Subramanian, "Aid and Growth."
13. Yano and Nugent, "Aid, Nontraded Goods;" Rajan and Subramanian, "Aid, Dutch Disease."
14. Mann, "Autonomous Power," 189.
15. Tilly, *Coercion, Capital*; Migdal, *Strong Societies;* Waldner, *State Building*; Kohli, *State-Directed*.
16. A rent is defined as a good or factor of production that creates more income than is needed to make it profitable to produce the good or to use the factor of production.
17. Beblawi and Luciani, eds., *The Rentier State*; Ross, "Political Economy;" Ross, "Does Oil Hinder."
18. Heller, "Model of Public;" Kimbrough, "Foreign Aid;" Feyzioglu et al, "A Panel Analysis;" Remmer, "Does Foreign Aid."
19. Hertog, "Shaping the Saudi;" Hertog, "Defying the Resource;" Hertog, *Princes*.
20. Dunning, *Crude Democracy*.
21. Smith, *Hard Times*.
22. Rose, "Dynamic Tendencies;" Stepan, *Rethinking Military*; Davenport, "State Repression."

23. Levi, *Of Rule*; Migdal, *Strong Societies*.
24. Quinlivan, "Coup-proofing."
25. Moore, *Doing Business*; Waldner, *State Building*.
26. Berg, *Rethinking Technical Cooperation;* Arndt, "Technical Cooperation."
27. Morgenthau, "Political Theory."
28. See, for example, Sylvan and Majeski, *US Foreign Policy*.
29. Nonetheless, some scholars do consider UN voting patterns to be a form of geopolitical concession. Dreher et al., "Does US Aid Buy."
30. Lake, *Hierarchy*.
31. Peters and Yom, "US Hierarchy;" Zimmermann and Yom, "International Hierarchy."
32. Zimmermann, "State as Chimera."

CHAPTER 2

Aid and the Logic of Political Survival

The principal argument of this book is that the survival strategies of incumbent leaders in Egypt, Jordan, and Israel not only shaped the composition of US foreign assistance to their respective countries, but also the effect of this aid on the state's developmental capacity and sovereignty. Given that only three cases are involved, the argument must discard statistical correlation in favor of developing a theoretical backbone that is corroborated by case study evidence. However, the theory is composed of distinct concepts that require explanation, as well as causal linkages that require development and substantiation. This chapter will provide the needed conceptual frameworks and theoretical building blocks of the argument, as well as alert the reader to rival hypotheses that will be addressed throughout the book. It concludes with a discussion of the process tracing and congruence testing methods that will be employed in the case studies, and an overview of the source material.

Incumbent Survival Strategies

All incumbent leaders, whether kings, dictators, or democratic presidents, devise strategies to best secure their term in office, as well as prepare the office for their favored successors. These strategies are diverse and can involve coercion, ideology, elite co-optation, and the manipulation of institutional rules and procedures.[1] However, the most relevant aspect of survival in the context of this study is "material provision," the distribution of selective benefits (non-public goods, such as money or jobs) to

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political supporters. With reference to material provision, there are two basic types of survival strategy: distributive and non-distributive.

Incumbent leaders who use distributive strategies view the provision of selective benefits to their ruling coalition as their most important, if not exclusive, domestic priority and see the state's principal function as implementing distribution. The precise nature of distribution depends on which societal groups form the leader's coalition of political supporters and the extent to which the leader must succumb to their policy preferences. Leaders often cater to labor groups through guaranteed employment schemes, minimum wage legislation, and worker cooperatives selling subsidized goods and services. The urban middle class can be courted through free university education, non-meritocratic and large-scale employment in the civil service, and subsidies to small and medium-sized enterprises. Leaders can favor nascent capitalists through monopoly rights, trade protectionism, wage depression, cheap capital, preferential allocation of government contracts, sweetheart privatization deals and land sales, and commercial-industrial subsidies. The support of landed elites can be sought through avoiding land reform, oppressing tenant farmers, and providing agricultural subsidies and a protected market. In all cases, the tax code can be manipulated to favor just about any societal group, and infrastructure and services can be preferentially allocated to areas where preferred groups are geographically concentrated.

The most acute distributive strategies occur when leaders attempt to placate a broad swathe of society, such as labor, the urban middle class, and nascent capitalists. Labor and the urban middle class will demand wage and employment protections, as well as consumer subsidies and access to education. Nascent capitalists will demand monopoly rights, trade protectionism, sweetheart deals, and industrial subsidies. Yet market protectionism and monopoly rights inevitably drive up domestic prices, causing labor and the urban middle class to demand yet more subsidies, price controls, and higher wages. In order to compensate for the costs that one coalition member imposes on the other, and vice versa, the leader may actually increase the selective benefits that he disburses to each group, a phenomenon that Waldner calls "side payments."[2] Side payments serve the purpose of cementing a marriage between two or more mutually acrimonious coalition partners.

For non-distributive incumbents, the provision of selective benefits is not their most important domestic priority and they do not envision the state's primary role as distribution. Some incumbents rely on their general contribution to the public welfare for political support. They may also utilize other tools. For instance, the political leadership's willingness to coerce subaltern classes that would have typically mobilized to demand large-scale public employment and consumer subsidies seems to have been a necessary condition for East Asian developmental states—as was their leaderships' ability to punish industrialists for not meeting cost and production targets, or exceeding acceptable levels of corrupt behavior.[3]

It is also possible for leaders to pursue a hybrid survival strategy in which the leader cultivates one set of distributive institutions that serves groups such as labor, an urban middle class, and nascent capitalists, while a smaller, more efficient, and more market-oriented administration is built up alongside it to serve more developed capitalists and technocrats who could benefit from specific market reforms. The result is a large and inefficient public sector in which multiple, semi-autonomous "pockets of efficiency" are embedded.[4] Such systems often perform better than their purely distributive counterparts for a time, but they entail a great deal of social and institutional tension, and leaders must always balance the desire of each constituency to destroy the other.

The adoption of a particular survival strategy is not purely a function of leadership choice, but neither is it predetermined by structural factors such as access to windfall external rents (such as oil or aid) or ethnicity (such as being Arab or being Jewish). Rather, high levels of elite conflict can prompt competing political groups to mobilize large, cross-class coalitions that later cannot be pared back.[5] Military juntas may come to power with few roots in society and a poor relationship with status quo elites, requiring them to quickly mobilize subaltern classes. Elected populist leaders may come to realize that they need the support and cooperation of local capitalists to generate the necessary revenue for their more distributive projects. Leaders who find themselves with practically no institutional fundamentals at the outset of their rule may be highly dependent on a variety of societal groups to provide state-like functions, such as lending money to the state or providing internal security, and are therefore unable to turn down their demands for selective benefits. Other leaders may have greater abilities to pursue non-distribution. They might inherit institutions that they can use to co-opt elites and suppress the demands of populist constituencies, or they might find their countries under such acute systemic threat that succumbing to distributive demands would mean military defeat and conquest.[6] All of these dynamics are present in the three cases considered here, and are shaped to some extent by dynamics from the pre-independence period of British hegemony.

State Developmental Capacity

What does it mean to say that a state is developmental or not? Concepts of developmentalism are generally concerned with (1) the state's ability to formulate developmental policies independently of rent-seeking interests in society; (2) the financial, human, informational, and organizational resources of the bureaucracy; (3) the outcomes of various state interventions in society and the economy; and/or (4) differential developmental outcomes across territory.[7]

Michael Mann's dual conceptualization of state power into despotic and infrastructural elements handily captures all of these perspectives. Despotic power is the state's ability to formulate policy without routine consultation with society; evoking the tale of *Alice in Wonderland*, Mann likens it to the Red Queen's ability to shout, "Off with his head!"[8] Despotic power addresses dynamics at the level of political power and leadership, namely how autonomous the leader is from macro-level forces in society (such as entire social classes or ethnic groups) when he formulates policy mandates. High levels of despotic power are characterized by few routine consultative mechanisms between a leader and society, as well as a leader's outright willingness to resist societal demands. Low levels of despotic power are characterized by many routine consultative mechanisms with society, as well as the informal influence of societal groups. A moderate level of despotic power is good for development because it allows leaders to overcome the influence of rent-seekers and introduce reforms that serve the public good, but it is not sufficiently permissive to allow them to plunder public resources with no accountability.

Despotic power in democracies is inherently bounded, although its precise level varies based on factors like the concentration of executive power, degree of top-down party discipline, or the permissiveness of crisis situations. Authoritarian regimes tend to possess greater coercive resources that can suppress societal demands, but they do not necessarily have high levels of despotic power. All authoritarian leaders are responsible to some coalition of supporters within society, and to some extent must cater to its preferences. In some cases, only a few powerful families may have the ear of the leader, while in others the leader may be heavily constricted by the need to service many groups and their preferences, even if they do not have any formal role in governance.

Infrastructural power is the ability of the state to penetrate society and implement policy over territory: identifying the Knave, tracking him down, arresting him, bringing him back to the Queen, procuring the executioner, cleaning up the royal hall, and publicizing the death. It is a more complex concept than despotic power and has therefore been used inconsistently by scholars. However, Soifer has extrapolated three distinct components of infrastructural power that can be operationalized individually: core capabilities, the effect of the state on society, and the presence of the state over territory.[9]

The core capabilities of the state are the resources and tools that allow bureaucracies to implement their policy mandates. A state with high core capabilities has a civil service whose size is appropriate to the state's role in the economy, and which hires and promotes employees based on merit. These elements render the bureaucracy more autonomous from rent-seekers that could disrupt the implementation of policy at the meso-level (e.g., a minister who blackmails the director of a state-owned bank to obtain a loan for his ministry) or the micro-level (e.g., a contractor who pays off a local bureaucrat to overlook his illegal building practices). The state should possess economic institutions whose mandates and operations are suited to the country's economic model, modern administrative technologies and employees who know how to use them, and sufficient physical buildings and space for operations. The state should also have access to a sufficient quantity and variety of revenues, including income, sales, and capital gains taxes, in addition to indirect taxes on trade, and a manageable debt service that allows it relative freedom to allocate funds toward priority projects. The military and police services should have meritocratic and well-trained officer corps; access to defense technologies, arms, and surveillance technologies, as well as employees who know how to use them; and sufficient physical installations, such as military bases, camps, barracks, and prisons. Both the military and civilian arms of the state should also possess the tools to collect information necessary to their missions, and be able to coordinate across different departments, agencies, and boards.

Societal effects reflect the state's ability to penetrate society and solve complex problems. One such problem is the collection of direct tax, which by virtue of not being collected at the source of the transaction requires the state to collect information about income, process filings, and detect and punish tax evaders. Another example is universal literacy, which requires the state to construct schools, purchase textbooks and materials, recruit and pay teachers and administrators, detect and sanction teachers who are not performing their job well, and enforce truancy laws—or require the private sector to do so. Additionally, reducing infant mortality requires not only the immediate presence of appropriate medical facilities and personnel, but also affording would-be mothers prior access to a good standard of living. Industrialization and innovation require investments in education, infrastructure, and regulatory institutions that correct collective action problems among capitalists, innovators, and entrepreneurs.[10] As such, economic growth and technological innovation, especially for late developing countries, are very complicated challenges and therefore serve as some of the most demanding indicators of societal effects.

Finally, a state's territorial reach is the extent to which the military-administrative apparatus headquartered in the capital city is able to exert a presence over populated territory and border areas. Territorial reach can be tracked using information about the locations of public infrastructure, the frequency and severity of armed insurgencies, and information about the size of black markets and human trafficking (though the latter, for obvious reasons, admittedly boasts imperfect measurement tools).

Survival Strategies and State Developmental Capacity

Distributive survival strategies are a sufficient condition to produce states with low developmental capacity, that is, with low levels of despotic and infrastructural power. Distributive strategies bind the leader's perception of his own political survival to the state's material support for particular societal groups, thereby circumscribing the range of policies that he can feasibly introduce (despotic power). Even when an economic crisis looms, distributive leaders may be unwilling to modify the tax structure, remove consumer or industrial subsidies, liberalize markets, or introduce meritocratic employment into the civil service—for fear that their coalition of political supporters will reject them. Distributive strategies also undermine infrastructural power in various ways. At their core, they essentially convert state capabilities into private resources for members of the leader's coalition. Minimal taxation of the populace, especially capitalists, leaves the state with less money to recruit qualified employees at market-competitive salaries, invest in public works projects, or build new institutions that can effectively manage changing economic and social circumstances. Salaries for oversized civil services and security sectors, consumer and industrial subsidies, and payments to private individuals further reduce the state's available finances. Further, the distribution of civil service and military positions among politically important individuals and groups means that the best talent is not necessarily recruited, and there is little incentive for these employees to perform their jobs well. Institutional fiefdoms may emerge under the control of rival individuals and groups, creating confusing and overlapping organizational mandates, as well as attempts to sabotage the work of rivals.

States with so few capabilities are inherently limited in their capacity to solve complex societal problems. These states lack necessary information about societal problems, their causes, and citizen preferences, as well as the analytical capabilities to generate good solutions.[11] Persistent budget deficits preclude the use of calculated fiscal stimulus measures during economic downturns, and a large, corrupt, and unqualified civil service may err in implementation or plunder the allocated resources. Such states may also have problematic linkages with their own societies that hinder policy implementation, driving citizens who reject the state's authority to engage in sabotage.

Finally, a state with minimal capabilities and little societal reach cannot aspire to full territorial control. Rather, the state's presence tends to be focused on important population centers or geographical regions. Leaders may overlook the enforcement of the rule of law in regions that are politically valuable, while also showering them with material benefits. Other regions that are less politically valuable may receive a disproportionate amount of attention from state security forces and little in the way of public services. In so-called "failed states" like Afghanistan, Somalia, or Yemen, the administration's control barely extends outside of the capital city and the remainder of the territory is subject to frequent insurgencies, rebellions, and civil wars.

By contrast, non-distributive strategies liberate leaders from the dense material commitments that undermine despotic and infrastructural power, and are therefore a *necessary* condition for developmental states. A non-distributive leader can refuse to allocate selective benefits to society without fear of destabilizing his rule. He is able to suppress demands for consumer and industrial subsidies; non-meritocratic employment in the civil service or the military; tax decreases, loopholes, and terminations; and commercial bailouts. This despotic power therefore gives him the freedom to introduce developmental policies. In addition, fewer distributive commitments mean that more resources can remain with the state, enabling it to engage in productive investment, recruit and retain the best talent, and build new institutions as they become necessary. Of course, the leader may choose not to do any of this, and, to the extent that he does, he may be driven by additional factors like his country's systemic vulnerability to hostile international actors, personality, or ideology.

Incumbent leaders probably care a great deal less about the developmental capacity that their states objectively possess than they care about what their states can actually *do*. As my previous work with Sean Yom points out, a state's developmental capacity affects its ability to generate the "order-maximizing resources" that leaders need to secure domestic stability, develop their economies, access international markets, and protect national security.[12] These order-maximizing resources form a common wish list among many post-colonial leaders:

1. *Means of coercion*: physical, human, and organizational assets that enable regimes to create desired outcomes through the use or threat of repression and violence
2. *Distributive goods*: money and goods that can be absorbed by distributive networks and benefit supporters of the leader's coalition
3. *Public goods*: non-divisible benefits that are conducive to economic development and social welfare of the populace
4. *Information*: intelligence about domestic or foreign threats
5. *Market access*: regulation that increases the economy's international trade and investment prospects
6. *Territorial integrity*: defense of territorial borders

States with low levels of despotic and infrastructural power are less able to produce order-maximizing resources. In order to obtain these resources, distributive leaders must either change their survival strategy, or obtain them from the international system. Non-distributive leaders have command of states that are much more capable of producing order-maximizing resources. They therefore have less need to obtain them from abroad. Leaders who pursue a hybrid strategy should demonstrate the greatest demand for order-maximizing resources. These leaders not only have the same demands as distributive leaders for order-maximizing resources, they also need additional assistance to ensure the viability of institutional pockets of efficiency that serve their non-distributive constituencies and protect them from hostile coalition partners.

US Assistance and Its Determinants

US assistance assumes many forms. Economic aid can include congressionally appropriated loans or grants that may be programmed into budget support, commodity import programs, technical assistance projects, or other activities, some or all of which may be made conditional on economic or political reforms in the recipient. It also includes research, investment, and trade agreements that give the recipient privileged access to American markets, knowledge, and technologies; US programming of the recipient's local currencies; US debt forgiveness; and earnings on interest-bearing US aid accounts. Military and security assistance consists of congressionally appropriated loans or grants that may be spent on the purchase of US- or locally sourced defense materiel, special security missions, and security sector education and training. It also includes price-discounted surplus US military equipment, the deployment of US military forces or defense contractors at the request of the recipient government, cooperative research and development (R&D) of defense technologies, and the transfer of defense technologies.

Equally important as the specific type of the assistance is the degree to which certain forms of assistance have contact with political authorities and institutions in the aid recipient (see Table 2.1). Both reform conditionality and traditional aid rely on the recipient's domestic institutions to implement their mandates. Traditional aid includes infrastructure projects, budget and commodity support, and investment, trade, and research agreements. It is usually formulated in consultation with the recipient government, and is implemented largely through the recipient's domestic institutions. This proximity to the recipient's own political economy makes traditional aid an effective means to contribute to institutional upgrading in non-distributive polities, and to distribute patronage in distributive polities.

Reform conditionality uses aid, typically budget support, to foist policies upon the recipient government that have been formulated by the donor government—yet it still relies on the domestic institutions of the aid recipient to implement the specific provisions of conditionality. Truly

Table 2.1 Four forms of foreign aid

Source of implementing Institutions	*Source of political authority*	
	Foreign	*Domestic*
Foreign	Donor-accountable parallel institutions	Recipient-accountable parallel institutions
Domestic	Reform conditionality	Traditional aid

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meaningful examples of reform conditionality are rare in geopolitical portfolios because they are potentially destabilizing in distributive recipients and generally unnecessary in non-distributive ones. However, meaningful conditionality can appear when the donor is concerned that an absence of domestic reform could undermine the longer-term viability of the regime, as well as when the incumbent leadership is trying to rally support for a particular policy amid opposition from its own coalition. In that case, the incumbent leader in the aid recipient colludes with the donor government to tip the balance in favor of his preferred outcome. This is an important dynamic in hybrid survival strategies (such as Mubarak's Egypt), as well as periods in which leaders are transitioning out of a distributive survival strategy (for example, Israel's Unity Government in 1984 and 1985).

The remaining two forms of aid rely on foreign implementing institutions ("parallel institutions"), which generate public goods in the recipient within well-defined sectors or territories but originate with foreign donors that carry their financial, human, technological, and organizational costs. "Donor-accountable parallel institutions" are controlled absolutely by the donor government, which not only supplies the parallel institution but also oversees its mandate, directives, and quotidian tasks. By contrast, "recipient-accountable parallel institutions" receive their mandate from the recipient government, which is also allowed to formulate and adjust its strategy, assign employees quotidian tasks, and select employees.[13] Geopolitically motivated donors have a particular interest in an adequate level of public goods provision within their allies' domestic systems, yet they do not use parallel institutions in all of their aid recipients because they are costly to provide and often controversial at home and abroad. Rather, parallel institutions are selectively deployed to deliver urgently needed public goods in distributive and hybrid political economies without disturbing the viability of the incumbent leadership.

Foreign Aid and State Developmental Capacity

The effects of foreign aid on the developmental capacity of the recipient state can be considered on two levels. On the first level, different types of assistance embody different configurations of finance, human capital, organizations, technology, and conditionality that augment the recipient state's despotic and/or infrastructural powers *immediately upon receipt*, supplementing local institutions to the extent that the latter appear more developmental than they actually are. Economic reform conditionality *is* despotic power. If a leader accepts economic reform conditionality, he is by default overruling consultation with at least some portion of his own society. Similarly, traditional aid augments different aspects of state infrastructural power, especially at the level of core capabilities like finance and expertise. Parallel institutions embody both forms of power, isolated to some extent from recipient society but also boasting superior capabilities and sometimes better societal linkages and territorial footprint than their hosts.

These short-term effects are not insignificant and ought to be kept in mind, but it is the medium- and long-term impact of assistance on the state's developmental capacity that is of greater concern here—that is, those outcomes that would largely persist even if assistance were to be terminated. Through this lens, traditional aid supports low infrastructural and despotic power in distributive polities, harming the state's developmental capacity. Yet if the strategy of the leader is non-distributive, traditional aid can be invested in infrastructure, new institutions, or new technologies, sustainably increasing the state's infrastructural power and its overall developmental capacity. And while parallel institutions enhance public goods, they can also exert detrimental effects on the state's developmental capacity. A parallel institution resolves a complex and pressing societal problem—thereby relieving the incumbent leader of building local institutions that can do so. Parallel institutions can also siphon human resources from domestic institutions, bungle cross-sector collaboration, and hinder the work of domestic institutions that rely on their outputs. They may lack information about local conditions, and to the extent that they do form relationships of information exchange with society, preclude such ties from developing with the host government.[14]

In short, geopolitically motivated assistance should simply reinforce existing developmental or non-developmental tendencies as determined by the incumbent leader's survival strategy. Non-distributive leaders who receive aid will incorporate it into existing plans, which may include upgrading the state's developmental capacity. Distributive leaders will seize upon traditional forms of aid to distribute to their coalitions as selective benefits. Hybrid leaders will do both. And both hybrid and distributive leaders will accept parallel institutions to increase the output of various public goods without actually undertaking a fundamental restructuring of their own political economies. As such, geopolitically motivated assistance does not fundamentally change the developmental prospects of its recipients—it merely accelerates their development or decelerates their decay.

Aid and International Hierarchy

International hierarchy is a consensual exchange in which a dominant state provides an order-maximizing resource to a subordinate state, which relinquishes control over some aspect of its effective sovereignty as payment. Order-maximizing resources increase the ability of incumbent leaders to maintain domestic stability, develop their economies, penetrate international markets, and protect their national security, while their corresponding sovereignty concessions allow dominant states like the USA to project their power abroad. However, the ratio of order-maximizing resources and sovereignty concessions is not necessarily fixed at 1:1. In some cases, the subordinate state receives far more order-maximizing resources than it cedes sovereignty (a "subordinate-skewed hierarchy"), and in other cases the subordinate state cedes far more sovereignty than it receives order-maximizing resources (a "dominant-skewed hierarchy").

Following Krasner's typology, there are four aspects of effective sovereignty that the subordinate state could cede to the dominant partner.[15] They are listed below, along with some relevant concepts that assist in operationalizing and measuring these concessions.[16]

Juridical Sovereignty: the ability of independent states to determine their foreign policy and thus the agreements, treaties, and alliances they enter.

1. Independent alliances from the dominant state

Domestic Sovereignty: the ability to monopolize and regulate activity within national territory.

1. Parallel institutions

Westphalian Sovereignty: the right of each state to determine its own internal governance structures without outside interference.

1. Military bases
2. Operational agreements for staging, overflights, or transport routes
3. Welcome occupation that is principally aimed at advancing dominant state interests, rather than challenging the incumbent leadership of the subordinate state

Cross-Border Sovereignty: the prerogative to control flows of people, finances, technology, and goods across territorial boundaries.

1. Bilateral free trade agreements (FTAs) that contain a "Trade Related Aspects of Intellectual Property Rights (TRIPs) Plus" provision
2. Bilateral investment protocols
3. Unwelcome conditionality
4. Restrictions on trade

The six types of order-maximizing resource support domestic stability, economic development, access to international markets, and national security. Here they are listed again, this time with reference to concepts that permit operationalization and measurement.

Means of Coercion:

1. Small arms
2. Security infrastructure for internal security forces
3. Training of forces engaged in internal security
4. Destruction of weapons
5. Special internal security missions

Distributive Materials:

1. Budget support
2. Commodity import programs
3. Food aid programs
4. Debt forgiveness

Public Goods:

1. Aid that is tied and projectized
2. Parallel institutions
3. Refugee assistance
4. Welcome conditionality

Information:

1. Intelligence agreements
2. Material or technical assistance to intelligence agencies

Market Access:

1. Preferential trading agreements that allow subordinate states special access to the dominant state's markets
2. Preferential investment protocols
3. Technical assistance for World Trade Organization (WTO) accession
4. Scientific and technological cooperation agreements

Territorial Integrity:

1. Heavy arms and weapons systems, as well as services needed to operate or maintain them
2. Military training programs
3. Basing to deter potential invaders or repel invading forces
4. Mutual security/defense treaties
5. Special defense missions
6. Welcome military interventions
7. Security infrastructure

Quantifying hierarchy is an imprecise but instructive exercise, a rudimentary framework for which is displayed in Table 2.2. The principal calculation of interest is the hierarchical skew of each dyad, that is, how many sovereignty concessions the recipient makes in exchange for a given amount of order-maximizing resources from the recipient. Scores with a value greater than one indicate a subordinate state skew, whereas scores below one indicate a dominant state skew. An additional calculation is the intensity of the hierarchical dyad, which captures the total number of provisions of order-maximizing resources and sovereignty concessions; here higher scores indicate higher intensity. These two sets of values will be referenced in the forthcoming case studies in order to provide some quantitative-analytical benchmarks for the qualitative analysis of various hierarchical dyads, as well as ensure that each case is treated systematically. However, caution should still be exercised in deploying these formulas in a purely quantitative study.

Aid recipients that are governed by non-distributive incumbents should be predisposed to subordinate-skewed hierarchies, as they are capable of generating their own order-maximizing resources and are able to reject the donor's designs on their sovereignty without fear of compromising domestic stability, or their own security and development plans.

Table 2.2 Operationalization of international hierarchy (Zimmermann and Yom, "International Hierarchy")

Order-maximizing resources		*Sovereignty concessions*
Means of coercion 1. Small arms transfers? (1/0) 2. Security infrastructure for forces engaged in internal security? (1/0) 3. Training of forces engaged in internal security? (1/0) 4. Destruction of weapons? (1/0) 5. Special internal security missions? (1/0) ***Distributive goods*** 1. Budget support? (1/0) 2. Commodity import programs? (1/0) 3. Food aid programs? (1/0) 4. Debt forgiveness? (1/0) ***Public goods*** 1. Aid that is tied and/or projectized? (1/0) 2. Parallel institutions? (1/0) 3. Refugee assistance? (1/0) 4. Welcome conditionality? (1/0)	***Information*** 1. Intelligence agreements? (1/0) 2. Assistance to recipient intelligence agencies? (1/0) ***Market access*** 1. Preferential trade agreements? (1/0) 2. Preferential investment protocols? (1/0) 3. Technical assistance for WTO accession? (1/0) 4. Scientific and technological cooperation agreements? (1/0) ***Territorial integrity*** 1. Heavy arms, weapons systems, and services? (1/0) 2. Military training programs? (1/0) 3. Military basing to defend recipient? (1/0) 4. Security/defense treaties? (1/0) 5. Special defense missions? (1/0) 6. Welcome military interventions? (1/0) 7. Security infrastructure? (1/0)	***Juridical sovereignty*** 1. Independent alliances less than world average with dominant state? (2.89/0) ***Domestic sovereignty*** 1. Parallel institutions? (2.89/0) ***Westphalian sovereignty*** 1. Military bases for dominant state interests? (2.89/0) 2. Operational agreements for staging, overflights, or transport routes? (2.89/0) 3. Occupation? (2.89/0) ***Cross-border sovereignty*** 1. Bilateral FTAs with TRIPS Plus? (2.89/0) 2. Bilateral investment protocols? (2.89/0) 3. Unwelcome conditionality? (2.89/0) 4. Trade restrictions? (2.89/0)
1 = yes, 0 = no 26 provisions of order ***Intensity*** = (total provisions of order) + (total provisions of sovereignty)		2.89 = yes, 0 = no 26 provisions of sovereignty ***Skew*** = (total order-maximizing resources)/(total sovereignty concessions)

Conversely, aid recipients that are governed by distributive incumbents should be predisposed to dominant-skewed hierarchies, as they are less capable of generating their own order-maximizing resources and are therefore dependent on obtaining them from abroad. Finally, aid recipients governed by hybrid incumbents should produce very dominant-skewed hierarchies, as incumbent leaders rely on the donor for order-maximizing resources that satisfy both distributive and non-distributive needs.

However, two other factors might modify the dependency of the aid recipient/subordinate state on the aid donor/dominant state. The first is the presence of another willing donor, which may prompt the subordinate state to join a different hierarchical dyad or, if the two potential donors are rivals, engage them in a bidding war that drives down the "price" that the subordinate state must pay for order-maximizing resources. This dynamic is very evident in the cases of Jordan and Nasser's Egypt. A second factor is acute systemic vulnerability. Some subordinate states, no matter how developmental their own states are, may be unable to generate sufficient order-maximizing resources to guarantee their own national security. This point is of course very relevant to Israel, which has always existed in a very hostile regional security environment.

Case Selection and Methodology

The cases of Egypt, Jordan, and Israel provide a good basis for an empirical study because they share some common historical features and are all major recipients of geopolitically motivated US assistance—yet they display different degrees of developmental capacity and subordination to Washington (see Fig. 2.1). Common values on key independent variables and variation on the dependent variable help rule out credible rival hypotheses pertaining to structural effects of large-scale, geopolitically motivated foreign aid or legacies of British occupation.

However, no case selection is perfect. For instance, a claim might be made that Israel's developmental success can be explained by its democratic political regime, cultural distinctiveness, or émigré society. The Israel lobby might have secured more developmentally favorable terms for Israel's economic and military aid, as well as thwarted US attempts to appropriate Israeli sovereignty. It is impossible to eliminate these factors using Mill's Methods, and it would be a violation of the historical record to present highly streamlined case studies that minimize their occasional

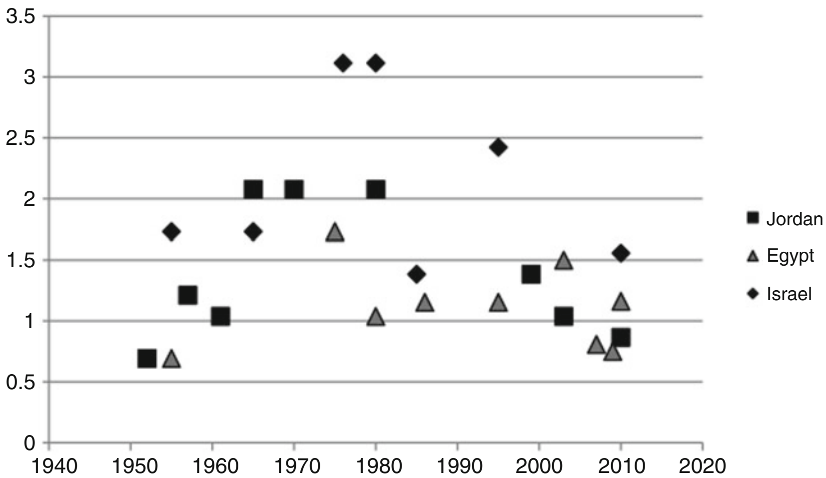

Fig. 2.1 Skew of hierarchical dyads

importance. However, congruence testing—which contrasts the predictions of a given hypothesis with empirical reality—is useful in eliminating some of these rival arguments, particularly since the Israeli case shows some degree of internal variation (namely, a period of moderate distribution between 1967 and 1985, with associated developmental and geopolitical outcomes).

In addition to refuting rival hypotheses, this book tries to extrapolate causal mechanisms, "the intervening processes by which causes exert their effects," by examining single cases across time.[17] The ability of such "process tracing" to eliminate spurious correlations in a non-experimental fashion renders it particularly appropriate for research agendas that have yielded collectively inconclusive findings and whose internal dynamics remain poorly understood. The method also allows researchers to closely examine a variety of sources over time, including interviews, archives, newspapers, and academic sources, to generate a persuasive causal process.[18]

As such, numerous non-standard, qualitative sources support the arguments. Much of the information on incumbent survival strategies and state formation in Egypt, Jordan, and Israel is supported by secondary scholarship, reports available from various groups and foundations, and datasets that contain time series information on various aspects of aid, state power, and economic development. However, much of the book relies on archival and human source material. Information about internal US government deliberations over foreign assistance and US bilateral relations with Israel, Egypt, and Jordan were located in the historical records of the Department of State and various US foreign assistance agencies at the National Archives and Records Administration in College Park, Maryland; the Development Experience Clearinghouse; the US Congressional Record; Wikileaks; the International Monetary Fund; and through three separate Freedom of Information Act requests to the Department of State. The study also relies on open-ended English- and Arabic-language interviews with 142 respondents, who were composed of current and former government officials, aid contractors, academics, and journalists in Egypt, Jordan, Israel, and the USA. Respondents were contacted through both pre-existing contacts and cold calls. Given threats to their well-being that could arise from the interviews, all respondents were offered anonymity in the published work unless they elected to have either their name and/or affiliation mentioned. Most accepted this offer. Anonymous interviews are cited as such, with the date of the interview included. Fieldwork was conducted in Jordan during January 2007–August 2007, May 2008–August 2008, and May 2009; in Egypt during September 2007–June 2008 and June 2009; in Israel in June 2009, June 2010, and August 2010; and in Washington, DC throughout 2009 and 2010.

Notes

1. Gandhi and Lust-Okar, "Elections Under;" Bellin, "Robustness of Authoritarianism."
2. Waldner, *State Building*.
3. Amsden, *Asia's Next;* Woo, *Race*; Woo-Cumings, ed., *The Developmental State*; Wade, *Governing*; Kang, *Crony Capitalism*.
4. Geddes, *Politician's Dilemma*.
5. Waldner, *State Building*.
6. Doner et al, "Systemic Vulnerability."
7. Amsden, *Asia's Next*; Barnett, *Confronting the Costs*; Boone, *Political Topographies*; Evans, *Embedded Autonomy*; Shafer, *Winners and Losers*; Wade, *Governing the Market*; Woo, *Race*.
8. Mann, "Autonomous Power," 113.
9. Soifer, "State Infrastructural."
10. Freeman and Soete, eds., *The Economics of Industrial*; Greenhalgh and Rogers, *Innovation*; Atkinson and Ezell, *Innovation Economics*.
11. Maxfield and Schneider, eds. *Business and the State*.

12. Peters and Yom, “US Hierarchy;” Zimmermann and Yom, “International Hierarchy.”
13. Zimmermann, “State as Chimera.”
14. Ibid.
15. Krasner, *Sovereignty.*
16. Peters and Yom, “US Hierarchy;” Zimmermann and Yom, “International Hierarchy.”
17. Goertz and Mahoney, *A Tale of Two.*
18. Waldner, “Process Tracing,” 68.

PART I

Israel

CHAPTER 3

Non-distributive Survival Strategy

By virtue of favorable political and institutional endowments from the British Mandate period, Israel's first-generation political leaders were able to pursue non-distributive survival strategies. Confronted with war and mass in-migration in an early and critical phase of state building, the country's nominally socialist leadership foisted higher taxes and lower levels of consumption on its working- and middle-class supporters; established the military and civil service as non-partisan, meritocratic institutions; and made large investments in infrastructure, education, and innovation. However, the weakening of the ruling Labor-Alignment establishment in the late 1960s led to nearly two decades of moderate distribution, which, at its peak, was driven by the Likud party as a representative of economically marginalized Mizrahi Jews. This difficult period in Israeli economic history eventually gave way to a more liberalized economy and is now often overlooked, but provides useful in-case variation that challenges traditional accounts of Israel's economic exceptionalism, and supports the hypothesis that non-distributive survival strategies are a major cause of Israel's developmental success.

The Politics of the Yishuv

The earliest political parties to develop in the Jewish community of Palestine (the yishuv) began as mutual aid societies for workers and followed the incipient socialist ideologies of their founders, many of whom

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were European immigrants that had arrived in Palestine before 1920.[1] They also drew upon ideologies of political Zionism that were developed in Theodor Herzl's *Der Judenstaat* (1896) and espoused by the Zionist Organization (1897), both of which stressed the need for the yishuv to attain political rights. Owing to the absence of such rights, these parties competed not for seats in the local government but for representation in the World Zionist Congress (1897), which conferred the right to govern the Zionist Organization and its associated entities, including the Jewish National Fund (1901) and the Jewish Agency (1929).

The First World War and its aftermath invigorated the yishuv's politics. In 1917, British Foreign Secretary Arthur Balfour had intimated in a letter to Walter Rothschild, Second Baron Rothschild and a leader of the British Jewish community, Great Britain's intention to support the establishment of a Jewish national home in Palestine. One year later, the Ottoman Empire was defeated and its territories divided between France and Great Britain, the latter of which retained a military and administrative presence in Palestine. The British Mandate for Palestine, which came into effect after the 1923 Treaty of Lausanne, entrusted the British with implementing the so-called Balfour Declaration, "it being clearly understood that nothing should be done which might prejudice the civil and religious rights of existing non-Jewish communities."[2] Political parties that wanted the institutions of Jewish sovereignty to grow from Palestinian soil would see their mission protected by British military might and were allowed to engage in such institution building by the relatively non-interventionist British office—which sought to protect British strategic interests and implement the Mandate at minimal cost.[3]

Several political trends subsequently emerged. The first, Labor Zionism, was led by David Ben Gurion and formed by various splits and mergers among center left and leftist parties, resulting in the formation of the Workers' Party of the Land of Israel (known by its Hebrew acronym, Mapai) in 1930. The second, Revisionist Zionism, was a largely secular, anti-socialist movement that ultimately sought a Jewish state with maximal territorial borders and no compromises with the Arab population. Its founder, the Ukrainian Zionist Ze'ev Jabotinsky, founded the HaTzohar Party in 1925. A third yet much smaller political trend was General Zionism (1922), which came to embrace economically liberal beliefs in capitalism and private property. A fourth trend was religious Zionism (Mizrahi, 1902) and a fifth was religious anti-Zionism (Agudat Yisrael, 1912), which represented Haredi Jews.[4]

Despite being allowed significant space for institutional development by the British, the yishuv did not ever form a local executive with a monopoly over routine state functions—leaving them firmly in the hands of the political parties that created them.[5] In 1920, two forerunners of Mapai (Achdut HaAvoda and HaPoel HaTza'ir) founded the General Organization of Workers in Israel, or Histadrut, a partisan workers' organization that acted simultaneously as a trade union, employer, and provider of social welfare exclusively to Jews. The Histadrut developed a semi-compulsory membership that came to represent 85 percent of all workers in Israel, acquired a monopoly in representing labor in collective bargaining, and provided 75 percent of wage earners with welfare and pensions.[6] The Histadrut established Bank Hapoalim and the Solel Boneh construction firm in 1921, then the Hevrat Odim holding company in 1923.[7] The Haganah, a paramilitary organization intended to defend Jewish settlers, superseded partisan militias in 1921. Mapai also dominated the Haganah's national command, which by 1937 oversaw 17,000 men and 4000 women, and possessed tens of thousands of small arms.[8] When Mapai gained control over the Zionist Organization and the Jewish Agency in the early 1930s, it used its control of these institutions to route finance, jobs, and immigration permits away from its political competitors, reigning in radical leftists and outright denying resources to the Revisionist opposition.[9]

The Revisionists failed to establish equivalent institutions. They left the Histadrut in 1933 to establish their own labor union, and then affiliated themselves with a right-wing militia, the Irgun.[10] However, the rival union flopped, and in 1936, some elements of the Irgun re-joined the Haganah. The remaining Irgun (about 1500 members) and Lehi (about 300 members) were decried as anti-Arab and anti-British terrorist organizations rather than protectors of Jewish settlers, and were pursued by cooperative efforts of the British, the Haganah, and the Palmach elite fighting force.[11]

When the yishuv's last Mandate-era elections took place in 1944, Mapai secured 53 percent of the votes in the Assembly of Representatives. Ben Gurion, now Executive Head of the Zionist Organization and the Chairman of the Jewish Agency, declared Israel's independence on May 14, 1948, one day before the British mandate was set to expire. Mapai held 10 out of the 37 seats on the Provisional Council that saw Israel through the 1948 Arab–Israeli War and to the country's first elections.[12] Ben Gurion became prime minister in 1949 by forming a broad coalition government that consisted of Mapai, the United Religious Front, the Progressives, and Sephardim and Oriental Communities.[13]

Ben Gurion then assimilated the organizational frameworks, functions, and personnel from the Mapai political machine into the new state. The Haganah and its intelligence agency were converted into the new Israel Defense Forces (IDF). Begin's dissenting Irgun was forcibly put down in the infamous Altalena incident, while the Palmach, viewed as sympathetic to the center-left Mapam, was disbanded.[14] The state took over education, welfare, the labor exchange, housing, and assistance for new immigrants from the Histadrut, but left intact its industrial enterprises, health insurance company, pension funds, and monopoly over representing labor in collective bargaining. In 1949, about 40 percent of the Israeli civil service had already been employed by entities such as the Jewish Agency, the National Committee, the Haganah, and the Histadrut.[15]

The Transformation of Mapai, 1949–1967

Mapai leaders realized early on the importance of developing a powerful state that could defend Israel against neighboring Arab states and absorb new immigrants. A distributive strategy that privileged consumption over productive investment was unaffordable in an environment of such acute systemic vulnerability. Thanks to Mapai's control of Mandate-era institutions, a non-distributive strategy was also politically feasible.

Israel's founders sought to preserve unity by providing opportunities for political participation and compromise among different political trends. A nationwide party list proportional representation system and very low qualifying thresholds practically guaranteed that no single political party could form a majority in parliament. Israel's leaders were therefore compelled to form coalition governments of relatively diverse religious and economic preferences. A parliamentary system incentivized most incoming prime ministers to form larger governing coalitions than were needed to pass legislation, in order to strip the most potent opposition of potential allies. While such behavior might also be associated with fragmentation and side payments, Mapai retained a high degree of discipline.[16]

Although labor remained a key constituency for Mapai, the party was able to suppress distributional pressures through its control over the Histadrut's board and the allocation of Knesset seats.[17] On the one hand, Ben Gurion supported a policy of full employment, used some deficit spending to support social services, and dropped a plan to raise indirect taxes after the Histadrut opposed it.[18] The government also committed to invest between 40 and 50 percent of its foreign exchange reserves in bonds used to finance the Histadrut and its enterprises, amounting to a massive subsidy.[19] On the other hand, Ben Gurion openly told workers that they would need to choose either (1) increases in wages and living standards or (2) immigration and settlements.[20] The Histadrut's industrial conglomerate, Solel Boneh, was broken up after being deemed too powerful for private sector competition.[21] In the meantime, Ben Gurion cultivated the support of a new political constituency, educated Europeans who increasingly populated the government service sector.

Distributive demands could also have emerged from outside the Mapai-Histadrut complex, namely from Mizrahi Jews who originated from the Middle East and North Africa. However, most political elites in Israel at the time viewed the Mizrahis as culturally distant, if not inferior. They settled in slums, development towns, and moshavs, particularly in the "North African Triangle" of Ashdod, Beersheba, and Lod/Ramleh, and took low-wage jobs in basic industries. They did not take leading positions in the Mapai-run economy or in the Histadrut. They had the highest mortality rates, largest families, and worst schools. As a consequence, the Mizrahis remained politically marginalized for the first decades of Israel's existence.[22]

Ben Gurion therefore possessed an advantage that his counterparts in Jordan and Egypt did not—he could remain in power without engaging in distribution. The IDF was the first of the Mandate-period institutions to be transformed into a truly national institution that was subordinate to the political authority of Israel's elected government.[23] One of the new government's first official acts was to increase taxes by 100 percent for all income groups in an attempt to raise revenue for the Arab-Israeli War. Between 1948 and 1954, Israel's domestic revenues increased eightfold, and in 1950 taxes were already 11.5 percent of the gross national product (GNP).[24] Tax rates became so high that they encouraged evasion, even among individuals who had dutifully paid taxes in the past.[25] Israel boasted of budget surpluses between 4 and 6.5 percent of GNP until 1965.[26] The civil service was oriented around Mapai and its allies, yet the Civil Service Law required that appointments be made on merit, and prohibited party involvement for the four senior grades.[27]

Mapai governments invested in infrastructure, industrialization, and innovation—even during periods of economic difficulty. Between 1948 and 1972, investment exceeded national income by 25 percent, much of which was in postal, telecommunications, rail, air, and radio networks.

As a desert country facing acute water shortages, the government also invested in water infrastructure and management institutions. By 1953, Israel had developed the world's first set of standards for wastewater reuse. The 1959 Water Law created a Water Commissioner to plan water infrastructure, set water prices and quotas, license the drilling of wells, make determinations regarding water quality, and prevent ecological damages to the country's water resources. In 1964, Mekorot, the national water company of Israel, completed work on the 130-kilometer long National Water Carrier, which transported water from the Sea of Galilee to the South.[28] As the agricultural sector became saturated, the government prioritized the textile and metal industries, whose price competitiveness was enhanced by relatively cheap Mizrahi labor.[29] The government's first defense company, Israeli Military Industries, was founded in 1948. In May 1966, the middle of Israel's first economic recession, Prime Minister Levi Eshkol convened the Katchalski Committee to review the state of science in Israel.[30]

The Specter of Distribution, 1967–1977

The Israeli party system experienced a period of consolidation in the mid-1960s, with Mapai merging again with Achdut HaAvoda to become Labor/Alignment in 1965, and with the Rafi Party to become the Labor Party in 1968. In 1965, the rightist Herut merged with the Liberal Party to become Gahal.[31] As a result of these mergers, the Labor Party increasingly succumbed to distributive demands, which were exacerbated by the inclusion of Gahal in a National Unity government. After the 1967 Six Day War, the economy grew rapidly, reaching 15.3 percent GDP growth in 1968 and an average of about 11 percent annually between 1969 and 1972.[32] The Labor government reasoned that, so long as growth remained robust, few tradeoffs among social spending, investment, and defense would be necessary.[33]

However, the October War of 1973 cost Israel 75 percent of that year's GNP, inducted a period of massive defense spending, and accelerated the decline of the Labor Party. In November 1974, the lira was devalued by 43 percent, subsidies were cut, a surcharge was levied on imports, subsidies were placed on exports, and fuel, water, and electricity prices were increased. The following year, bread prices were increased by 170 percent and gas by 240 percent, and a 5 percent increase in the sales tax was imposed. Labor and middle-class constituencies pushed back hard, ultimately forcing the government to abandon core tenets of non-distribution and pursue an expansionary fiscal policy.[34] With daily strikes by salaried professionals and Mizrahis, Prime Minister Yitzhak Rabin saw further economic belt tightening as political suicide.[35] The government did not adopt tougher measures, and private consumption increased faster than the rate of GDP growth between 1973 and 1976.[36]

Labor's moderately distributive strategy resulted in annual budget deficits in the range of 6–20 percent of GNP. However, such deficits were not the result of insufficient revenues. Israel had an effective marginal tax rate of 70.8 percent in 1967 and collected domestic revenues of about 30 percent of GNP.[37] In 1974, the state collected domestic revenues of about 47 percent of GNP. In 1975, the government undertook a major income tax reform and introduced a VAT.[38] Domestic revenue rose to 55 percent of GNP in 1976, of which nearly 87 percent was taxes.[39]

Rather, the deficit was driven by rising expenditures. The Six Day War and subsequent War of Attrition drove up domestic defense spending and defense imports. Had these increases been accompanied by corresponding reductions in other areas of government spending, large deficits could have been avoided. Yet the government did quite the opposite, increasing subsidies and transfer payments. It was during this period that Israel's economy began to experience serious imbalances. Between 1973 and 1974, the current account deficit doubled.[40] Foreign debt increased from $4 billion in 1972 to $10 billion in 1977, mostly in the form of concessionary loans and Israel bonds. In 1977, annual GDP growth was zero percent.[41]

However, the government continued to invest in industry and innovation. After the French boycott of arms exports to Israel, the government began investing in sophisticated weapons systems for perimeter defense. The government-owned Israel Aircraft Industries developed and produced a series of aircraft, beginning with the Kfir, and also commenced a series of subcontracting and joint ventures with US aircraft industries. In 1968, the Kalchalsky Commission recommended the establishment of the Office of the Chief Scientist at the Ministry of Industry and Commerce with a mandate to subsidize commercial R&D projects undertaken by private firms. In 1973, the Israeli company Elscint had a successful initial public offering (IPO) on the NASDAQ.[42]

By the mid-1970s, Israel boasted public services that were high by international standards, and, as further testament to the state's power, its territorial reach continued to expand into the politically hostile and geographically rugged Palestinian Territories. After capturing the West Bank from Jordan in the Six Day War, Israel established 999 square kilometers of closed military areas along its Eastern periphery and 38 square kilometers of military bases in all 11 governorates.[43] The Labor government supported the construction of settlements outside of Jerusalem, Jericho, Bethlehem, Hebron, and along the Jordan River—sites chosen particularly for their ability to buffer future attacks.

Distribution Peaks Under Likud, 1977–1985

By the 1977 parliamentary elections, Labor had lost not only its discipline but also its political dominance—it won only 32 seats, while the Likud (an alliance of Gahal and several right-wing parties) won 43. However, the Likud was even more susceptible to distributive pressures than its predecessor. One of its partners, the Liberal Party, was a bourgeois, anti-socialist party that favored state retrenchment from the economy. By contrast, the principal concerns of the dominant partner, Herut, were a hard-line foreign policy toward the Arabs, increasing settlement activity in the West Bank and Gaza, and, increasingly, state intervention in the economy that would benefit the country's marginalized Mizrahi population.[44]

The Likud initially committed itself to the economic policy of the Liberals, including a free market economy, public sector restructuring and reform, minimizing public employment, reforming subsidies to target the needy, and using wage policy to incentivize productivity—ideas that were also not inimical to Herut, which saw their purpose in attacking Labor-dominated institutions.[45] Within four months, the Likud introduced the "Economic Upheaval," which removed currency controls and instituted a single market exchange rate.[46] In July 1977, government subsidies on basic goods were abolished and prices increased by 15 percent. The value-added tax (VAT) was increased by half. In October 1977, the lira was devalued, the travel tax abolished, foreign exchange controls eased, and customs duties reduced. After 1979, Finance Minister Yigal Hurwitz abolished more subsidies, reduced access to interest-free credit, imposed wage and public sector hiring freezes, increased income taxes, and forbade the Histadrut from investing pension funds in Hevrat Odim.[47] In October 1980, he also refused to renew the Histadrut bond agreement and stopped linkage differential insurance.[48]

The Liberals' economic policies badly affected Herut's Mizrahi supporters, and, in addition, rapid settlement building in the West Bank and Gaza neutralized the effect of deeper structural reforms. The economy began to experience very high inflation.[49] The government responded with periodic reviews in wage indexation and cost of living adjustments, on the one hand, and price and wage freezes, on the other.[50] Seeking to shore up his support among the Mizrahis in the spring 1981 elections, Begin changed course and introduced a new consumerist policy under Finance Minister Yoram Aridor, a member of Herut.[51] Aridor restored subsidies on essential goods and reduced taxes, increasing budget expenditures by 39 percent.[52] Public sector hiring also grew. Between 1973 and 1981, the public and financial sector accounted for 63 percent of new employees.[53]

In 1981, Labor won 47 seats and Likud 48.[54] The results had hinged on the Mizrahi vote, which meant that the government would have no appetite for economic reforms that could harm this political constituency.[55] At the same time, Begin hacked more deeply into the Histadrut—with many attacks coming through Finance Minister Aridor himself, who sought to destroy Labor by targeting its most effective political machine.[56] Aridor proposed automatic indexation of wages, which would have stripped Histadrut of its bargaining role.[57] As a means of bypassing negotiations with the Histadrut, the government resorted to more executive "Emergency Hour Rulings" and "Return to Work Orders" than any previous government. The Histadrut resisted. In 1982, there were 838,700 strikers and 1,814,945 workdays lost—double than that of 1981 and between three and nine times greater than between 1977 and 1981.[58]

An inflationary spiral and Israel's invasion of Lebanon in June 1982 briefly forced Aridor to reduce support for basic goods, increase prices, and prevent an increase in real wages. The government also raised taxes for the Lebanon War, which accounted for $5.5 billion of the total $20 billion appropriated for the 1982/1983 budget. Yet between September 1982 and August 1983, subsidies were restored to counter rising prices and high inflation resumed. Aridor resigned in October 1983, on the same day that he proposed a dollarization plan that was immediately rejected by Likud nationalists.[59] He was replaced by Yigal Cohen-Orgad, who, as the 1984 elections approached, again cut taxes and increased subsidies.[60]

The Likud ultimately restricted its ability to introduce new policies that would counter Israel's growing economic problems by making material commitments to the Mizrahis. Further, in making these commitments, the Likud whittled away at the state's core fiscal capabilities, as well as at the integrity of the civil service. By 1984, domestic revenues fell to about 39 percent of GNP—but for Israel's receipt of windfall US assistance in this period, these policies would have produced record budget deficits.[61]

Increased government spending on transfer payments, subsidies, and civilian consumption cut into the government's traditionally high rates of investment, which fell from about 5 percent of GNP during 1967–1977 to 2.7 percent of GNP between 1978 and 1984.[62] In 1978, the public perceived public servants to be "relatively dishonest, unpleasant, inefficient, passive, slow, and unstable," and believed that their work had a "considerable, yet largely unfavorable, influence upon their society."[63]

Nonetheless, Begin continued to devote some public resources to industry and innovation. The megaproject of the era, the Lavi jet, was ultimately abandoned because of cost overflows and US-imposed restrictions on technological components, but Israel Aircraft Industries went on to produce unmanned aerial vehicles (UAVs), precision weapons, and advanced radar systems. Rafael, another government-owned defense company, produced a variety of missiles, naval decoys, and armor. Israel's arms exports increased from an average of $66 million between 1973 and 1976 to an average of $254.5 million between 1977 and 1984.[64]

Return to Non-distribution, 1985–2010

The economic crisis took its electoral toll on the Likud in the July 1984 elections, which produced a deadlock in the Knesset and ultimately led to the creation of a Unity Government that also included Labor. Shimon Peres, the new prime minister, made the economy his key priority and retained a group of economic advisers to develop an economic plan for the government's first 100 days. The economists, led by Michael Bruno and Eitan Berglas, recommended major cuts in the government budget and a readjustment of wage levels and prices relative to the exchange rate.[65] The Unity Government initially opted for a series of "package agreements" that entailed temporary wage and price freezes. Yet after inflation reached an annual rate of 950 percent between August and November 1984, the economists began to mobilize support for their plan.[66]

Finally, on the day of the Histadrut elections, Peres convened a panel to work out the details of the stabilization plan developed by Bruno and Berglas. The team attempted to learn the lessons of the package agreements.[67] They recognized that any solution would need to consider the political leadership's goal in maintaining full employment, thereby ruling out the possibility of an orthodox stabilization plan.[68] The team ultimately produced a heterodox stabilization program that compromised on price increases, wages, credit, and the exchange rate.

The principal mechanism of the program was to reduce the budget deficit to the point where the government's internal and external debt would no longer experience a real increase, prompting a reduction in the debt/GDP ratio as the economy grew. The team calculated that this required a $2–2.5 billion budget cut, but a top-level decision restricted this figure to $1.5 billion, with the hope that additional cuts could be pursued the following year.[69] The plan increased the prices of subsidized goods by 35–75 percent, provided partial compensation for wage erosion, suspended and reduced cost of living adjustments, sharply increased the tax threshold; and dismissed 10,000 public sector workers.[70] The plan also included an 18.8 percent devaluation of the shekel and a freeze against the dollar. Despite the compromises, the plan was expected to cut the real wage of the average worker by 12 percent. As such, Peres dubbed the austerity measures an "economic Yom Kippur," claiming that Israel had lived beyond its means for too long—and even offered to cut his own $1800 monthly salary by 5 percent.[71]

The Knesset endorsed the emergency plan 70-19, a remarkable achievement for Peres, who, as Keren reminds us, "headed a government portrayed by every cartoonist in the country as a dragon having two tails leading in opposite directions and a rotating head."[72] Power within his own Labor Party was split between himself and Yitzhak Rabin, who became a rather autonomous Minister of Defense. Labor Party activists criticized Peres' close circle of academically trained aides, government-employed professionals, scientists, and universities, claiming that his advisers were too technocratic.[73] The Histadrut mobilized hundreds of thousands of protesters against the price increases and wage freezes, and the Histadrut General Secretary, Yisrael Kessar, abstained from the final Knesset vote on the package.

Yet a number of factors worked in Peres' favor. By May 1985, the Histadrut elections were over and Labor politicians had fewer constraints on making tough economic decisions.[74] A common goal to withdraw from Lebanon produced incentives among the parties in the Unity Government to cooperate on other issues and keep the government together.[75] Since both major parties were in the Unity Government, there was no strong opposition bloc. Finally, such high levels of inflation likely made the Israeli public recognize the need for reform, and the backing of the July 1985 stabilization plan by respected Israeli and American economists gave it additional credibility.[76]

The plan was successful. Israel's budget deficit fell from 13.9 percent of GDP in 1980–1984 to a small surplus of 0.2 percent of GDP in 1985–1987.[77] Inflation fell from 500 percent in the first half of 1985 to 20 percent in the second half. Unemployment fell from 7 percent in 1985 and 1986 to 6 percent in 1987 and 1989.[78] Between 1985 and 1987, the business sector accounted for 90 percent of new employees, the public sector only 10 percent.[79]

The post-1985 economic recovery went hand in hand with a return to non-distributive survival strategies by successive Israeli leaderships. Over the next 25 years, Israeli leaders gutted the Histadrut and undertook policies that precluded large-scale distribution. A July 1985 amendment to the Bank of Israel Law prohibited fiscal monetization, the central bank's provision of loans to the government to finance its fiscal deficit. In the latter half of the 1980s, under Likud's Yitzhak Shamir, the government undertook policies to develop the country's private financial sector by increasing capital mobility, promoting competition, and developing the Tel Aviv Stock Exchange.[80]

The Histadrut's power imploded after its leadership continued to insist on cost of living adjustments and salary increases regardless of a company's profitability, and failed to realize that the government would no longer bail out inefficient companies. By 1989, Koor Holding had losses of $854 million, requiring it to reduce its activities and fire thousands of employees.[81] To protect its remaining assets, the Histadrut made concessions to the government and private sector employers.[82] By 1990, the percentage of real wage increases resulting from centralized wage agreements had fallen to about 50 percent.[83] In the mid-1990s, the government separated membership in the Histadrut from membership in the Sick Fund, causing it to lose 76 percent of its members. By the 1990s, a new generation of college-trained workers was being absorbed into a largely non-unionized high-technology sector.[84]

Israeli governments reacted to the influx of 332,000 post-Soviet migrants not with guaranteed public employment schemes, but liberal market reforms that were aimed at generating private sector jobs. In 1993, the Rabin government raised a record $1.5 billion in privatization revenues and passed laws that (1) gave government officials the power to fire or initiate legal action against managers of government corporations who refused to cooperate with privatization and (2) required companies to provide requested information to government officials engaged in privatization.[85]

Peres and Rabin also invested heavily in new institutions to promote science and technology in Israel. In 1985, the Law for the Encouragement of Industrial R&D was passed, which gave the Office of the Chief Scientist a crucial role in identifying and supporting industries that would produce high-tech exports and improve Israel's balance of payments and employment situation. The core of the law was a set of financial incentives that allowed companies meeting certain eligibility criteria to receive matching funds for the development of innovative, export-relevant products. Israel's private venture capital market was also initiated through the state. The most successful initiative was Yozma, a $100 million government-owned venture capital company that between 1993 and 1998 invested $8 million each in ten private, upstream-oriented venture capital funds, as well as $20 million directly in high-tech companies.[86]

Benjamin Netanyahu's first government drove the final nails into the coffin. One of the government's first acts was obtaining cabinet approval for NIS 4.9 billion in spending cuts in the 1997 baseline budget, which was then followed by a further NIS 2 billion in cuts, approved by the cabinet in July 1997. Israel's domestic revenues stabilized at a level of roughly 40 percent GNP, and spending at about 45 percent of GNP. Expenditures on civilian consumption rose, but were rendered feasible by the low levels of subsidies inherited from the mid-1980s. Netanyahu's government reinvigorated the privatization process amid massive protest by workers, management, and boards of public sector companies. To reduce what opposition remained among the dying organizations of Labor Zionism, Netanyahu's government sold off public enterprises piecemeal, often to their existing private shareholders but also through floating shares to the public. In 1997, the government collected $2.4 billion in privatization revenues, including those generated by partial sales of Bank Hapoalim, Bank Leumi, Discount Bank, ZIM (shipping), and Bezeq (telecommunications).[87] Israel saw some of its lowest levels of growth in these years. However, the state also lost many of its distributive features and therefore a principal structural cause of its generation-old deficit problems. Nonetheless, Likud's Mizrahi constituency continued to support the government on the basis of its hard-line foreign policy stances.

Non-distributive Strategies and Developmentalism

The generally non-distributive orientation of incumbent leaders in Israel, despite the moderately distributive period of 1967–1985, afforded the state enough despotic power to introduce developmental policies, as well as produced an infrastructurally powerful state with significant core capabilities, societal effects, and territorial reach. Israel also demonstrated itself to be highly capable of producing order-maximizing resources (although a very hostile regional environment means that Israel's defense sector is never likely to be able to shoulder its full burden).

Israel's democratic regime inherently set some boundaries on despotic power. Cancelling elections, or dismissing the Knesset in favor of continued executive rule, were not realistic options. Further, Israel had five National Unity governments throughout its history, most of which were formed amid major geopolitical confrontations or economic crises.[88] Yet the Israeli state did possess a certain degree of despotic power, first made possible by Mapai's control of key political and economic institutions, and then by a downward economic spiral in the early 1980s.

By 2010, Israel's state had significant core capabilities. Government revenues were equivalent to over 40 percent of GNP, nearly all of which was of domestic origin. The government accumulated regular but small budget deficits between 1987 and 2010. In 2009, claims on the central government were –9 percent of GNP.[89] The number of citizens per civil servant rose from 58 in 1980 to 84 in 1990, and then to 108 in 2000.[90] In 2010, Israel was assigned a value of 1.37 for Government Effectiveness (where –2.5 is weak and 2.5 is strong), a 1.23 for Regulatory Quality, and a 0.67 for Control of Corruption.[91]

With these capabilities, the state was well equipped to exert a societal impact. It was able to enforce a high level of direct tax on income, profits, and capital gains, which between 2000 and 2011 accounted for about 46 percent of the government's tax revenue and 30 percent of overall revenue. Per capita GDP increased from $5825 (constant $2000) in 1960 to $22,860 in 2011.[92] By 2002, there were about 150 defense firms in Israel—not just the big three state-owned firms (Israel Aircraft Industries, Israel Defense Industries, and Rafael) but also small-to-medium sized private firms like Tadiran and Elbit.[93] Since 1990, Israel has been the world's tenth largest arms exporter. Between 1967 and 1990, the ratio of Israel's arms exports to arms imports was about one to seven; between 1991 and 2011, it was 1 to 1.65.[94]

By the late 1990s, the amount of venture capital in Israel was only exceeded by that in Silicon Valley and Massachusetts.[95] Investment funds that received Yozma assistance had an IPO exit rate of 56 percent, which is well above average, and between 1998 and 2001 accounted for 50 percent of Israeli IPOs on the NASDAQ. Between 1995 and 2004, Israeli funds accounted for 68 percent of funding for start-up investments.[96] In the 2000s, the average number of annual Israeli patent applications was 5482 (as opposed to 359 in the 1960s), 1226 of which were from residents. High-tech exports were 10 percent of manufactured exports in 1988, 29 percent in 2000, and 15 percent in 2010. Overall living standards for Israelis were also quite high relative to 50 years earlier. Life expectancy at birth increased from 72 in 1961 to 82 in 2010. The infant mortality rate decreased from 25 per 1000 live births in 1973 to four in 2010.[97]

The territorial control of the Israeli state was significant. In 2010, 100 percent of Israel's population had access to electricity and improved water and sanitation facilities. One hundred percent of roads were paved. There were 46 telephone lines per 100 people.[98] The territorial extension of the Israeli state, however, is perhaps best exemplified by its logistically challenging occupation of the West Bank. Rivlin calculates that between 1967 and 2003, the government spent about $28 billion on West Bank settlements and security.[99] The settlements are connected to themselves and to Israel proper by a network of bypass roads that are exclusively for Israeli use. Jewish settlements are serviced by Israeli water pipes and wastewater streams. After relinquishing its West Bank Water Authority to the Palestinian Authority, Mekorot still retained a strong presence in the West Bank, particularly in the Eastern periphery.[100] Even after the establishment of the Palestinian Authority in 1995, Israel established numerous means of controlling transportation in Palestinian areas of the West Bank. In 2006, this included 75 checkpoints, 44 roadblocks, 64 road gates, 70 agricultural gates, 249 earth mounds, and 48 observation towers.[101] Israel also invested in a "security fence," which divides Israel proper from the West Bank, as well as isolates settlements and strategic areas from Palestinian communities within the West Bank itself. Fitted with barbed wire and electronic sensors, the fence is also supplemented with a dirt "trace" road, razor wire, and a deep ditch on one side; some portions are also equipped with sniper walls and watchtowers.[102] By 2009, Israeli military bases, outposts, and settlements occupied 5 percent of area contained inside the fence and 15 percent of the area outside.[103] In 2005, Israel conducted 1878 army raids within the Palestinian Territories; in 2006, it conducted 5666 raids.[104]

Israel's presence within and along its borders with Gaza and the West Bank has substantially reduced the incidence of terrorist attacks within Israel, a testament to its effectiveness. Between the signing of the Oslo Accords in 1993 until the end of the Second Intifada in 2005, nearly 1400 Israelis were killed in terrorist attacks; there were 53 attacks that killed over 5 people. Between 2006 and 2009, there were 897 attacks but the number of fatalities dropped to 130; there have been only three attacks that killed over five people, none of which occurred since April 2006.[105] However, it is also worth noting that the value of Israel's black market is estimated to be about $7.05 billion, more than that of Jordan or Egypt, which indicates some degree of weakness in border control.[106]

In spite of a broader developmental success story, Israel's nearly two decades of moderately distributive politics should not be overlooked—as has often been the case in popular writings that romanticize the inherently entrepreneurial spirit of the Israeli people, a culture of adversity, Israel's status as a democratic nation, or even the developmental imperatives of systemic vulnerability.[107] If these factors are individual or even jointly sufficient conditions to explain the levels of despotic and infrastructural power that have undergirded Israeli developmentalism, they should have produced consistently positive results over time—as they are structural factors that have not changed since the founding of the Israeli state. Yet this is not the case. The Israeli state experienced fluctuations in its despotic and infrastructural power, particularly in the period between 1967 and 1985. These fluctuations more closely align with changes in incumbent survival strategy, not the structural features that allegedly undergird "Israeli exceptionalism."

Notes

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4. Shindler, *A History.*
5. Weissbrod, "Economic Factors," 328.
6. Barnett, *Confronting the Costs*, 71; Shalev, *Labor*, 23–24.
7. Rivlin, *Israeli Economy*, 14.
8. Bauer, "From Cooperation,"183.
9. Shalev, *Labor*, 96; Weissbrod, "Economic Factors," 335.
10. Weissbrod, "Economic Factors," 331.
11. Bauer, "From Cooperation," 203.
12. Shindler, *A History*, 66.
13. Israel Knesset, "Government 1."
14. Shindler, *A History,* 102.
15. Drezon-Tepler, *Interest Groups*, 21; Galnoor, *Public Management*, 28.
16. Mahler, *Politics and Government.*
17. Drezon-Tepler, *Interest Groups*, 29–30, 32.

18. Barnett, *Confronting the Costs,* 163; Rivlin, *Israeli Economy*, 35.
19. Aharoni, "Changing Political Economy," 136.
20. Shindler, *A History*, 119.
21. Breznitz, *Innovation and the State*, 46.
22. Brown, "Iron and a King," 6–10.
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24. Kreinin, "Controlled Inflation;" Radian, "Dynamics of Policy," 275.
25. Barnett, *Confronting the Costs,* 162-164; Radian, "Dynamics of Policy."
26. Author's calculation based on Bank of Israel, "Table 6.A.1 (1);" Bank of Israel, "Table 6.A.2 (1)."
27. Galnoor, *Public Management,* 28.
28. Tal, "Seeking Sustainability," 1081–1084.
29. Bernstein and Swirski, "Rapid Economic," 75; Rivlin, *Israeli Economy,* 35.
30. Breznitz, *Innovation and the State,* 51.
31. Shindler, *A History*, 132.
32. Rivlin, *Israeli Economy,* 41.
33. Rivlin, *Israeli Economy,* 4.
34. Bruno, *Israel's Crisis*, 12.
35. Barnett, *Confronting the Costs,* 189.
36. Rivlin, *Israeli Economy,* 48.
37. Radian, "Dynamics of Policy," 273.
38. Berglas, "Taxes and Transfers."
39. Author's calculation based on Bank of Israel, "Table 6.A.1 (1)."
40. Elizur, "Balance of Payments."
41. "Memorandum for the Development Loan Committee, Israel."
42. Avnimelech and Teubal, "Venture Capital Policy."
43. Isaac et al, eds., *A Geopolitical Atlas*, 10.
44. Brown, "Iron and a King," 11.
45. "Economic Affairs Presented"
46. Tzabag, "Co-operation in the Shadow," 860.
47. Rivlin, *Israeli Economy,* 51–52.
48. Aharoni, "Changing Political Economy," 127.
49. Shindler, *A History*, 166; Rivlin, *Israeli Economy,* 50.
50. Fischer, "Israeli Stabilization Program," 275.
51. Tzabag, "Cooperation in the Shadow," 869.
52. Shindler, *A History*, 167; Rivlin, *Israeli Economy,* 53.
53. Bruno, *Israel's Crisis*, 15.
54. Perlmutter, "Decline of the Israeli Labor," 268.
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56. Tzabag, "Cooperation in the Shadow," 872.
57. Mandelkern and Shalev, "Power and the Ascendance," 483.
58. Tzabag, "Cooperation in the Shadow," 873.

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60. Rivlin, *Israeli Economy,* 51.
61. Author's calculation based on Bank of Israel, "Table 6.A.1 (1)."
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63. Mahler, *Politics and Government.*
64. World Bank, *World Development.*
65. Shalev and Grinberg, *Histadrut-Government*, 24.
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67. Bruno and Minford, "Sharp Disflation," 388.
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70. Rivlin, *Israeli Economy*, 57.
71. "Israelis Strike."
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74. Mandelkern and Shalev, "Power and the Ascendance," 485; Rivlin, *Israeli Economy,* 61; Shalev and Grinberg, *Histadrut-Government*, 26.
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82. Rivlin, *Israeli Economy*, 27.
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86. Avnimelech and Teubal, "Venture Capital."
87. US Embassy Tel Aviv, "JEDG – Privatization;" US Embassy Tel Aviv. "JEDG '97."
88. "Israel's National Unity Governments."
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90. Galnoor, *Public Management*, 28.
91. World Bank, *Worldwide Governance.*
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95. Breznitz, *Military as a Public Space.*
96. Cohen et al, *Office of the Chief Scientist.*
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98. Ibid.
99. Rivlin, *Israeli Economy*, 149.
100. Isaac et al, *A Geopolitical Atlas,* 68.
101. Ibid., 27.
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CHAPTER 4

Origins of US Aid to Israel

Arab recipients of US aid often complained that Israel benefited from a "blank check," that is, a large quantity of direct budget support that the government could use at its own discretion. It is also well known that Israel's military aid included access to top-shelf weapons systems, as well as rights to proprietary US military technology, whereas US aid to Egypt and Jordan did not. However, US assistance to Israel boasted three more subtle features that are also of relevance to the topics explored in this book. First, of the three cases examined here, Israel was the only one to have "graduated" from US economic aid—twice, in fact, the first time in the early 1960s and the second time in 2008. Second, it was the only recipient that did not host any parallel institutions from the USA or any other donor. Even before Israel succeeded in obtaining budget support, US technical assistance projects remained modest in scope and worked closely with Israeli political authorities and institutions. Third, Israel's annual budget support was not subject to programmatic economic reform conditionality, as it was the case in Egypt and Jordan.

Yet, as Israel's own developmental success story suggests, this seemingly magnanimous depiction of US aid glosses over some important historical details. In general, Israeli leaders' avoidance of distributive political survival strategies meant that the Israeli state was largely capable of producing its own public goods, obviating the need for parallel institutions. Israel also invested heavily in science and technology and was capable of both absorbing US military technology and co-developing new technologies—thereby incentivizing their transfer. However, that Israel needed to graduate *twice* from its

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economic aid program is a first indication that all did not go smoothly. Israel came to rely on US aid again after the Six Day War and grew increasingly dependent on US budget support during the 1970s and 1980s. Bilateral diplomatic correspondence from this period reveals neither a pliant Washington nor a protégée Israel, but bureaucratic skepticism of Israel's economic policy direction, and repeated rebuffs of its high-level requests for US budget support. In the end, the USA provided Israel with budget support out of concern that servicing US military loans granted in the aftermath of the Six Day and October wars would become unsustainable. Finally, while the option of using explicit economic reform conditionality in Israel was not seriously considered by the State Department in 1984–1985, the Ronald Reagan administration did request that Israel amend the Bank of Israel Law to prohibit fiscal monetization—a form of soft conditionality that helped Peres' Unity Government push through a critical and controversial reform.

These diplomatic struggles, and the resulting changes to the US aid program, map nicely onto various stages of Israeli politics described in the previous chapter. Between 1948 and 1967, when Mapai/Labor/Alignment was the undisputed governing party and could use its control over political and economic institutions like the Histadrut to curb distributive demands, US economic aid was relatively small in size and traditional in composition—and, after a little more than a decade, was no longer needed. Yet as Labor's power eroded and it gave in to distributive pressures, Israel re-engaged the USA for economic aid, the demands for which rose starkly during Likud rule and peaked during Menachem Begin's second administration, which refused to prioritize among war-making, settlement-building, and social expenditure. During the early months of the Unity Government, the USA played a major role in supporting the Bruno-Berglas plan, the successful implementation of which allowed a reset in Israeli economic policy and ultimately of the US aid program. As Israel's leaders returned to non-distributive strategies, the country's reliance on US assistance fell, allowing economic aid to be terminated in 2008.

A Speedy Graduation, 1948–1967

The USA recognized Israel as an independent nation on May 14, 1948, and, following the armistice agreements of the Arab–Israeli War, sought to help Israel survive within its 1948–1949 borders. However, Israel did not yet rank alongside Eastern Europe and the Korean Peninsula as a strategic priority in the context of the emerging Cold War, and the resulting first-generation US aid program was modest in size and scope. In 1948, the USA offered Israel a $100 million Export-Import Bank loan, and in 1951 the US Technical Cooperation Administration ("Point Four," later to become USAID) commenced its operations with a focus on a Commodity Import Program (CIP), agricultural productivity, and management training.[1] The two countries signed a Mutual Defense Agreement in July 1952, the same year that Israel opened a military procurement office in New York. Israel also began to receive Public Law (PL) 480 Title II food aid in 1952, at an amount of about $20 million per year.[2]

Mapai's successful integration of pre-independence institutions into those of the new Israeli state, as well as its subsequent investments in the civilian bureaucracy, infrastructure, and industry, allowed the US aid mission to draw down its activities relatively quickly. In 1955, loans began to overtake grants, and by 1963 the economic aid was entirely composed of loans. Technical assistance was terminated in 1962 and all remaining development lending was phased out by 1967, although Israel continued to receive small amounts of PL 480 aid until 1980.[3]

When compared to other geopolitically relevant recipients of US aid in the Middle East, such as Jordan or Egypt, Israel's first-generation aid program displays some unique features. It essentially wound down in a mere 15 years, and without equivalent substitution from another donor. The Point Four mission appears to have had few (if any) conflicts with its Israeli counterparts. Among the thousands of pages of the mission's correspondence stored in the National Archives, there is no evidence that US aid personnel found the Israeli bureaucrats, technicians, and engineers that they trained to be unqualified, resistant to acquiring new knowledge, or unable to apply their knowledge in the workplace. There was no discussion of bypassing Israeli institutions to provide public goods directly to the Israeli population because of obstacles posed by local politics or institutions. In fact, when discussions focused on the construction of physical infrastructure, the Point Four mission did not undertake to finance, build, and maintain these projects, but instead suggested that loans be generated from PL 480 local currencies and the CIP.[4]

De-graduating, 1967–1973

The changes that rippled through Israel's political economy as a result of Labor/Alignment's weakening position and consequences of the Six Dar War dramatically changed the government's preferences vis-à-vis US assistance. Israel's conquest of the West Bank, Gaza Strip, Golan Heights, and Sinai Peninsula required that it raise resources for controlling these territories. At the same time, it sought to deter future attacks and to "win" a low-level War of Attrition with Egypt. Israel's leaders opted for a policy of disproportionate force, the so-called "Qualitative Military Edge," (QME) that required it to increase the quality and quantity of its own arsenal in the very short term. However, Israel's principal aircraft supplier, France, had imposed an arms embargo on Israel one day before the Six Day War began, and Israel also needed funds with which to pay for the weapons.[5] The funds could not be raised through further increasing taxes, nor, given the increasingly distributive tendencies of the Levi Eshkol government, could they be diverted from social spending. Israel would need to locate the weapons and the funds abroad.

The Lyndon B. Johnson administration decided to support Israel unequivocally over the Arab states, and was willing to help Israel build and maintain the QME.[6] Johnson approved the commercial sale of F-4 Phantom jets in October 1968, opening the door for the Israeli Embassy to re-approach the USA in September 1969 for bilateral assistance. In a "Blue Paper," Israeli Ambassador Yitzhak Rabin cited defense-related pressures on the civilian economy and requested $1.2 billion in assistance over five years for the purpose of replenishing Israel's foreign exchange reserves.[7]

As an "AID graduate," Israel's request was met in Washington by careful study and skepticism. As National Security Adviser to President Richard Nixon, Henry Kissinger quickly assembled a "Working Group on Question of Possible Economic and Financial Pressures on Israel and the Arab States,"[8] and in November 1969 issued National Security Study Memorandum (NSSM) 81, "US Arms Transfer Policy Toward Israel." NSSM 81 requested (1) assessments of Arab and Israeli military capabilities under different US and Soviet arms transfer scenarios, (2) Israeli force requirements under different defense objectives, (3) Israel's indigenous armaments manufacturing capabilities, and (4) different US arms transfer policies for Israel. Then came NSSM 82, "US Economic aid Policy Toward Israel," which requested assessments of (1) Israel's foreign exchange requirements, (2) the amount of economic aid necessary for Israel's military and non-military objectives, and (3) possible alternative sources of financing.[9]

The discussions around NSSM 82 drew considerable criticism from the Department of State and USAID, which challenged Rabin's claim that Israel's foreign exchange gap was a foregone conclusion of its new defense requirements, and expressed disbelief that the war could have destroyed all of the conditions that had rendered Israel an AID graduate only one year before. Bradshaw Langmaid, the regional director of USAID's Greece, Turkey, Iran, and Cyprus office, protested to James Matter, an economic officer in the Department of State's Bureau of Near Eastern and South Asian Affairs, that "Israel is an A.I.D. graduate" whose "regular assistance under the FAA [Foreign Assistance Act] was terminated because the Israeli economy was growing rapidly and was capable of sustaining such growth." He continued, "Israel does not meet the 'need' requirement in the sense it is applied to the major A.I.D. recipients with a per capita GNP of approximately $200 or average 40 percent literacy, stagnant export earnings, economic growth barely able to stay ahead of population growth and foreign exchange reserves sufficient for only several weeks' imports." Rather, Langmaid attributed Rabin's request to the government's unwillingness to reduce domestic consumption.[10]

Such critical reception thwarted Israeli requests for Security Supporting Assistance (SSA, a precursor to Economic Support Funds, ESF) for another two years. In 1970, Washington rejected requests for $50 million in SSA and to classify Israel as a low-income country. Both denials were made on the basis of Israel's high level of economic activity, as well as the continued belief that Israel needed to curb consumption and growth.[11] A September 1970 cable from the US Embassy in Tel Aviv reaffirmed the US commitment to help Israel grow at a rate that would minimize the US burden without causing "severe strains in social fabric," but stressed that Israel needed to reduce its expectations of high growth and consumption if it was going to book such large defense expenditures. It reported, "Officials are emphasizing to public that from a practical and ethical standpoint Israel cannot ask for outside assistance unless it first assumes reasonable share of burden itself. We believe this view should be underscored."[12]

Reacting to the January 1971 "Orange Paper," which requested $500 million in assistance for fiscal year (FY) 1971 alone, a cable from the US Embassy in Tel Aviv criticized Israel for abandoning economic austerity and accused the Israeli government of putting "a more realistic, gloomier face on estimates and allow[ing] for wide margin of error in effort to compensate for many uncertainties faced by economy and to maximize US assistance."[13] The Embassy also reported that Israeli officials reacted negatively to recommendations that they curb consumption and increase tax revenues, retorting that soldiers could not be expected to fight if their parents were unemployed, high growth was necessary to foot defense expenditures, and Israel needed to encourage in-migration.[14]

In April 1971, Rabin requested $200 million in SSA, which was ignored until July when Finance Minister Pinhas Sapir personally reminded the USAID Administrator.[15] The Israeli government then launched a lobbying campaign in Congress for the $200 million to be placed in the FY 1972 Foreign Assistance Authorization Act (which only contained $778 million in SSA for worldwide use). In February 1972, an Israeli deputy economic minister indicated that Israel badly wanted SSA grants, preferring them to Foreign Military Sales or debt rescheduling.[16] The Department of State continued to question the economic necessity of such aid, with its Israel Country Director complaining, "Israel's push for renewed economic aid, which we have successfully averted in the past two fiscal years, carries with it the implication of asserting US responsibility for sharing in the economic costs of rapid increases in Israel of private consumption and public expenditure for social services."[17]

In the meantime, the USA was much more forthcoming with non-financial forms of military assistance. In December 1970, a Master Defense Development Data Exchange Agreement facilitated the exchange of information important to the development of a full range of military systems including tanks, surveillance equipment, electronic warfare, air-to-air and air-to-surface weapons, and engineering (by 1987, there were 28 different data exchange annexes).[18] A 1971 Memorandum of Understanding permitted Israel to build US-designed military equipment. Between 1971 and 1979, more than 100 technical data packages were released to Israel, about 25 percent of which involved state of the art technology.[19]

Israel's military buildup ultimately undermined resistance in the State Department and USAID toward larger and more flexible forms of economic aid. In 1970, an American study team sent to Israel to evaluate the requests of the Blue Paper had suggested that the USA ought to provide some degree of economic aid to help offset defense costs for Israel's own population.[20] That same year, the Nixon administration committed to sell Israel aircraft, electronics, and electronics with advanced munitions. The Department of Defense sold Israel six F-4 fighters on a 120-day note in hopes of working out a solution for payment soon after, and Israel also put a variety of other military items on order (18 new F-4s, 16 F-4s from Navy stock, 250 tanks, an M-60, 4 HAWK batteries and 50 missiles, and 150 armed personnel carriers), indicating that it would seek credit for the purchases.[21] Consequently, the administration obtained $545 million in Foreign Military Financing (FMF) direct loans for Israel in FY 1971 by utilizing the Jackson Amendment to the Defense

Procurement Act, which permitted the president to use unlimited arms credits to Israel for the sake of restoring the military balance against the Soviet Union. The FMF loans would saddle Israel with future debts, yet offering Israel SSA could cause the administration to lose its credibility with the Arabs. Opposing such assistance could prompt allegations that the administration was trying to force Israel's hand on peace negotiations by withholding aid that could be increasingly viewed as justified given the fiscal burden of Israel's arms purchases.[22]

The administration ultimately caved, supporting $50 million in SSA to Israel for FY 1972, 1973, and 1974.[23] The next battle would involve whether such aid would be allocated to a CIP or a cash grant. In a 1972 cable to Assistant Secretary for Near Eastern Affairs Joseph Sisco, US Ambassador to Israel Walworth Barbour argued:

> Quite obviously the simplest way to handle this program would be simply to turn the $85 million [later cut to $50 million in conference committee] over to a GOI bank account in the USA and let them use the money to debts falling due the next year. Their total debt servicing bill for 1972 will be $550 million, the lion's share of which is owed to Americans… Should AID feel it needs to go through the charade of identifying some specific US exports with this money, I would hope they would use their ingenuity to come up with arrangements that would be as simple as possible. I certainly do not welcome the prospect of a group of AID employees coming out here to check which part of Israel's total purchases from us have been financed with this particular money.[24]

Most of the funds were ultimately earmarked for a CIP program. Some State Department and USAID officials continued to be critical and argued that, despite Israel's argument that it needed foreign exchange, the balance of payments situation had improved.[25] In fact, the officials believed that more foreign exchange would be harmful: "The Israelis are experiencing massive foreign exchange inflows which they have been unwilling to neutralize, and which are therefore causing inflationary measures." They ultimately deemed Israel's request to be "political," noting, "The Israelis claim inability to take the necessary monetary and fiscal measures to protect their economy."[26]

The Israeli Embassy's "Pink Paper" of January 1973 requested $750 million in assistance, an all-time high. In September, a cable from the US Embassy in Tel Aviv concluded, "during 1970–1973 a revolutionary improvement in Israel's defensive situation and economy occurred. The problems which caused Israel to turn to the US for extraordinary financial assistance have effectively been solved." The cable also took a hard stance on Israel's stated requirement for US aid, claiming "Israel has consistently exaggerated the requirements for USG assistance, underestimating what Israel can do for itself." It dismissed Israel's four traditional justifications for aid (defense requirements, balance of payments, foreign exchange, and foreign debt), and stated, "What is wrong with Israel's economy in 1973 can be summed up in one sentence: Israel is attempting to do too much with the available resources."[27] US Secretary of State William Rogers signaled to Sapir that a draw down in US aid would be appropriate. Moving away from Israel's macroeconomic figures, Sapir emphasized Israel's budgetary problems arising from high defense requirements, and Rogers recommended a 10 percent draw down in US aid.[28]

The October War and the "Peace Dividend," 1973–1985

The circumstances of the October War reset the debate, dealing a severe blow to Israel's economy at the same time that distributive pressures were rising. The subsequent economic slowdown meant that Israel could no longer keep apace with high consumption and defense bills. Inflationary pressures rose and the country's balance of payments position deteriorated. Israel turned to short-term commercial borrowing, increasing the foreign debt and interest payments abroad.[29] In Washington, there was concern that Israel's domestic politics could spiral out of control and compromise the viability of the state. At this point, the State Department and USAID appear to have ceased dismissing Israeli aid requests on the basis that Israel could help itself.

The war resulted in a massive transfer of US war materiel to Israel. Attempting to persuade Sadat that a war of attrition would be futile, Kissinger ordered an overt strategic airlift operation (dubbed "Nickel Grass") that flew more than 22,000 tons of tanks, artillery, ammunition, and supplies to Israel over the period of one month.[30] The war also carved out a unique position for the USA as an arbiter in "land for peace" negotiations between Egypt and Israel, each of which demanded economic compensation for the various costs of peacemaking, as well as military aid. The two aid packages to Egypt and Israel came to be dubbed collectively as the "peace dividend," one of the few long-term, open-ended aid commitments that the USA has ever offered.

Congress passed a $2.2 billion aid package for Israel in FY 1974, which upon presidential order came to encompass $1.5 billion in FMF grants, $982 million in FMF Direct Loans (repayable over 20 years at 3 percent interest), and $50 million in SSA. About $1 billion of the military aid was used to pay for prior purchases of US arms. Israel also received about $460 million in grants from the State Department's Migration and Refugee Assistance Fund, which forwarded the funds to the Jewish Agency via the United Israel Appeal.[31] During Nixon's visit to Jerusalem in June 1974, the Israeli government submitted a series of memoranda detailing its need for economic and military assistance, including about $1.5 billion in military sales credit and about $500 million per year in economic credits each year for the next four years.[32]

The appropriations track temporarily decelerated as lawmakers waited for the outcome of Kissinger's shuttle diplomacy. At the same time, however, the Nixon administration moved to assist Israel outside of congressional appropriations. In 1974, Israel was given access to cash-flow financing, which allowed it to place large orders of war materiel with American defense companies and not pay for it all up front, banking on expectations of sustained FMF in the future.[33] In 1977, the USA and Israel used $110 million in local currency to endow the Binational Industrial Research and Development Foundation (BIRD), which would fund joint US–Israel teams in the development and subsequent commercialization of innovative, nondefense technological products from which both the Israeli and American company could expect to derive benefits commensurate with the investments and risks. One year later, the Binational Agricultural Research and Development Fund (BARD) was established, also with a $110 million endowment.

Unlike previous years, the $325 million in SSA for FY 1975 surpassed the $300 million allocation for military aid. US policymakers now actively moved to support Israel's budget deficit. In January 1975, Assistant Secretary for Near Eastern and South Asian Affairs Alfred Atherton wrote to Sisco that USAID had advised him that, "untied money can be extended in the form of a financial grant to a foreign government, an approach that Congress dislikes (We dress it up a little in the case of Jordan by calling it 'budget support')." However, Atherton noted, it would also be possible to achieve the effect of untied funds through debt forgiveness ("Congress also dislikes this"), or through programming US economic aid into areas that the Israeli government would likely finance on its own.[34]

Following the Sinai II agreement of September 1975, cash grants slowly overtook other elements of the economic aid program. The FY 1976 package included $700 million in FMF, $225 SSA loans (40-year maturity with a 10-year grace period and 2 percent interest), and $475 million in SSA grants for the CIP and a $150 million cash transfer.[35] In December 1976, USAID announced that it intended to convert $50 million from the CIP to cash grant.[36] For FY 1977, Israel received an initial $200 million cash grant, which in September 1977 USAID notified Congress that it intended to increase to $300 million. For FY 1978, Congress gave an earmark to the $300 million cash grant, and in 1978, USAID proposed that the CIP be permanently converted to a 100 percent cash transfer.[37] The cash transfer, USAID claimed, "will give Israel greater economic flexibility for easing some of the pressure on the economy," for example, permitting increased investment or consumption, or decreasing short-term debt liabilities[38] in a period of "major structural changes."[39]

The peace treaty funding, passed by Congress in May 1979, allocated roughly $3 billion to Israel and $2 billion in aid to Egypt, a "3:2 ratio" that determined the aggregate balance of US aid appropriations between the two countries for decades. The agreement left Israel with relatively unchanged levels of ESF (between $780 and 790 million, about $260 million of which was in loans). However, in FY 1979 Israel received a record $4 billion in military assistance, $2.7 billion of which was loans requiring repayment over 30 years with no payment on the principal for the first ten years. Of the remaining $1.3 billion in grants, $800 million was intended to compensate Israel for two military bases that it would leave behind in the Sinai.[40]

With the Likud's new, more distributive fiscal policy putting pressure on the budget, the Israeli government approached the USA four months after the peace treaty funding was passed, asking to double its aid appropriations for FY 1981 (to $1.6 billion in economic aid and $1.85 billion in military aid). According to Israel's ambassador, Avraham Evron, Israel needed the money to pay for oil imports, as the cost of oil had substantially increased that year. However, the Jimmy Carter administration had embraced an overall priority of minimizing aid expenditures. It initially granted an appeal for an additional $200 million in FMF direct loans, and converted all of Israel's economic aid to grants—but refused a request to give Israel all of its ESF at the beginning of the year. This mechanism, which was only used in Turkey at the time, would have cost the USA in excess of $40 million in interest annually when compared to the usual quarterly disbursement.[41]

During the first Ronald Reagan administration, a debate ensued over whether Israel's aid should come in the form of loans or grants. In February 1982, the administration submitted aid legislation requesting a $600 million increase in Israel's aid over a period of two years to compensate Israel for the sale of Airborne Warning and Control Systems (AWACS) and F-15 upgrades to Saudi Arabia, and to help maintain the QME. However, the first tranche of $300 million would have come as a loan, $50 million of previously authorized military grants were to be converted to loans, and one-third of a previously authorized economic aid grant worth $785 million was to be resubmitted as a loan. The American Israel Public Affairs Committee (AIPAC) mobilized against the reapportionment at the same time that Israel attempted to demonstrate that, through an (ultimately temporary) increase in domestic revenues, Israeli citizens rather than the US taxpayer would be funding its invasion of Lebanon. The final budget resolution, passed in December, included $200 million of the AWACS-related aid as a grant, reverted all ESF to grants, and left the $50 million in military aid as a grant.[42] Defeated, however, was an amendment from Senator Alan Cranston (D-CA) stipulating that economic aid to Israel would have to be greater than the amount Israel would pay back to the USA in debt service each year. Senator Charles Percy (R-IL) summarized the opposition view, claiming, "It makes the American taxpayer responsible for all Israeli debts and all future debts."[43]

Nonetheless, Congress continued to support increases in aid to Israel beyond what the Reagan administration found acceptable. In May 1983, the House Foreign Affairs Committee voted to increase military grants to Israel by $300 million more than Reagan's FY 1984 budget had requested. The administration did not oppose the change. Deputy Assistant Secretary of State Alvin Drischler responded, "We support the administration's request. But we do not oppose the add-on," to which one Representative responded, "We're confused."[44] At the end of the month, the Reagan administration formally announced its support of congressional efforts to increase grants to Israel by $400 million. Congress also added two additional bonuses: the Cranston Amendment, and a requirement that Israel's aid be paid out at the beginning of the year (which the Congressional Budgeting Office then projected would cost the USA $28 billion in foregone interest over the next 35 years).[45]

As the Reagan administration came to embrace Israel as a necessary stabilizing force in Lebanon, which would allow US Marines to be withdrawn, it made further concessions.[46] One commissioned report on Israel aid concluded, "there are friendly countries with legitimate security needs that simply cannot afford to borrow for necessary military equipment and services." A State Department official concurred, "We now have to decide whether a friendly country deserves our military help, and if it does, we will give them the help without draining their reserves."[47] In March 1979, the USA and Israel signed a Memorandum of Agreement that would allow Israeli industries to enter the Department of Defense's competitive bidding market for the procurement of 610 different goods and services, expanded the existing Data Exchange Program, and provided for cooperative research and development programs. In May 1982, Israeli Defense Minister Ariel Sharon submitted a successful request to use $250 million of FMF each year for four years to boost the production of Merkava tanks and develop the Lavi fighter jet—which the USA would later fund to the tune of $550 million per year.[48] Israel therefore became only one of the few countries that were allowed to spend FMF in countries other than the USA.

Reform Dialogue, 1984–1985

In March 1983, a General Accounting Office (GAO) report recommended a freeze on all aid to Israel, giving way to a heated debate on the US–Israel aid program. The report argued that (1) Israel was likely to demand additional aid as its debts mounted, and (2) "The flow of funds under the Security Assistance Program, might, depending on economic developments, contribute to an increasing Israeli need for foreign currency."[49] In July, journalists Rowland Evans and Robert Novak published a column entitled, "The Burden of Bailing Out Israel," referencing the "mournful tale of the United States' being repeatedly deceived by Israel," and noting that, "Pleas for a one-time only concession become a pattern for the future, at a high cost to American taxpayers."[50]

At the end of 1983, Secretary of State George Shultz convened a group of economists to advise him on the Israeli economy, including (1) Paul McCracken, Nixon's first Chair of the Council of Economic Advisers who had led administration efforts to battle US inflation, (2) Herbert Stein, a devotee of the Chicago School who had taught at the University of Virginia and also headed the Council of Economic Advisers under Nixon and Gerald Ford, and (3) Stanley Fischer, a young economics professor from the Massachusetts Institute of Technology (later to become the Governor of the Bank of Israel and Vice Chairman of the US Federal Reserve).[51] Their influence increased alongside Israel's growing inflation woes, which had produced worries of a Latin American-style political destabilization in one of the world's key geopolitical flashpoints.[52] In April 1984, Shultz broached the issue of austerity with Cohen Orgad, and in September, the Reagan administration informed Israel that it would support Israel's foreign exchange reserves if they became depleted, but officially requested that Israel present a budget-cutting plan before requesting a sharp rise in American economic aid.[53]

When Peres became Prime Minister, he publicly announced that he would not ask for US stopgap aid due to his belief that "The curing of the Israeli economy is purely an Israeli task."[54] Many in the USA agreed. In an op-ed entitled, "The Masada Economy," the pundit William Safire jibed, "Now the piper must be paid, and all the Israelis must do the paying, lest the Welfare State lead to the Vassal State… Budget slashing is the answer."[55] A Senate Foreign Relations Committee staff report claimed, "even if the United States should greatly increase its aid, it is abundantly clear that US aid alone would neither cure nor even significantly ameliorate the structural problems that afflict the Israeli economy."[56]

Peres' premiership, as well as congressional recognition of Israel's dire economic situation, provided a possibility to escape from the previous decade's pattern of Israeli overspending and the somewhat reluctant disbursement of US aid. Peres and Shultz agreed to establish a Joint Economic Development Group (JEDG) that would bring together officials and academic economists from the USA and Israel to discuss the problems of the Israeli economy and propose potential solutions. The US team was composed of Shultz's pre-existing advisory team on Israel, with Stein and Fischer playing prominent roles. The Israeli side was led by Emmanuel Sharon and included Bruno, Berglas, and other members of the team that would eventually formulate the heterdox stabilization plan of July 1985.

In December 1984, after authorizing the Israeli delegation to present their government's official position on the stabilization plan to the JEDG, Peres requested \$4.1 billion for FY 1986 (\$2.2 billion military and \$1.9 billion economic), as well as an immediate \$800 million emergency aid grant to maintain Israel's foreign exchange reserves, which had dipped below two months' worth of imports.[57] The Department of State publicly responded that it would not consider the request until Israel adopted a tougher economic austerity program—which it hoped would include central bank independence, the sale of inefficient state-owned enterprises, and the elimination of wage indexing. Israeli officials consented to only go to plead to Congress as a last resort.[58] The Reagan administration delayed its submission of its FY 1986 aid request for Israel to Congress throughout the year, hoping that Israel would pass a major reform. In January, Shultz informed Peres that the most recent package deal was not sufficient to warrant the $800 million. In March, shortly after Israel submitted a higher request for military grant aid, the Reagan administration informed Congress that Israel had failed to make sufficient progress on reform. Under-Secretary of State for Economic Affairs Allen Wallis claimed that economic grant aid would "disappear quickly" because of Israel's failure to cope with fiscal problems, and added, "… if we give them the $800 million in supplemental aid, as the plan now stands, we're convinced that will disappear and their economy won't be any better off, and they'll face bigger problems later on…" He concluded, "The basic problem is that they are consuming a lot more than they are producing," and deemed the situation a "political problem."[59]

After a March 1985 JEDG meeting in Jerusalem, Stein had in his possession a handwritten list of "Ten Points" for a potential stabilization program, which included reductions in budget expenditure, freezing rates, and lowering taxes. The list was leaked and soon appeared in Israeli newspapers as "Herb's Ten Points." Israeli commentators speculated that they had probably been drawn up by the Israeli delegation, a perspective that is also held by Shalev and Grinberg (who had the opportunity to interview a number of JEDG participants while they were still living).[60] Yet, in eulogizing Stein in 2001, Fischer claimed, "While the ten points are not Herb's finest prose, they were certainly written by him."[61] In future JEDG meetings, Stein was also acknowledged to be the author of the ten points, even though it was noted that the Israeli team had accepted them and incorporated many of them into the July 1985 stabilization plan.[62]

However, these dynamics were not considered to be "conditionality." The idea of conditioning Israel's assistance on fundamental economic reforms had only been brought up briefly among Shultz's advisers, and it was quickly dismissed as politically unfeasible. One respondent claimed, "Secretary Shultz believed that, had he attempted explicitly to condition assistance to Israel in support of its stabilization plan on Israeli implementation of various aspects of the plan, he would have been overridden by Congress, which would have supplied the financial assistance unconditionally."[63] In the absence of the possibility to use explicit conditionality, the JEDG banked on the academic distinction of the economists that were involved, as well as a clear signal that the Reagan administration would be "disappointed" if a deal were not adopted.

The timing of FY 1986 appropriations relative to the adoption of the stabilization plan further supports the claim that the adoption of the stabilization plan was not a function of American conditionality. On April 29,1985—more than a month before Peres convened the panel that would work out the details of the stabilization package—the Department of State informed Congress that it intended to ask for a two-year emergency aid package for Israel that involved a $1.5 billion grant dispersed over FY 1985 and 1986. Earlier in the month, the House Foreign Affairs Committee had included the $1.5 billion in its authorization bill.[64] And while Peres privately intimated to US members of the JEDG team that he was ready to take on a major reform, the stabilization plan does not appear to have been a central topic of conversation during the JEDG's two days of meetings in Tel Aviv during June 1985.[65] Additionally, the heterodox plan contained elements that Stein and Shultz disagreed with in principle, such as wage–price controls.[66]

The US team did privately request one specific policy reform from the Israeli government at the March 1985 JEDG meeting—the passage of an amendment to the Bank of Israel Law that would forbid fiscal monetization. In January 1984, when Bank of Israel governor Moshe Mendelbaum had proposed that the government be forbidden to take loans from the Bank of Israel, Deputy Prime Minister David Levy had reprimanded him. As soon as JEDG consultations began, however, the US delegation emphasized that they viewed this amendment as absolutely necessary. In a December 1984 correspondence, Shultz encouraged Peres to support complete independence for the Bank of Israel, and in his discussions with Israeli officials Shultz repeatedly emphasized the need to stop Bank of Israel lending to the government. The US government's support for this reform, as well as concurrent support from American and Israeli academic economists, made the Ministry of Finance open up to the idea that restricting the government's ability to print money might help resolve the hyperinflation crisis and better regulate the state's role in the economy.[67] Shultz so vigorously pursued this particular reform that it became clear to many JEDG participants that this request was a soft form of conditionality, even if it was not attached to a specific dollar amount. The prohibition of fiscal monetization was the fourth point in Stein's list. The Knesset passed the amendment on July 29, 1985.[68]

The successful implementation of the stabilization plan returned Israel to more reasonable economic aid requests. In FY 1987, Israel began to annually receive $1.2 billion in ESF grants and $1.8 billion in FMF, an arrangement that would largely hold until 1999 (barring the occasional supplemental, such as a 1991 allocation of $650 million in emergency grants to compensate Israel for damage and other costs arising from Operation Desert Storm).[69] Successive administrations continued to support Israeli science, technology, and defense industries. In May 1986, the USA agreed to fund part of the Arrow Anti-Missile System, a weapon with theater ballistic missile defense capability; by the time the project was complete in 2000, the USA had covered half of the annual costs. In 1993, the US–Israel Science and Technology Commission was established with $15 million commitments from each government over three years, its mission being to (1) encourage high-tech industries in both countries to engage in joint projects, (2) foster scientific exchanges between universities and research institutions, (3) promote development of agricultural and environmental technologies, and (4) assist in the adaptation of military technology to civilian production.[70] After the collapse of the Soviet Union, the George H.W. Bush administration began to make use of loan guarantees to accommodate Jewish immigrants to Israel from Russia and the former Soviet republics. In May 1990, the Dire Emergency Supplemental Appropriations Act authorized a $400 million housing loan guaranty program, which would be administered through USAID's Housing Guaranty Program.[71] In 1992, Congress authorized a $10 billion loan guarantee to be disbursed in $2 billion increments over five years.[72]

Israel's Second Graduation, 1998–2010

In the early to mid-1990s, a number of Israeli economists began to discuss the possibility of reducing Israel's dependence on US economic aid, but the idea was rejected by the Rabin and Peres governments. When Netanyahu became Prime Minister on a platform that stressed capitalist self-sufficiency, however, experts in Israel and the USA argued that such a step was congruent with these ideals, and would demonstrate how far Israel's economy had come since 1985.[73] During the spring 1996 session of the JEDG, Fischer proposed a new ten-point economic program, which included a phase-out of US economic aid.[74] Then, during a July 1996 address to the US Congress, Netanyahu pledged to reduce Israel's dependence on US economic aid by the end of his four-year term.[75]

Negotiations for phasing out US economic aid to Israel began in January 1998, when Finance Minister Ya'acov Neeman led an Israeli delegation to Washington with a proposal to draw down the aid and more closely match it with the debt service Israel still owed the USA from weapons purchases in the 1960s and 1970s. The negotiations occurred amid broader congressional attempts to reduce foreign assistance—a fight that had already culminated in the House Appropriations Committee capping total assistance to the Middle East and North Africa at $5.4 billion. They also occurred at a time when Netanyahu faced widespread condemnation by the American public for his intransigence on the peace process.[76] The Israeli proposal, which was ultimately successful, entailed the reduction of Israel's $1.2 billion economic aid package by $120 million increments over ten years, beginning in 1999 and terminating completely in 2009 (the so-called "glide path"). It also diverted half of annual savings each year, $60 million, to Israel's military aid package.[77] The Cranston Amendment was left out of the FY 1999 and subsequent appropriations bills, as at the time Israel received $1.2 billion in ESF and owed only $328 million in debt service.[78]

Israel continued to receive significant US military assistance, a phenomenon justified not by lack of Israeli capability but by the country's extraordinarily large defense needs. At the end of 1998, Israel requested an additional $1.2 billion in aid to fund moving troops and military installations out of the Palestinian Territories, as called for in the Wye Agreement of October 1998. Israel received $600 million of this in military aid in FY1999 and $300 million in FY 2000 and FY 2001. Also in 1998, the USA designated Israel as a "Major Non NATO-Ally," which qualified Israel to receive Excess Defense Articles (EDA) at reduced rates or no charge; Israel became the largest recipient of EDA, having been authorized over $330 million since 2001.[79] In 2003, Israel received supplementary aid that included $1 billion in FMF, one quarter of which was a cash grant and three quarters of which were marked for spending in the USA. In August 2007, the George W. Bush administration and the Government of Israel agreed to a ten-year, $30 billion military aid package that would gradually increase Israel's FMF to $3.1 billion between 2013 and FY 2018. Per usual, Israel received the FMF aid in a lump sum in the first month of the fiscal year, which at the time was believed to cost the USA between $50 and 60 million per year to borrow funds for the early payment.[80] The funds were placed in an interest-bearing account and that interest was used to pay down Israel's US debt. Under the terms of the 2007 agreement, Israel was still able to spend 26 percent of US assistance on Israeli manufactured equipment.[81]

Even after the Arrow became operational in 2000, Congress continued to authorize US–Israeli missile defense cooperation. The US–Israel Arrow System Improvement Program (ASIP) and post-ASIP was extended through 2013. The Arrow III program, implemented by

Boeing and Israel Aerospace, was developing a system that could destroy longer-range conventional ballistic missiles (replacing US-manufactured Patriots). David's Sling, executed by Raytheon and Rafael Advanced Defense Systems, would counter short-to-medium range missiles (replacing HAWKs). In April 2011, the Congress approved $205 million in aid to Israel that would pay for the procurement of up to ten batteries for Iron Dome, the system that in November 2012 provided cover for major population centers like Jerusalem and Tel Aviv from Hamas-launched rockets. To strengthen all missile defense efforts, the USA also deployed a Raytheon AN/TPY-2 X-Band radar system to Israel, which had better detection capabilities that existing Israeli technology and was linked to the American global network of satellites in the US Defense Support Program. The system was owned by the USA and was manned by US troops and defense contractors, marking the first indefinite US military presence on Israeli soil.[82]

Conclusion

The first generation of the US aid program to Israel looked not unlike US aid programs in Jordan and Egypt before those countries achieved higher geopolitical value to Washington. Yet unlike the other two countries, Israel was able to graduate from its first-generation aid program relatively quickly. Then, after only a few years, it started to cultivate a more structural dependency on US economic and military aid that again bore resemblance to parallel developments in Egypt and Jordan. This transition, of course, coincided with a shift from non-distribution to moderate distribution, as the Mapai/Labor/Alignment saw its political power eroded and was then superseded by the Likud. During this period, the USA did not attempt to foist forms of aid on Israel that would restructure its moderately distributive political economy, publicly attributing the country's problems to war-induced imbalances, and, at worst, an inability to set priorities—the remedy for which became to give Israel a "blank check" to repay its FMF loans. The USA only began to exert pressure for restructuring once Peres' Unity Government had come to power and expressed an interest in reform. Finally, the country's burgeoning technology and defense industries made it possible for the USA to transfer a large amount of military and dual use technology to Israel, both as assistance and as commercial joint ventures. These types of economic and military aid were both possible and suitable because Mapai and its successors had been able to build strong institutional fundamentals that persisted even after other core tenets of non-distribution were abandoned.

There is no doubt that interest group politics played some role in loosening congressional purse strings for Israel from the Six Day War through the early 1980s. However, this process was not a snap decision that involved an overpowering "Israel lobby" and a Congress-taken hostage. Rather, it was a sustained tug-of-war that pitted Israeli officials, lobbyists, some Members of Congress, and some US diplomats against senior officials and technocrats in USAID and the State Department. Israel rarely had 100 percent of its preferences fulfilled, and those that were achieved came after a significant time delay and were often expedited by the circumstances of war and economic crisis.

Notes

1. "Agreement Between the United States of America and Israel;" "Country Economic Program, August 1, 1960."
2. USAID, *U.S. Overseas Loans.*
3. USAID, *U.S. Overseas Loans;* "USG Aid to Israel."
4. USAID, *US Overseas Loans;* "USG Aid to Israel."
5. GAO, *US Assistance to the State.*
6. Quandt, *Peace Process*, 44–45.
7. "Israel's Foreign Exchange Position."
8. "Working Group on Question of Possible Economic."
9. "National Security Study Memorandum 82."
10. "NSSM 82; AID 10 Supporting Assistance 1969."
11. "NSSM 105; NSSM 98: Further Review."
12. "US Economic Assistance," AID 10 Supporting.
13. "Israel's Foreign Exchange Position."
14. "Untitled correspondence from Jack Button."
15. "Establishing Administration Position."
16. "US Assistance for Israel in FY 1973."
17. "Preliminary Assessment of Supporting Assistance."
18. Clarke, "Israel's Unauthorized," 43.
19. Ibid., 92.
20. "USG Aid to Israel, September 1973."
21. "Memorandum of Conversation, Arms."
22. "Establishing Administration Position on Supporting Assistance."
23. "Memorandum for the Development Loan Committee."
24. "Untitled correspondence from Walworth Barbour."
25. World Bank, *World Development.*

26. "US Assistance to Israel, July 18, 1972."
27. "USG Aid to Israel, September 1973."
28. "Memorandum for the President, Subject: Possible Reduction."
29. Rivlin, *Israeli Economy*, 46.
30. Boyne, "Nickel Grass."
31. Sharp, *US Foreign Aid to Israel*, 20.
32. Elizur, "Israel Aid Request."
33. GAO, *US Assistance to the State,* 20.
34. "Israel's Desire for US Untied Funds."
35. "Memorandum for the Development Loan Committee;" "Program Israel Activity Data Sheet."
36. "Untitled correspondence to the Honorable Daniel Parker."
37. "GAO Draft Report, "US Economic aid to Israel," April 28, 1978."
38. "Untitled correspondence to Eitan Raff."
39. "Congressional Presentation Security Assistance."
40. Russell, "Peace Treaty Funding."
41. GAO, *US Assistance to the State,* iv, 27–28.
42. Tyler, "How Reagan, Hill Split."
43. Weinraub, "Senate Panel."
44. Hornblower, "House Panel Votes."
45. "Reagan Now Backs Increase."
46. Seib and Ignatius, "Drawing Closer."
47. Gwertzman, "US, In New Policy."
48. GAO, *US Assistance to the State*, 44, 56.
49. Ibid., 27.
50. Evans and Novak, "The Burden."
51. Maman and Rosenhek, *Israeli Central Bank,* 60.
52. Ibid, 61.
53. Gwertzman, "U.S. Links Aid."
54. Friedman, "Israelis Rule Out."
55. Safire, "Masada Economy."
56. "Senate Report Is Pessimistic."
57. Shalev and Grinberg, *Histadrut-Government*, 31.
58. Greenberger and Carrington, "US Backs More."
59. Gwertzman, "US Says Israelis."
60. Shalev and Grinberg, *Histadrut-Government,* 31.
61. Fischer, "Remembering Herb Stein."
62. Secretary of State, "Spring Session of JEDG."
63. Anonymous respondent, e-mail message to author, January 15, 2013.
64. Greenberger, "State Department Says."
65. US Embassy to Israel, "US-Israel Joint Economic Development Group."
66. Fischer, "Remembering Herb Stein."

67. Maman and Rosenhek, *Israeli Central Bank,* 59.
68. Ibid., 58–63.
69. Sharp, *US Foreign Aid to Israel,* 28.
70. Ibid., 26.
71. GAO, *Israel: US Loan Guarantees.*
72. Nowels and Mark, *Israel's Request.*
73. Rosenthal, "$1 Billion Less."
74. Secretary of State, "Spring Session of JEDG."
75. Mark, *Israel.*
76. "A Look at Trimming Aid."
77. Shenon, "Israel Sketches Out."
78. Mark, *Israel.*
79. Defense Security Cooperation Agency, *Excess Defense*.
80. Mearsheimer and Walt, *Israel Lobby*, Chapter 1.
81. Sharp, *US Foreign Aid to Israel*, 3, 5.
82. Sharp, *US Foreign Aid to Israel*, 11–14.

CHAPTER 5

US Aid to Israel: Developmental Bargain

US assistance to Israel stands apart from that to either Egypt or Jordan in that it made sustainable, long-term contributions to the state's developmental capacity. Unlike in the Arab states, US aid did not, even during the peak of Likud populism, significantly erode the state's revenue-gathering powers, nor did it support a legacy of bureaucratic patronage. Rather, the technical assistance of the first-generation aid program was used to further educate Israeli civil servants and rationalize organizations within the civilian bureaucracy, and, in the second-generation aid program, US budget support was used to pay down Israel's foreign debt. Israel absorbed US defense technology and used it to upgrade its own armaments and high-tech industries, fundamentally reorienting the economy toward higher value-added production. And, critically, US diplomatic pressure and soft conditionality encouraged the Peres government to swallow a bitter political pill in the pursuit of longer-term economic gain. Given Israel's more favorable domestic politics, many of these developments might even have occurred at a slower pace without US aid, in which case such assistance cannot be seen as a necessary condition for the Israeli state's developmental capacity, but rather as an accelerator.

On the other hand, US assistance purchased little control over Israeli sovereignty. The one sovereignty concession that Israel consistently made, its juridical sovereignty, was probably not even a deliberate concession to the USA but rather a function of the Jewish state's isolation from the Arab states

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and their close allies. Otherwise, Israel made only two sporadic concessions: agreeing to pass the amendment to the Bank of Israel Law prohibiting fiscal monetization (cross-border sovereignty), and, more recently, granting the USA veto power over some of its arms sales to third party states (also cross-border sovereignty). Further, Israel often acted against the stated preferences of its major donor in specific policy areas, some examples of which will be discussed here.

As such, the US–Israel relationship more closely resembled normal alliance behavior between two sovereign states. Sometimes Israel's interests aligned with those of the USA, and sometimes not, in which case Israel's leaders still felt relatively free to pursue them without fear of jeopardizing the country's political stability, development, or national security. As a newly independent state, Israel needed US aid to fill short-term gaps in finance, human capital, and defense technology, which were seen as untenable in the context of its hostile regional environment. Israel was able to graduate from its economic aid program (twice) because the non-distributive survival strategies pursued by Israeli leaders resulted in higher levels of state developmental capacity, rendering such aid no longer essential. These circumstances, as we will see, stand in stark contrast to the USA's Arab allies, where highly distributive survival strategies undermined state developmental capacity and predisposed leaders to depend on forms of US assistance that, in the short term, compelled sovereign concessions, and in the longer term exerted a negative developmental impact.

State Developmental Capacity

In the now-sizeable literature on aid-induced rentier states, it is rarely noted that, despite receiving considerably larger and more discretionary forms of US aid than its Arab neighbors, Israel did not become a rentier state. Over the longer term, US assistance had neither an inverse relationship with government revenues nor a direct relationship with social spending—in fact, quite the opposite. This is remarkable given that US assistance to Israel more closely approximated a pure fiscal rent, which could have easily been converted into selective benefits designated for leaders' respective political constituencies. Within the context of observing the effects of US aid on the state's developmental capacity, it is also worth taking some time to consider how this relationship deviates from the causal mechanisms that have been associated with the rentier state.

Despotic Power

According to theories of the rentier state, access to large-scale US aid rents would have been a sufficient condition for Israeli leaders to divert such rents to support more current expenditure, such as salaries and subsidies, as well as to reduce taxes. However, changes in Israel's fiscal policy correlated not with changes in US aid volume, but with changes in the survival strategies of Israeli leaders. As Fig. 5.1 demonstrates, by 1960 Israelis were already paying the equivalent of 24 percent of GNP to the state in taxes. Further, tax revenues as a percentage of GNP actually rose in tandem *alongside* US assistance after 1971. In the mid-1970s, as Israel awaited what would almost certainly be an even larger US aid package, the government undertook a major income tax reform and introduced a VAT.[1] Domestic revenue rose to 55 percent of GNP in 1976, of which nearly 87 percent was taxes. Similarly, the relationship between US assistance and Israeli government spending was not a constant one. Total and social spending remained relatively constant relative to GNP until 1970, and then, between 1970 and 1981, US assistance, social spending, and total expenditures increased in tandem. In 1985, the year of Reagan's emergency aid package, the budget experienced a major drop in social

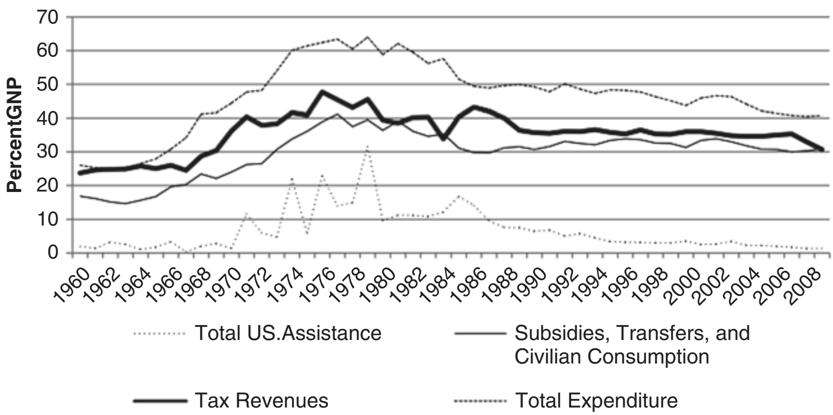

Fig. 5.1 Aspects of the budget of the Government of Israel, 1960–2009 (Author's calculations based on budget and GNP data from World Bank, *World Development*; aid data from USAID, *US Overseas Loans*; and budget data from Bank of Israel, "Table 6.A.1(1);" Bank of Israel "Table 6.A.2(1).")

spending. US assistance decreased as a percentage of GNP thereafter, and social spending slightly increased and then leveled off.

Even during the Likud period of 1977–1984, US assistance appears to have fluctuated between supporting higher expenditure at some times and lower taxes at other times—but never both at once. While US assistance grew between 1971 and 1979, so did both tax revenues and subsidies. Then, between 1979 and 1985, subsidies remained somewhat at their previous levels while tax revenues fell. Further, the Likud's expansionary fiscal policy did not increase its despotic power over society. In making material commitments to different political constituencies, the Likud severely constrained its ability to introduce new economic policies that might have ameliorated the problem. A successful stabilization plan was only introduced once the Likud had been dislodged from power and reappeared in the form of the Unity Government headed by a Labor prime minister advised by a team of pro-reform economists.

The only period in which US assistance directly modified the Israeli state's despotic power was arguably in 1984–1985, as the Unity Government considered the stabilization plan. By December 1984, hyperinflation had convinced Peres and his ministers that drastic measures had to be taken, but his government's ability to introduce the Bruno-Berglas plan was severely constrained by powerful interest groups, particularly the Histadrut. That the JEDG provided a venue for respected American economists to endorse basic tenets of the stabilization plan was important in lending it credibility.[2] The Reagan administration's delay in stating its position on Israel's FY 1986 aid request, while ultimately overpowered by Congress, certainly exerted pressure on Peres. Finally, the amendment to the Bank of Israel Law prohibiting fiscal monetization, while not an explicit condition, operated as soft conditionality given the importance which Shultz and the American economists attached to it. Of course, it is impossible to definitively assess whether these reforms would have happened, or happened in time, in the absence of such a strong US presence—but US involvement appears to have been critical.[3]

Infrastructural Power

It is more difficult to evaluate the independent impact of US assistance on various aspects of the Israeli state's infrastructural power. The capabilities, societal effects, and territorial reach of the Israeli state mostly continued to expand throughout the period in which Israel received US assistance, yet many of these developments can be accredited to the generally non-distributive nature of the Israeli political economy—in which case US aid can be considered an accelerator at best. Additionally, as opposed to Egypt and Jordan, where it is easier to directly observe the impact of specific projects, the second generation of US economic aid to Israel was essentially fungible budget and foreign exchange support.[4] However, it is possible to deduce some causal linkage between US aid and Israel's infrastructural power by observing budgetary trends and stipulations on how the funds were to be spent, identifying which military technologies Israel received and tracking their use, and examining the effects of the 1985 reforms (assuming that the USA did play a role in their passage).

Core Capabilities

Budget support enlarges the pool of revenues that the state may commit to its various activities. In 1980, US aid was equivalent to about 22 percent of Israel's GNP, whereas domestic revenues for that year corresponded to about 47.8 percent of GNP. As this aid was fungible, it came to reflect Israeli budget priorities more generally. In non-distributive times, these policies contributed to upgrades in infrastructural power. In moderately distributive times, US aid indirectly supported growing public sector salaries, subsidies, and settlements. The Cranston Amendment provided a clear linkage between the level of US economic aid to Israel and the country's US debt service.[5] Yet between 1980 and 1996, however, US budget support far surpassed Israel's nominal interest payments on all debt. As Fig. 5.2 demonstrates, the most substantial increase in Israel's defense expenditure pre-dated its receipt of large-scale US military aid by five years, and remained quite high even as overall US military aid relative to GNP fell. Nevertheless, annual FMF grants represented about 18–22 percent of Israel's overall defense budget, and there is a very clear relationship between Israel's level of US military aid and its defense imports.[6]

US military assistance was also used to enhance the Israeli state's access to defense technology. Between 1971 and 1982, Israel obtained A-4 Aircraft, F-15 Aircraft, F-16 Aircraft, F-4/RF-4 Aircraft, EZC Aircraft, AH-lG/S Helicopters, and CH-53 Helicopters. The ground capabilities of Israeli forces were strengthened by M60 Series Tanks, Mfl3Al Armored Personnel Carriers, M88Al Tank Recovery Vehicles, M548 Cargo Carriers, M577Al Command Post Carriers Ml09 155mm Self-Propelled Howitzers, and Ml07 175mm Self-Propelled Guns. Israel also enlarged its missile arsenal with Dragon and TOW launchers and missiles, Chaparral

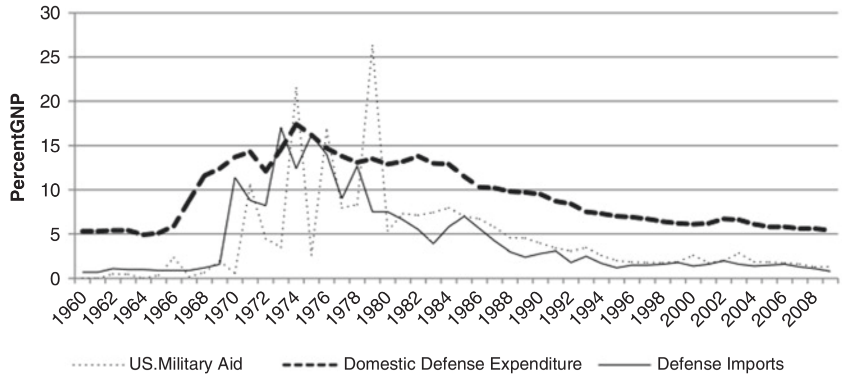

Fig. 5.2 Aspects of the defense budget of the Government of Israel, 1960–2009. (World Bank, *World Development*; USAID, *US Overseas Loans; Table 6.A.2*)

Launchers, Chaparral Missiles, Ml63 20mm Vulcan Guns, REDEYE Missiles, AIM-9 Sidewinder Missiles, Maverick Missiles, Standard ARM Missiles, Shrike ARM Missiles, and Harpoon Missiles.[7] In the late 1990s, the USA began to supply Israel with "bunker-buster" bombs, which could be used to strike targets buried in hard material such as concrete. In 2010, it was announced that Israel would purchase 19 F-35s, considered to be the most technologically advanced fighter jet ever made, entirely with FMF grants.[8]

Israel also used US assistance to help it upgrade its own military industries. In addition to modifying many of these weapons for its own use, Israel could use FMF funds to procure weapons from Israeli defense industries.[9] Between 1984 and 1991, the $2.8 billion earmarked by Congress for offshore procurement in Israel supported the development of fighter aircraft and other advanced weapons systems, as well as fuel, ammunition, and maintenance.[10] Early uses of this aid included the development of the Lavi jet, the Merkava tank, the Popeye missile, the Harpy UAV, Peacemaker II/III aircraft systems, tank armor, Pioneer remotely piloted vehicles, and night vision and sight helmets, as well as upgrades to tanks and armed personnel carriers and Phantom 2000 F-4s. Per the Master Defense Development Data Exchange Agreement of 1970, the USA also supplied Israel with technologies and technological components that Israel integrated into products in its own armaments industry. The USA also made substantial contributions to development of Iron Dome (developed by Rafael); David's Sling (developed by Rafael and Raytheon); and Arrow I, II, and III (Israel Aerospace Industries and Boeing).[11] In 1983, the General Accounting Office found that most Israeli weapons exports contained an import component of about 36 percent of their value, and it has been suggested that few Israeli defense exports do not contain an advanced US technological component.[12] For example, the Python 3 air-to-air missile was similar to the AIM-9L Sidewinder, and the Popeye missile was virtually identical to Martin-Marietta's HAVE-NAP.[13]

However, that the USA allowed offshore procurement with FMF funds or supplied Israel with defense technological components did not predetermine the success of Israeli defense industries. Rather, the Israeli state facilitated a receptive environment for technology transfer and innovation. This was not the case in Egypt, where military industries were largely oriented to the production of cheap consumer goods at the expense of technological innovation, or in Jordan, where the military served as a tribal employment vehicle. It is also possible that, since Israel still received a large number of weapons from the USA, its domestic industries were forced to seek new markets for profit (it has been estimated that Israeli firms need to sell 75 percent of their output abroad to be profitable).[14]

In the 1980s, American use of diplomatic pressure and soft reform conditionality allowed Peres to introduce developmental policies, an element of despotic power that, once implemented also had positive knock-on effects for the state's core capabilities. The prohibition of fiscal monetization increased central bank independence and, by eliminating the state's access to easy credit, restored the Ministry of Finance's control over ministries that had been overspending and compromising the general budget.[15] The JEDG's continued consultations with the Israeli government may also have helped facilitate the privatization process in the 1990s, cutting off important channels of distribution between the state and societal groups.

Societal Effects

It is reasonable to speculate that, without access to US financial and technological resources, the Israeli state would not have been able to produce certain societal outcomes—at least within the same time frame. The apparent presence of US technologies in Israeli military exports indicates their importance to the Israeli defense and high-tech industries. And it is also likely that, without US assistance, Israel would have been unable to simultaneously accommodate immigrants, defend itself, build settlements, and develop its high-tech industries during the 1970s and 1980s. Although US-financed defense articles may only be used for specific purposes, such as internal security and self-defense, this finance freed up funds for a range of other uses.[16]

Territorial Reach

In the early 1980s, accusations surfaced that Israel had used armaments purchased with US assistance to engage in prohibited activities. Investigations into these alleged arms control violations provide some insight into how Israel might have used specific US technologies to project the state power across territory. In March 1978, Israeli forces crossed into Southern Lebanon, justifying their action as self-defense against Palestinian attacks. One year later, Israeli forces again crossed into Lebanon and appeared to use US-supplied aircraft to bomb Palestinian targets. Another violation may have occurred with Israel's 1981 bombing of Iraq's nuclear facilities at Osirak. A fourth incident occurred with Israel's invasion of Lebanon on 1982, and its use of US-origin cluster bombs in Beirut.

Hierarchy

Despite being the largest recipient of US assistance among the three cases, Israel ceded remarkably little sovereignty to the USA. Further, Israel sometimes acted directly against prevailing US policy preferences, and Washington's ad hoc attempts to condition Israeli foreign policy on US assistance generally failed. Israel did not have the power to entice the USA to cede its own sovereignty, of course, but it did have the ability to say "no" to US preferences that Israeli leaders viewed as incongruent with their own interests. In this sense, US–Israel relations, while still hierarchical because they included exchanges of order-maximizing resources and sovereignty, are better characterized by normal alliance politics.

Subordinate Skewed Hierarchy

As Fig. 5.3 demonstrates, Israel received a variety of order-maximizing resources from the USA, including distributive materials (CIP, then budget support), market access (trade and investment agreements, as well as science and technology cooperative agreements), information (intelligence cooperation agreements), and territorial integrity (large-scale weapons), as well as occasional access to public goods (refugee assistance in the 1990s and tied aid in the 1950s and 1960s). In return, Israel ceded cross-border sovereignty twice to the USA. The first instance was in 1985, when soft US conditionality leveraged the amendment of the Bank of Israel Law

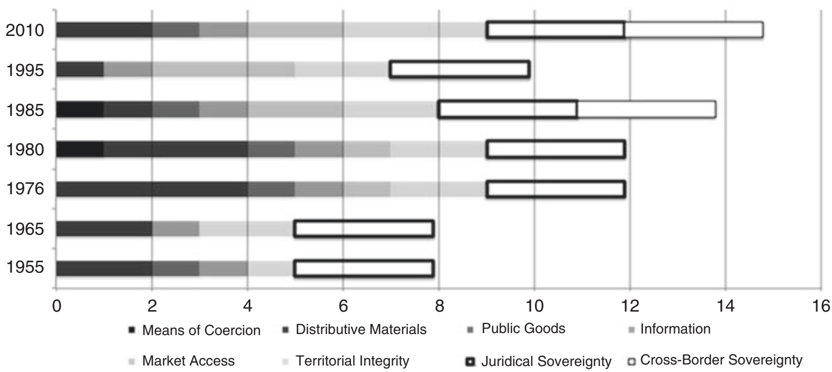

Fig. 5.3 Exchanges of the US–Israel hierarchy, 1955–2010

to prohibit fiscal monetization. The second instance was in 2005, when Israel signed a bilateral agreement permitting the USA a right to veto sales of Israeli weapons with a substantial US technology component to third parties. Additionally, Israel never had any independent alliances from the USA, and while this study codes this as a concession in juridical sovereignty, this indicator needs to be interpreted carefully. Israel had been presented with genuine decisions about potential allies quite early in the country's political development, but today Israel's relative isolation from its Arab neighbors and their allies means that Israel has little choice in its alliance partners.

Some behaviors that, at face value, appear to be sovereignty concessions actually are not, and are therefore not coded as such. Israel's 1985 FTA with the USA, for instance, is not a concession of cross-border sovereignty since it did not contain TRIPS-Plus provisions, and, in fact, allowed substantial nontariff barriers to remain in place.[17] Additionally, Israel's 1989 decision allowing the USA to preposition weapons stockpiles in Israel is not coded as a concession in Westphalian sovereignty. These weapons, which amounted to $100–800 million in value, appear to have been only nominally for US use (for instance, Israel had access to the stockpiles in its 2006 conflict with Hizbullah).[18] The same principle applies to the US-owned and operated radar system that was more recently installed in Israel.

As Fig. 2.1 demonstrated, the skew of the US–Israel hierarchy had a value of 1.73 in 1955 and 1965, a 3.11 in 1976 and 1980, a 1.38 in 1985, a 2.42 in 1995, and a 1.56 in 2010. Recalling that values greater than one indicate subordinate skew, it is apparent that the US–Israel hierarchy has always been skewed to the subordinate state, Israel. This means that the USA has very little leverage over Israel's sovereignty. In 1976, when the subordinate skew took on the highest value, Israel only relinquished its juridical sovereignty in exchange for eight types of order-maximizing resources, which included higher than normal levels of distributive resources—a first response to Israel's growing economic crisis. In 1985, the year of the least subordinate skew, Israel ceded its cross-border sovereignty in the form of accepting soft US conditionality on the Bank of Israel amendment. By 2010, Israel had conceded to US veto power over of its weapons exports, but it was also receiving more order-maximizing resources, chiefly those that would help defend its territory.

Acting Against US Preferences

Not only has Israel ceded little sovereignty, it has also pursued policies that run against stated US interests in at least five areas: (1) regional policy, (2) Jewish settlements, (3) nuclear proliferation, (4) spying and industrial espionage in the USA, and (5) the sale of weapons containing US technology to third parties.

US administrations have often disapproved of Israel's regional policies and stances toward peace negotiations. The Carter administration was disappointed by Israel's partial implementation of the Camp David Accords. The Reagan administration objected to the Israeli bombing of Iraq's Osirak nuclear reactor (1981), as well as its annexation of the Golan Heights (1981), invasion of Lebanon (1982), and rejection of the Reagan peace initiative (1982). The Clinton administration was frustrated by Israel's failure to implement its commitments under the Oslo Process throughout the 1990s and Prime Minister Ehud Barak's shifting tactics during the 2000 Camp David Summit.[19]

In embracing a two-state solution, successive US presidential administrations have criticized the construction of new Jewish settlements in the West Bank and the Gaza Strip. In 1977, the Carter administration condemned Israel's decision to extend Israeli laws and services to the Palestinian Territories, as well as its legitimization of three squatter settlements in the West Bank, calling them an "obstacle" to peace and "illegal."[20] In 1979, despite urging by the US ambassador not to build two settlements, Shiloh and Elon Morah, in the West Bank, Israel proceeded.[21] In November 1982, after the Reagan administration had criticized its earlier plans for settlement expansion, Israel announced the construction or expansion of 20 new settlements in the West Bank, part of a broader plan to add 37 new settlements by 1985.[22] In 1991, Secretary of State James Baker called Israel's policy of settlement building the single greatest obstacle to Mideast peace. In 2009, President Barack Obama explicitly stated, "Settlements have to be stopped for us to move forward," to which his Secretary of State Hillary Rodham Clinton added, "We want to see a stop to settlement construction, additions, natural growth—any kind of settlement activity."[23] Three years later, in response to the UN's de facto recognition of a Palestinian state, Israel announced the construction of 3000 settlement units between Jerusalem and the West Bank settlement of Ma'ale Adumim.[24]

Throughout the 1960s, Israel blew off US attempts to contain its nuclear ambitions. A central plank of John F. Kennedy's foreign policy was nuclear non-proliferation, and between 1960 and 1963 Kennedy personally exerted pressure on Ben Gurion, and then Eshkol, to permit inspections of the Dimona nuclear facility—the final demand being biannual inspections conducted by US scientists. Between 1964 and 1967, the Eshkol government delayed their visits, imposed restrictions on their access, and obfuscated the reasons for producing quantities of uranium metal that were far larger than that needed to operate a civilian nuclear reactor.[25] Secretary of State Dean Rusk warned Israeli Foreign Minister Abba Eban that the "only major question that could have disastrous effect on US–Israeli relations was Government of Israel (GOI) attitude on proliferation."[26] After the drawing up of the Nuclear Non-Proliferation Treaty (NPT) in 1968, the Johnson administration eventually linked the sale of Phantom F-4 jets to Israel's signature on the document, prompting Rabin to respond, "We have not come here in order to mortgage the sovereignty of the State of Israel, even for fifty Phantoms."[27] Johnson, who had been notified by the CIA that Israel possessed nuclear weapons in early 1968, wrote Eshkol personally pleading for Israel's signature. Ultimately the quid pro quo on the NPT was dropped, and Israel got the Phantoms.[28]

Although the USA and Israel formally agreed in 1951 not to spy on one another, Israel was identified as the second most active foreign intelligence service in the USA during the Cold War.[29] Some of these activities, such as the purchase of classified material from naval intelligence officer Jonathan Pollard, became public. On the commercial level, Israel appeared to aggressively seek US nuclear technology, as well as technology for artillery gun tubes, coatings for missile reentry vehicles, and aircraft communications systems. It was alleged that Israel obtained 200 pounds of weapons-grade uranium from the nuclear Materials and Equipment Corporation in Pennsylvania during the early 1960s, providing fuel for the first four nuclear devices assembled at Dimona. In 1985, an American was charged with smuggling 81 krytons, which act as electronic triggers for nuclear weapons, to Israel. Throughout the 1980s, Israelis were caught stealing documents and blueprints from firms such as General Dynamics and RECON/Optical, while a third US firm, NAPCO, colluded with Israelis to export technology for chrome-plating tank gun barrels.[30] The problem did not appear to abate after the Cold War. A 1997 report claimed that Israeli scientists engaged in inappropriate conduct during their frequent visits to US nuclear sites and research laboratories. In 2000, the National

Counterintelligence Center identified Israel as one of seven "active collectors," alongside China, Japan, France, South Korea, Taiwan, and India.[31] One former US intelligence official claimed in the late 1990s, "Israel can steal right and left, but we still pump money in."[32]

The US Arms Export Control Act requires that no US defense article or service be transferred to another country unless that country agrees to not transfer the item to a third party or use the item for an unintended purpose (unless with permission from the US government). However, Israel re-exported US technologies in aircraft engines, anti-tank missiles, armored personnel carriers, and recoilless rifles to apartheid South Africa without US approval. Israel also emerged as China's principal source of advanced technology in the 1980s, assisting it in the development of fighter aircraft, air-to-air missiles, and tanks. Former CIA Director James Woolsey testified to Congress, "the Chinese seek from Israel advanced military technologies that US and Western firms are unwilling to provide."[33] Numerous cases remained unadjudicated due to disputes over whether or not Israeli manufactured technologies were essentially US technologies, or indigenous to Israel. These included Israel's sale of Python-3 missiles to Chile and South Africa; the sale of Israel's Popeye missile to Singapore, South Korea, and Taiwan; the marketing of the STAR cruise missile to China; and the sale of technological components of the abandoned Lavi jet program.[34] Since 2005, the USA has reserved the right to review and veto such transactions, and has cancelled Israeli weapons sales to Venezuela (2006, upgrading F-16 fighters), India (joint partnership to sell Swedish fighter planes to India), and Russia (2010, Unmanned Aerial Vehicles), and effectively blocked Israeli sales to China.[35]

Ineffective Foreign Policy Conditionality

Although the successful application of conditions to individual foreign policies does not count as a concession in sovereignty, it is worth mentioning that the USA has rarely conditioned its assistance on changes in Israel's foreign policy, or withheld aid as punishment for Israeli policies post hoc. Only two known instances of successful foreign policy conditionality exist, both of which occurred during the Eisenhower administration, before Israel became a major strategic ally. In September 1953, the USA briefly suspended foreign assistance after Israel ignored UN demands to cease work on a canal diverting Jordan River waters; Israel terminated the project one month later. And after Israel indicated that it was interested in a land grab after the 1956 Suez War, Eisenhower threatened to block all public and private aid. Israel subsequently withdrew from the territories in question.[36]

Many other attempts to impose conditionality on Israel have failed. As mentioned, in 1968, Johnson approved Israel's request for F-4 Phantom jets, dropping the quid pro quo that Israel sign the NPT.[37] A 1975 threat by the Ford administration to cut aid for Israel's intransigence in the disengagement negotiations with Egypt was thwarted by an AIPAC petition containing the signatures of 76 senators.[38] The Reagan administration still implemented key provisions of the Memorandum of Understanding on Strategic Cooperation, even though it had been suspended in 1981 after the annexation of the Golan Heights.[39] An alleged plan of the Reagan administration to condition US aid on an Israeli withdrawal from Lebanon in 1982 never formally surfaced.[40] President George H.W. Bush's attempt to withhold loan guarantees over continued settlement expansion also failed. And a 2003 reduction in loan guarantees was little more than a symbol of US disapproval over the security fence.[41]

Additionally, the USA has never levied sanctions on Israel under the Arms Export Control Act. Israel's alleged violations in Lebanon during the early 1980s were reported to the President by the Department of State. However, the Congress did not issue a joint resolution determining that any of these four violations occurred; Members of Congress repeatedly pointed out that doing so could jeopardize US–Israel relations.[42] In 1982, the administration approved a mere six-year ban on the export of cluster bombs to Israel. In 2006, it was again alleged by the Department of State that Israel may have used US cluster bombs in its attack on Southern Lebanon. After several Israeli investigations and some attempts in Congress to limit the sale of cluster bombs to Israel, Israel announced that it would begin to manufacture its own.[43]

Understanding Israel's Ability to Say No

Three possible explanations might be offered for the subordinate skew of the US–Israel hierarchy, as well as Israel's more general ability to buck US policy preferences and evade attempts at conditionality: (1) Israel's indispensable position in American security infrastructure in the Middle East, (2) the influence of the "Israel lobby," and (3) the degree to which Israel did not depend on order-maximizing resources from the USA.

Israel's Place in Regional Security Architecture

If US policymakers envisioned Israel as an indispensable component of Washington's regional security architecture, they might have been less likely to demand concessions in sovereignty from Israel or punish it for deviance from Washington's preferences. However, dominant states do not initiate or sustain hierarchies with non-strategic states. Every subordinate state in a hierarchical dyad has a higher than average strategic value to the dominant state, or else there would be no incentive for the dominant state to expend the financial, organizational, and political resources needed to sustain it. Based on this rationale, if Israel's strategic significance had declined, there would have been less incentive for the USA to try and appropriate Israeli sovereignty for itself.

The Israel Lobby

The "Israel lobby" is a loose coalition of individuals and organizations that, in the context of US aid, are unified by their preference for the USA to unconditionally supply material and diplomatic assistance to the Jewish state. The two most significant groups are the Conference of Presidents of Major Jewish Organizations, which formulates the lobby's foreign policy positions, and AIPAC, which lobbies on behalf of these policies in Congress and the administration. Both organizations have unofficial close relationships with Israeli officials (although it is not uncommon for Israeli officials to disagree with some of their positions), as well as close ties with Members of Congress and the White House. Most authorities on AIPAC, which was established in 1951 as the American Zionist Committee for Public Affairs, argue that the organization's power substantially increased during the late 1970s and early 1980s. Between 1979 and 1988, AIPAC's budget increased eightfold, its membership multiplied from 9000 households to 55,000, and its staff grew from 25 to 85.[44] AIPAC's new power was apparent in the changing outcomes of presidential weapons requests for Arab states, which the lobby firmly opposed, and, in 1985, it delivered its first great victory by thwarting a proposed sale of F-16s to Jordan. The Israel lobby almost certainly played some role in the volume and formulation of US aid to Israel, and there were also clear instances (especially during the Reagan administration) in which the lobby used its support in Congress to constrain the administration's policy options. However, the skew of the US–Israel hierarchy does not correlate with the alleged power of the Israel lobby. The years in which the hierarchy was most skewed toward Israel are 1976 and 1995. In 1976, AIPAC had not yet developed substantial capabilities. Conversely, the hierarchy was least skewed toward Israel in 1985, the same year that AIPAC won its major victory over the F-16 sale to Jordan and Israel conceded to amend the Bank of Israel Law.

Dependency

The final hypothesis pertains to bilateral dependencies. Hierarchies should be skewed toward the dominant state if local leaders rely heavily on the dominant state for order-maximizing resources—that is, means of coercion, distributive and public goods, information, market access, and territorial integrity. Leaders value these resources because they allow them to maintain domestic stability, develop the economy, protect national security, and access international markets. If their own states are unable to produce such resources, their next best option is to cede fragments of their states' sovereignty in exchange to a foreign donor that can provide whatever resources are needed. We should therefore expect to see greater skew toward the dominant state in cases where the subordinate state is deeply dependent on a variety of forms of its aid, which capture different types of order-maximizing resource.

Dependency is the only argument that can explain variations in the skew of the US–Israel hierarchy over time. It is shaped by three factors: (1) first and foremost, the incumbent leader's survival strategy, (2) systemic vulnerability, and (3) the availability of other donors.

In general, the non-distributive strategies of Israeli leaders permitted them to construct a state that had a monopoly on coercive powers, collected intelligence on the economy and the security situation, and provided public goods. Between 1967 and 1985, however, the moderately distributive strategies of Israeli leaders locked state resources into the provision of selective benefits, which caused potentially destabilizing economic imbalances. At the same time, retrenching these benefits was considered to be politically unfeasible in the short term. It was during this period that the USA offered the cash infusion that Israel needed, and was able to softly condition further engagement and support on the amendment to the Bank of Israel Law.

In addition, Israel always relied substantially on the USA for support in defending its territory, a dependency that arose primarily from the country's systemic vulnerability and consequently large defense burden. Dependency on US military technology explains Israel's acquiescence to Washington's veto power over its arms exports from 2005 onwards.

However, it cannot be understated that the non-distributive strategies of Israeli leaders ameliorated what could have been an even heavier dependency on the USA for armaments and technical assistance. Israel's leaders built and maintained highly capable military and intelligence services, and invested heavily in Israel's own defense industries—evidenced by Israel's decision to manufacture its own cluster bombs following the political fallout of the 2006 Lebanon invasion.

Conclusion

Neither favorable US aid terms nor structural features of the Israeli polity predetermined the developmental effectiveness of US aid to Israel. Rather, the generally non-distributive survival strategies of Israeli leaders were a necessary condition for its success. Traditional forms of US assistance, which included budget and commodity support as well as weapons and military technologies, had close contact with Israeli political authorities and institutions and were integrated into a broader strategy to upgrade the infrastructural powers of the Israeli state. When leader survival strategies became moderately distributive, US assistance became less effective in developmental terms, essentially substituting for domestic revenues or supporting expenditures on selective benefits that were designated for social constituencies of the governing party or coalition, in addition to occasional bouts of war-making. And the USA played an important role in helping the Unity Government transition from a moderately distributive to a non-distributive survival strategy.

At the same time, the strategy of non-distribution rendered US assistance ineffective in extracting sovereignty concessions from Israel. Israel's superior ability to generate its own order-maximizing resources shaped the fundamental bargain between the USA and Israel: if the USA wanted an aspect of Israeli sovereignty, it could not buy it with a smaller amount of order-maximizing resources, as it could in countries like Jordan. Rather, the USA needed to pay more in terms of order-maximizing resources, and accept the possibility that Israel still might not cede sovereignty or change its stance on individual policy issues. The implications of doing so were minimal for Israeli leaders, who would not have irretrievably damaged their domestic stability, economic development, or access to markets if they did not obtain US resources—though Israel's unfavorable regional security environment did mean that the country would continue to rely somewhat on US weapons and technologies to protect itself against foreign aggression.

As such, Israel demonstrates an important paradox that will also echo in the cases of Egypt and Jordan. Those countries that are most likely to use US assistance for developmental purposes are also those that are most likely to wean themselves off dependence on this assistance over a relatively short period of time. US assistance may help fill short-term gaps in finance, human capital, or technology, but can be assimilated into the developmental plans of non-distributive leaders with clear, independent effects on state capabilities, societal effects, and territorial control. However, it is rarely an indispensable commodity, and after a certain amount of time becomes unnecessary to the incumbent leadership—and, if a geopolitical price tag is attached, it becomes an undesired commodity. States that use assistance effectively in developmental terms are therefore less likely to make major sovereignty concessions to a geopolitical donor. If aid buys development, it probably will not buy much power and influence.

Notes

1. Berglas, "Taxes and Transfers."
2. Mandelkern and Shalev, "Power and the Ascendance," 477.
3. Shalev and Grinberg, *Histadrut-Government,* 31.
4. Mark, *Israel*, 6–7.
5. Mark, *Israel*, 5–6.
6. Ibid., 6.
7. GAO, *US Assistance to the State,* 15–16.
8. Sharp, *US Foreign Aid to Israel,* 7.
9. Cohen, "The Israel Defense Forces."
10. GAO, *Israel: US Military Aid,* 1–2; Sharp, *US Foreign Aid to Israel*, 7–8.
11. Sharp, *US Foreign Aid to Israel*, 8–14.
12. Clarke, "Israel's Unauthorized," 92.
13. Ibid., 104–106.
14. Sharp, *US Foreign Aid to Israel*, 7.
15. Maman and Rosenhek, *Israeli Central Bank,* 58.
16. Sharp, *US Foreign Aid to Israel*, 21–22.
17. "Israel Free Trade Agreement."
18. According to one Israeli officer, "Officially, all of this equipment belongs to the US military…. If however, there is a conflict, the IDF can ask for permission to use some of the equipment." Quoted in Sharp, *US Foreign Aid to Israel*, 15.
19. Mearsheimer and Walt, *Israel Lobby*, Chapter 1.
20. Quoted in Johnston, "Israel Settlements."
21. Gwertzman, "2 NEW SETTLEMENTS APPROVED."

22. Walsh, "Israel Announces Plans."
23. Kessler and Schneider, "US Urges Israel."
24. Lee, "US Slams Israel."
25. Cohen, *Israel*, 99–194.
26. Ibid., 185.
27. Ibid., 313.
28. Quandt, *Peace Process,* 47.
29. Raviv and Melman, *Every Spy a Prince*, 79.
30. Clarke, "Israel's Economic," 22–25.
31. National Counterintelligence Center, *Annual Report.*
32. Quoted in Clarke, "Israel's Economic," 21.
33. Quoted in Clarke, "Israel's Unauthorized," 103.
34. Ibid., 104–108.
35. Sharp, *US Foreign Aid to Israel,* 15.
36. Bass, *Support Any Friend*, 39, 44; Mearsheimer and Walt, *Israel Lobby.*
37. Quandt, *Peace Process*, 48.
38. Mearsheimer and Walt, *Israel Lobby,* Chapter 1.
39. Ibid., Chapter 1.
40. Powell, "Reagan Needs."
41. Mearsheimer and Walt, *Israel Lobby,* Chapter 1.
42. GAO, *US Assistance to the State,* 24–25.
43. Sharp, *US Foreign Aid to Israel,* 16–17.
44. Bard, *Water's Edge*, 6–13; Laham, *Crossing the Rubicon,* 9, 131.

PART II

Jordan

CHAPTER 6

Distributive Survival Strategy

As a foreign monarchy installed in Transjordan during the period of the British Mandate, the Hashemite family faced the dual challenges of establishing a political base that would support their dynasty's continued rule, and building institutions that could govern what was essentially a former Ottoman hinterland. The Hashemites cultivated dependent relationships with two political constituencies that also contributed heavily to essential state functions: (1) tribes that were indigenous to the East Bank/Transjordan, and which came to form the backbone of military and civilian bureaucracy, and (2) a Palestinian-Syrian merchant community that had settled in the area during the late Ottoman era, and which supplied the Hashemites with revenue and later helped the economy undergo some degree of structural transformation.[1]

The preferences of these two groups, however, were diametrically opposed to one another. Merchants sought market protectionism that drove up prices, and tribes sought guaranteed employment and benefits that resulted in ever-greater demands for revenue, and shaped the state in such a way that it hindered the conduct of business. The Hashemites compensated both groups using a complex system of side payments that occasionally changed in source and substance, but always routed a steady stream of selective benefits to these same two coalition members. The state's developmental capacity consequently remained low, making it impossible to produce sufficient order-maximizing resources like distributive and public goods, intelligence, territorial integrity, and market access.

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Building the Hashemite Coalition, 1921–1949

The fate of Jordan and its Hashemite rulers initially rested on a geopolitical logic that was peculiar to British interests after the First World War. Having promised Sharif Hussein, the Hashemite ruler of Mecca, an independent Arab kingdom in exchange for his support against Ottoman forces, and having seen the Sharif's son, Faisal, ejected from the French Mandate of Syria in 1920, the British government in 1921 offered the throne of Iraq to Faisal and the throne of the Emirate of Transjordan to another of the Sharif's sons, Abdullah. This "Sharifian solution" permitted Britain to influence the construction of a stable polity in Transjordan that could block the southward expansion of French influence, as well as serve as a bridge between Palestine and Iraq.

The British sought to create a centrally governed polity under Abdullah I, but Transjordan had no experience with central administration. Its borders were porous and in the South and East were afflicted by cross-border raids from the Arabian Peninsula. The settled population (about 190,000 people) was unaccustomed to paying regular taxes, while the Bedouin made their livelihoods extracting protection money from Muslim pilgrims or raiding. The northwest province of Ajloun had a strong cultural and regional association with Southern Syria, but its settled smallholders and tribes retained only fragmented land tenure practices. Ottoman administrative titles had been bestowed on strongmen from the Adwan, Bani Sakhr, and Majali tribes, who tried to extract the most taxes that they could from the populace—which in turn sought to pay as little as possible.[2] By the time the Mandate was extended to Transjordan, dominant tribes competed for influence over local administrative councils that could not even ensure basic security.[3]

Social structures were also fragmented. The Balqa region was sparsely populated with settled tribes and Bedouin, but al-Salt had close commercial ties with towns in Palestine. Both Ajloun and Balqa had attracted a class of Palestinian-Syrian merchants and moneylenders that had arrived after the extension of Ottoman garrisons and the Hijaz Railway. In addition to trading materials like soap and grain, the practice of seizing lands whose owners had defaulted on their loans allowed the merchants to emerge as the landed elite of al-Salt. By contrast, the more southerly areas of Karak and Ma'an were dominated by tribes that had been endowed with land by the Ottoman Sultan and eventually registered it as private property, resulting in large holdings under the name of individual sheikhs.

The British High Commissioner for Palestine in Jerusalem exercised administrative oversight over Transjordan and played a fundamental role in building Jordan's pre-independence institutions.[4] Beginning in 1921, Abdullah received an annual British subsidy to cover the maintenance of the Royal Air Force squadron, improve the tax system, and dispense tribal favors. In 1924, after the Jordanian government was unable to meet its fiscal obligations and refused to provide balance sheets to the High Commissioner, the British established direct control over the budget and the military. Central government offices were established in the regions, and the area around Amman was designated a separate administrative area. The British ran a cadastral survey, issued new tax regulations, and built the Transjordanian defense and security forces: the Mobile Force (1920), the Arab Legion (1923), the Transjordanian Frontier Force (1926), and the Desert Patrol Force (1931).[5]

Beginning in 1931, John Bagot Glubb began enlisting Bedouin in the Desert Patrol Force. The Bedouins, according to Dann, "were desperately poor and, in the past, predatory in order to survive, and so they always had to be propitiated with largesse."[6] Loyal tribesmen exchanged raiding and animal husbandry for a regular salary and generous welfare benefits, including education, health care, and housing for themselves and their families.[7] This tribal army secured Jordan's southern borders in a little over a decade, yet Abdullah's reliance on the tribes for security formed the basis of a patronage relationship in which the tribes clearly had the upper hand, and continued to make successful demands upon the state.[8] Abdullah eventually built the largest per capita forces in the Arab world, a statistic that reflected both geopolitical threats and the need to use the military for tribal employment.[9]

The growth in Transjordan's military rendered Abdullah's British subsidy (plus customs revenues collected by the British) insufficient to cover the government's expenses, and attempts to implement a functioning tax code were unsuccessful. The most important tribes, such as the Bani Hassan confederation, secured exemptions. Taxable agricultural surplus was limited by a fragmented land tenure system, lack of irrigation and extension services, and, ultimately drought—which often prompted the government to revise or cancel tax assessments.[10] In search of funds, Abdullah turned to the merchant community, which had organized itself into the Amman Chamber of Commerce (ACC), a voluntary organization with voting rights that were in proportion to a member's capital. Individual merchants agreed to make "loans" to Abdullah that covered the palace's budget shortfalls, and which do not appear to have been repaid.[11] In return, Abdullah appointed merchants to high-level bureaucratic positions and sold them state land in the Jordan Valley at below-market prices.[12] When Abdullah attempted to impose an income tax, ACC Chairman Sabri al-Tabaa asked Abdullah how much he wanted, and al-Tabaa collected this amount himself each year.[13]

Tension between the two coalition members emerged during the Second World War. The Allied Forces' Middle East Supply Center designated Aqaba as the primary port for imports transiting to Transjordan and Palestine, and the merchants used their connections with Abdullah to obtain semi-monopolistic import licenses, driving up prices and making some families very wealthy.[14] The tribes, which were already suffering through a period of economic hardship, reacted by calling for all non-Transjordanians to be purged from public employment and for quantities of subsidized goods to be set aside for their own consumption. They also expressed fears that the merchants' growing economic power would displace them as the "people of the nation," a sentiment that was also echoed in subsequent decades as the country's Palestinian population grew.[15] At the same time, however, the merchants continued to advance loans to Abdullah and also began paying high taxes on luxury imports, which supported a growing tribal civilian-military bureaucracy that would not only hinder their ability to do business but whose coercive capabilities could be mobilized against them if they deviated from regime preferences.[16]

Refugees, Opposition, and Industrialization, 1949–1989

Jordan became an independent state in May 1946, but Glubb remained in command of the Arab Legion and Great Britain remained Jordan's major economic aid donor. In the 1950s, however, regional developments ultimately forced the Hashemites to abandon their historical relationship with the British and realign themselves with the USA. This period also coincided with a new era of state building, which was designed to accommodate a population explosion and develop the country, as well as neutralize growing internal and external threats to Hashemite rule. The Hashemites did not use this window of opportunity to curb distribution, but rather capitalized on a period of crisis to expand and diversify it.

When the armistice agreements of the Arab–Israeli War awarded control of the West Bank to Jordan, the country's population tripled in size to 1.23 million people (350,000 of whom were refugees and 440,000 of whom were West Bank Palestinians), raising not only questions of governance across the Jordan River, but also in Amman, whose population grew from 30,000 people in 1948 to 250,000 in 1961.[17] Palestinians required public services and jobs, threatening to stretch state resources thinner and displace distributive networks servicing tribal and merchant interests. The surge in the labor supply threatened to cut wages by as much as half.[18] Additionally, the relatively higher level of education and political activism among Palestinians was threatening to the Hashemite leadership and its tribal constituents, who feared political disloyalty and the rise of a rival center of power in the West Bank.[19]

Consequently, Palestinians were not systematically incorporated into the Hashemite coalition, which denied them a place in the regime's growing patronage network and left them to compete over scarce opportunities in the private sector. There was little urban economy at the time, and those with some capital would have to compete with entrenched merchant families. With most arable land held by well-connected tribes and merchant families, there was little room for them in the rural economy apart from tenant farming. Many found themselves living in UN Relief and Works Agency (UNRWA) camps, the "blue state" that grew in parallel to Jordanian institutions and offered housing, jobs, and public services. In January 1951, *The New York Times* proclaimed, "Jordan today is above all an army—the Arab Legion—and a refugee camp."[20]

After Abdullah doubled the number of seats in the legislature to create parity between the East and West Bank, an opposition coalesced around two key issues: (1) a desire for complete independence from British intervention, and (2) to see the return of Palestinians to their homeland. This "Jordanian National Movement" (JNM) included the Communist Party, the National Front, the Arab Socialist Ba'ath Party, the National Socialist Party, the Tahrir Party, and the Arab Nationalist Movement. With the exception of the socialists, which generally played the role of the loyal opposition, all of the JNM parties were branches of transnational party organizations whose headquarters were located in other Arab countries, specifically Egypt or Syria. Egypt's Arab nationalist president, Gamal Abdel Nasser, had added Jordan to a group of regional monarchies that he sought to destabilize using propaganda, intelligence operations, and covert support for mutineers and opposition groups. The local leadership of these parties was Transjordanian, but they also had a mass following among Palestinians.[21]

Political tensions grew after a Palestinian gunman assassinated Abdullah I in 1951, eventually leading his British-educated grandson, Hussein, to assume the throne the following year. In 1955, nationalist riots against the pro-British Baghdad Pact forced Hussein to expel Glubb in a bid to rally public support, which consequently left four or more rival factions to jostle for the control of the military.[22] In the 1956 parliamentary elections, West Bank Palestinians voted for leftist candidates *en masse*. Communists and Ba'athists mobilized more votes together than the socialists, requiring Prime Minister Suleiman al-Nabulsi to incorporate them into his government.[23] During the period that followed, al-Nabulsi abrogated the Anglo-Jordanian Treaty, attempted to ally Jordan with Egypt and Syria, supported diplomatic recognition of Communist China, and dismissed officials loyal to the Hashemite family. In April 1957, Hussein dismissed al-Nabulsi, dissolved parliament, purged all leftists from the military and the bureaucracy, and banned all political parties.[24] At least three coup attempts were made (and foiled) thereafter, with riots and protests by leftists and Arab nationalists continuing through the 1960s.

Hussein attempted to re-stabilize the country's politics by shoring up his grandfather's conservative coalition. In 1955, he distributed 2000 acres of Jordan Valley land to tribesmen who served in the Officer Corps and whose families had participated in the Arab Revolt against the Ottomans.[25] Following his dismissal of al-Nabulsi, Hussein received oaths of allegiance from 200 tribal chiefs. He chose Hazza al-Majali, an experienced, pro-British politician from an elite tribal landholding family in Karak, to head the 1959 government.[26] The commander in chief of the army, Habis al-Majali, operated independent of civilian oversight and was directly connected to the palace.[27] Between 1955 and 1960, military spending increased by 74 percent, and between 1961 and 1975, military employment tripled and civil employment increased by two-thirds.[28] These employees received a variety of other perks, including sporadic bonuses and top-offs, as well as authorization to exempt 50 percent of their salaries from tax.[29]

As Hussein sought to industrialize the East Bank, the influence of the merchants also expanded. They were appointed to the boards of the Industrial Development Bank, the National Planning Council, the Central Bank of Jordan, and the Housing Bank Corporation.[30] They were also allowed to acquire minority ownership in state-backed industrial ventures, including the Jordan Phosphate Mines Company, the Jordan Petroleum Refining Company, the Arab Potash Company, and the Jordan Cement Factory Company.[31] These industries were protected and therefore produced another stream of rents. The 1955 Law for the Encouragement and Guidance of Industries, for instance, granted exemptions from customs duties on imported capital goods and construction materials, protection against foreign competition, and monopoly rights. A 1964 law limited taxes on net earnings at 25 percent, and exempted shareholder dividends from taxes, as well as income from land property, livestock, rentals, and the sale of factories.[32] Such mingling of public and private finances would later be deemed a "Jordanian field sport" by Western observers.[33] Yet it served its purpose. By 1959, the East Bank hosted 36.4 percent of Jordan's industry, although little industrial development had been present there a decade earlier.[34]

Such distributive practices thwarted any attempts to build a legal–rational state, most notably in the first administration of Prime Minister Wasfi al-Tell (1962–1963, 1965–1967, 1970–1971), a pro-British Transjordanian with a close relationship to the King. A British official characterized al-Tell's first government as "the most progressive…Jordan has had in recent years …"[35] After suspending the Civil Service Law, Tell dismissed more than 200 civil servants and transferred over 400 others. He established minimum educational requirements for civil service positions, and extended the working day by two hours in the afternoon. A former tax official, al-Tell campaigned for better tax enforcement. He also advocated a smaller and more efficient military that would be achieved through retiring aging and corrupt officers, formalizing selection and promotion, and decentralizing command. However, al-Tell's reform agenda was unpopular, and after only one year in service, he was replaced by Samir al-Rifai, a member of a conservative East Bank family who had no interest in pursuing al-Tell's projects. In his second administration, al-Tell focused on a Seven Year Plan (1964–1970) that aimed to develop rural areas through roads, schools, health facilities, electrification, and moderate land reform. Yet by 1965, al-Tell accompanied the king on a royal tour, writing down individual requests of citizens. In 1966, he gave up his pet project of creating a national electric grid, which was resisted by powerful merchants and their representatives in parliament.[36]

Jordan's loss of the West Bank to Israel in the 1967 Six Day War caused additional problems. The Palestinian Liberation Organization (PLO) retreated to the East Bank of the Jordan Valley, where it began building its own administration, complete with checkpoints, taxes, and license plates. In September 1970, a failed attempt was made on Hussein's life, which was followed by several PLO hijackings and the proclamation of the area around Irbid to be a "liberated region." Between 1970 and 1971, the Jordanian army and police fought the PLO and eventually expelled the organization to Lebanon.[37] By the end of the Black September conflict, half of the houses in Jordan Valley villages had been destroyed and the region's population had sunk to 5000 from 63,000.[38]

After the conflict with the PLO, Hussein instituted consumer subsidies, which benefitted not only Transjordanians but also the general population. Above all, however, the government encouraged Palestinians to provide for their own livelihoods. Projects in the Jordan Valley between 1959 and 1974 expanded the country's arable land, and also entailed some redistribution of land holdings (although there is substantial evidence that the state bought land at above-market prices and then sold it back to multiple members of the same family).[39] Many Palestinians opted to work abroad and remit their earnings back to support their families in Jordan. Remittances were equivalent to as much as 30 percent of Jordan's GDP in a given year, and supported people who were excluded from state largesse.[40]

Hussein's distributive strategy outlasted a significant decline in foreign assistance that began in 1979, prompting the government to borrow from commercial markets, its own pension funds, and the Central Bank of Jordan (CBJ). By the mid-1980s, the state employed 50 percent of the labor force.[41] Special supermarkets offered government employees large discounts, and children of public servants received preference in university admissions.[42] Army salaries were raised several times between 1978 and 1981, and veterans were allowed a full military pension after only 16 years of service. Rural welfare services were further expanded to reach tribal areas, and a National Aid Fund was established to provide cash on the spot to needy families.[43]

Merchant-industrial families did not step in to fill the budgetary gap, yet continued to benefit from various forms of protectionism. The government carved out a monopoly for favored merchant-industrialists in the Iraqi market through preferential trade agreements.[44] A streamlined licensing process at the Ministry of Industry and Trade helped protect merchant profits. And the Kingdom's pension funds, prohibited from investing abroad, were deployed to shore up struggling domestic industries. By the mid-1980s, Jordan Investment Corporation representatives sat on the boards of 76 percent of the companies traded on the Amman Stock Exchange.[45]

Limited Reforms, 1989–2010

In 1989, Jordan's economy collapsed, experiencing 14 percent negative GDP growth, a record low of $68 million in foreign reserves, and $9.5 billion in public debt. In March, the government requested $275 million in standby credits from the IMF.[46] This marked the beginning of a 15-year period in which Jordan, lacking even basic domestic political support for economic reform, was forced to remove many basic subsidies, liberalize trade, and privatize government shares in joint ventures. Yet where old networks of distribution were threatened, the Hashemites found new ways to get selective benefits to the same constituencies, a practice that continued to hinder the state's developmental capacity.

The IMF agreement threatened to destroy the Hashemite coalition. On April 15, 1989, riots broke out in the tribal bastions of Ma'an, Karak, and Tafileh upon the announcement of a freeze on public sector wages and hiring, as well as immediate increases in the prices of petroleum products. Eleven were killed during the riots and hundreds injured. Hussein moved quickly to ensure that, while the broader population might be penalized by rising prices, the tribes would be compensated. He also reopened the parliament and experimented with various districting and electoral systems to ensure the dominance of tribal representatives, who could then acquire public services and jobs for their constituents—thereby converting an ostensibly democratic institution into a vehicle for the broader distribution of selective benefits (and angering a moderate Islamist opposition that also wanted to win seats in the parliament and found themselves disadvantaged by the electoral rules).

After Hussein's death from cancer in February 1999, his son, Abdullah II, appeared to come to power with a reform agenda. He initially did not hesitate to sack members of the Old Guard, including Faisal al-Fayez from the premiership in 2005, and Amman mayor Nidal al-Hadid in 2006. For a period, he also placed more technocratic figures at the helm of key economic policy bodies, including Michel Marto and Muhammed Abu Hammour in the Ministry of Finance and Bassem Awadallah in the Ministry of Planning. However, debt relief, not structural reform, was the first point on his economic agenda—an idea that was rejected by the G-7 on the basis that Jordan was not poor enough. Abdullah then expressed interest in concluding an FTA with the USA, and, when it became clear that Washington viewed WTO accession as a prerequisite, Jordan pushed through the requirements in a matter of months. The real boundaries of Abdullah's reformism became apparent in 2005, when a National Agenda study led by Deputy Prime Minister Marwan Muasher recommended, among other items, reform of the political system and the judiciary. Tribal sheikhs responded that the king had surrounded himself by "thieves" and "Palestinians" that denied them the power, influence, and respect to which they felt entitled.[47] Some claimed that they had seen a reduction in the material well-being of their tribes because fewer jobs in the military and civil service were available. They accused the Royal Family of kleptocracy and smeared members of the National Agenda committee in the press as Western agents.[48] The National Agenda was effectively shelved.

The Hashemites protected traditional constituencies, and, when possible, created new venues for distribution. Administrative reforms of the late 1980s and early 1990s were limited in scope.[49] By the mid-1990s, public sector hiring had increased by 10 percent, while spending on wages and salaries had grown by 70 percent.[50] Between 1989 and 2001, expenditures on wages and salaries consistently accounted for around 45 percent of the budget, and from 2001 to 2005, spending on public sector salaries grew by 6 percent.[51] In 2005, the government announced a stipend of JD 10 ($14) per month to those earning less than JD 100 ($140) per month and JD 5 ($7) per month to those earning between JD 100 ($140) and JD 300 ($420) per month.[52] The most significant reform to the civil service was a five-year increase in the number of years needed to qualify for a full pension.[53] Abu Hammour increased the minimum service required for military pension eligibility to 20 years in 2004, and for one year denied salary increases.[54] However, the military saw overall increases in salaries and a variety of other benefits, including one-time payments of $28,000 in housing aid, scholarships for children of military employees, special shopping cooperatives, and free medical care.[55]

Additionally, the government secured protections for workers in privatized companies. In 2006, for instance, Jordan sold a 37 percent stake in the Jordan Phosphate Mining Corporation to the Brunei Investment Agency for $110 million, believed to be an extremely low price, and the buyer accepted that the Social Security Corporation would retain 16 percent of the company and the Jordanian government 24 percent. It was also agreed that the company would continue to pay about $16 million annually in taxes and mining fees, and would not reduce the workforce (estimated to be between 25 and 33 percent overstaffed) for three years.[56] Both merchants and tribes were secured a place in new, preferential trade and investment agreements. For example, a Qualifying Industrial Zones (QIZ) agreement with the USA permitted Jordanian–Israeli goods that met certain value-added requirements to be shipped to the USA duty-free. While most investors in QIZs were "footloose" Asian apparel firms, the individuals who controlled the zones were close to the regime and received rent from industries located there.[57] MAWARED, a military-owned corporation that paired with private investors to develop military land into mixed-use commercial and residential areas, paired with foreign investors in real estate mega-projects.[58] The King Abdullah Design and Development Bureau (KADDB) had a mandate to design, develop, prototype, and produce equipment for Jordanian forces and markets in the Middle East, obtaining business through offset agreements from foreign defense firms seeking to sell weapons to Jordan.[59] And the Aqaba Special Economic Zone (ASEZ) became a venue for pairing the country's merchant elites and pension funds with foreign investors in yet more mega-projects.[60]

Despite pressure from international donors and creditors to improve the state's extractive capabilities, the Hashemites ensured that their coalition members would be minimally affected. In November 2005, the government enacted a temporary law that lowered and simplified tax rates, broadened the tax base, and eliminated exemptions for education, rent, interest on housing loans, and medical treatment, as well as for public sector employees on certain percentages of their income. The Lower House subsequently rejected the law as unconstitutional and the revisions were cancelled.[61] In 2008, a special directorate was established in the Tax Department to curb tax evasion, and the Department began pursuing tax evaders through the legal system and out-of-court settlements—though it also waived a good portion of outstanding debts. In 2009, Minister of Finance Bassem Salem announced a plan to replace a $280 million stimulus package with a program that would improve tax administration and revise the corporate and personal tax structure with 60 percent cuts.[62] In December 2009, the government enacted two temporary tax laws that lowered corporate income taxes and exempted families making less than JD 4000. In 2010, the Government flattened personal income tax rates from a five-rate to a two-rate regime. Remaining income would be taxed at 14 percent, a lower top marginal rate than in the past and a clear carrot for wealthy families. In 2009, the government began to permit amnesty for tax evaders. A USAID Fiscal Reform Project report criticized, "Indeed, international experience suggests that tax amnesties, such as this one, lead to even less compliance in the future. Non-compliant taxpayers will continue to break the rules, and some of the previously compliant taxpayers will join them, because they anticipate that the Government will eventually grant another amnesty."[63] By 2010, a regressive sales tax accounted for 42.8 percent of revenue, as opposed to the mere 13.4 percent that was accounted for by taxes on income and profits.[64]

Rolling back consumer subsidies was an erratic process. Jordan began food subsidy reform in the early 1990s, initially by rationing sugar, rice, and powdered milk at low prices.[65] However, due to increasing global food prices and a currency peg to a depreciating US dollar, the government continued to subsidize food. In Spring 2004, the cabinet approved a strategic plan to eliminate fuel subsidies, and, a year later, the Council of Ministers decided to increase the prices of a variety of fuels. To ameliorate the effects on the poorest Jordanians, the government delayed the end of the bread subsidy and held the price of electricity constant for consumers who utilized less than 160 kilowatt hours per month.[66] The government continued to raise fuel prices in 2006, with the intention of removing the last subsidies in March 2007 and fully liberalizing the fuel market in 2008.[67] A global increase in fuel prices stalled the project. Between 2008 and 2010, the government implemented eight fuel price reductions, followed by four consecutive price increases.

Distributive Strategies and Non-developmentalism

The Hashemite monarchy's use of distribution to appease a historical coalition of tribes and merchant-industrialists limited the leadership's subsequent ability to reform the civilian-military bureaucracy, retrench subsidies, and raise revenue through domestic sources—that is, it limited the state's despotic power. Generous public employment schemes, tax breaks, and myriad forms of market protectionism and sweetheart deals could only be terminated at the regime's peril. This system did offer some benefits. The Hashemite monarchy survived multiple crises in the absence of natural resource wealth and without the systematic use of coercion against the population. Tribal loyalty to the Hashemite monarchy ensured that Jordan could banish groups like the PLO from its territory, and, despite ethnic tensions between Palestinians and East Bankers, the country never descended into prolonged civil war like Lebanon or Yemen. However, the widespread use of distribution to buy political loyalty fundamentally undermined the state's core capabilities, and, in the absence of foreign donors, would very likely have also diminished the state's societal effects and territorial reach.

Given the political sensitivity around income and capital gains taxes, Jordan's sources of domestic revenue remained undiversified and frequently caused crises in budgetary planning. During the 2000s, the bulk of the government's revenues came from foreign grants, privatization proceeds, and the sales tax. Changes in the geopolitical climate or global commodity prices could cause a donor to renege on its previous aid commitments. Donors from the Arabian Gulf, for instance, frequently reduced their aid to Jordan when oil prices fell, or when the Jordanian government acted against their wishes in the context of the broader Arab–Israeli conflict. Further, periods of economic hardship often resulted in the deviation of actual sales tax revenues from expected values.

Revenue shortfalls would not have caused such disruption had Jordan curbed its expenditures on public sector salaries and subsidies. Between 40 and 70 percent of total expenditure in any given year was spent on employee compensation, and in 2010 salaries and subsidies combined accounted for 81 percent of expenditure.[68] When revenues fell, these expenditures were closely guarded at the expense of capital projects. Amid the budgetary crisis of 2010, the Ministries of Information and Communications Technology, Culture, and Environment experienced at least 30 percent cuts in their capital expenditure. In 2009, the opening of the parliament was postponed so that Abdullah could solicit foreign assistance for a number of planned mega-projects.[69]

Excluding grants, Jordan ran deficits for every single year of its existence as an independent state; it even ran deficits in most years when grants were included. And despite attempts to improve revenue collection and reduce subsidies, in 2010 the budget still boasted a deficit of $1.45 billion, equivalent to about 7.7 percent of GNP. It may seem puzzling, then, that Jordan was able to reduce its debt from 153 percent of GDP in 1992 to 61 percent in 2010, adhering to a 2005 Debt Management Law that capped the overall debt/GDP ratio at 80 percent as of 2006. However, this achievement had little to do with improvements in fiscal policy.[70] In 1994, the USA forgave $700 million of Jordan's debt, and, between 2000 and 2004, the Jordanian government spent JD 176 million (most generated by privatization proceeds) to swap its debt with Britain and France, buy back its entire stock of Brady bonds from the USA, and settle obligations to the domestic banking sector.[71] In 2008, the government used $1.5 billion in privatization proceeds to participate in a $2.2 billion Paris Club debt buyback. The remainder was paid by a consortium of Emirati developers that was redeveloping the Aqaba port region.[72]

Jordan's civil service remained large and its salaries low. Between 1996 and 2000, the average government wage was JD 2840 per year, which at the time was a little less than $4000.[73] Jordan's civil servants were not necessarily uneducated (of the 107,912 civil service employees on record in 2004, 87 percent had a Bachelor's Degree or higher), but the low salaries were not attractive to more qualified candidates. Personal connections were key to obtaining a job and career advancement, and, combined with low compensation, also provided incentives for corruption.[74] At times when it became expedient for the government to bring charges against regime insiders (for instance, during street protests in 2012), corruption in higher levels of government service also became evident. In ASEZ, there were allegations of corruption in procurement, permits and licensing, and land deals, though many did not lead to successful prosecution.[75] By contrast, Muhammed al-Dahabi, a former intelligence chief, was given a 13-year sentence for embezzling public funds, money laundering, and abuse of public office.[76] In 2010, Jordan ranked fiftieth in the Corruption Perceptions Index and one-hundredth in the Doing Business Index.[77]

The Jordanian state did not have a highly developed domestic armaments industry that could facilitate innovation, as was the case in Israel. Rather, the Jordanian Armed Forces privileged the expansion of personnel and employment benefits over R&D. The armed forces accounted for 15 percent of the labor force in 1990, 12 percent in 2000, and 7 percent in 2010.[78] KADDB was the country's only manufacturer of weapons, and owed much of its success to offset agreements with European defense companies that entailed local assembly of less sophisticated weapons with a small local component.[79]

At the level of societal effects, Jordan performed reasonably well on human development indicators. Life expectancy increased from 54 in 1960 to 73 in 2010. Infant mortality decreased from 108 per 100 live births to 18 in 2010. Literacy increased from 67 percent in 1979 to 93 percent in 2010.[80] Yet skepticism is warranted. For much of Jordan's post-1948 history, the majority of the population was believed to consist of Palestinians, who may have learned to read outside of the Jordanian education system. Also, foreign donors were active in the provision of various public services (such as water, health, sanitation, and education) that could have produced better indicators than the Jordanian state on its own could have achieved. Jordan's mediocre record of direct taxation and high-tech innovation, areas that are too encompassing for foreign donors to effect solely through their own efforts, was a better testament to the actual "weight of the state." Direct taxes always constituted a paltry component of internal revenue. Jordan spent zero percent of GDP on R&D in 2008, and consequently, high technology exports were only 3 percent of manufactured exports in 2010, and residents filed only 45 patent applications.[81]

Despite the ease of smuggling goods across Jordan's borders with Iraq and Syria, the Jordanian state appeared to have a solid territorial presence.[82] Tribally dominated security organizations were largely able to put down insurgencies, and had a good reputation for catching terrorists who wished to target the Jordanian population (with some exceptions, like the 2005 hotel bombings in Amman). Jordanians also had good access to infrastructure. In 2010, 100 percent of the population had access to electricity, 98 percent of the population had access to improved sanitation facilities, 97 percent had access to an improved water source (92 percent in rural areas), and there were eight telephone lines per 100 people.[83] However, given Jordan's historically low capital expenditures and the deep involvement of foreign donors in infrastructure, these indicators likely did not reflect the sole efforts of the Jordanian state—a subject that will be explored further in the next chapter.

The Hashemites' distributive survival strategy restricted the state's ability to produce order-maximizing resources. One such resource was territorial integrity. When former British officers commanded Jordan's armed forces in the first Arab–Israeli War, Jordan fought better than any of the other Arab armies and ended up controlling Arab East Jerusalem and a large portion of the West Bank.[84] However, tactical and operational weaknesses in battle contributed to Jordan's loss of the West Bank in 1967. Additionally, the Jordanian state did not help cultivate manufactures that were competitive in international markets. Jordan's merchant-industrialists continued to be subsidized by the state regardless of whether they adopted new technologies, increased efficiency in production, or met specific business targets. Further, Jordanian manufactures remained on the lower end of the value-added spectrum, where expectations of higher salaries and benefits rendered Jordanian products less price competitive.

Despite the centrality of distribution to its leaders' survival strategies, the Hashemite state was never able to indigenously produce a sufficient quantity of distributive goods—primarily because distribution stunted the economy and precluded the development of a broad domestic revenue base. For similar reasons, Jordan also had problems providing various public goods, including physical infrastructure, effective fiscal and monetary policy, and adequate regulatory institutions.

Here the CBJ provides an instructive example. From the time of its establishment in 1964, the cabinet made all major CBJ appointments and was at liberty to draw on CBJ reserves to cover government budget deficits. A 1966 law limited such lending to 10 percent of government revenues, and in 1971 was loosened to permit loans of up to 20 percent of revenues with interest. This 20 percent limit was generally exceeded. Between 1983 and 1990, average annual CBJ lending to the government was 52 percent of revenues (reaching 95 percent in 1989).[85]

The water sector also provides a good example. With just 167 cubic meters of water per capita per year, Jordan was a water-scarce country and the development of new water resources was expensive, at about $4–5 per cubic meter. Providing enough water for Jordan's population, especially during periods of refugee influx, would have required significant expense and exceptional management.

Yet the institutional landscape of Jordan's water resources management was fragmented and subject to frequent change. After the first influx of Palestinian refugees, a department for water was created and staffed by American experts and Jordanian employees focusing largely on the issues of damming and irrigation. In 1957, responsibility for water was shifted to the Ministry of Public Works, and in 1959 the Central Water Authority was created and endowed with responsibility for all matters in the Kingdom outside of the East Ghor Canal Project and municipal water distribution networks. In 1966, the Natural Resources Authority merged the Central Water Authority, the East Ghor Canal Authority, and the Department of Planning. In 1973, the Amman Water and Sewerage Authority was established, while the Domestic Water Supply Corporation would deal with municipal water outside of Amman. The Jordan Valley Commission was established in 1973 and succeeded by the Jordan Valley Authority (JVA) in 1977. The Water Authority of Jordan (WAJ) was established in 1983 as an all-encompassing authority that took over from all local councils, prompting confusion over jurisdiction between the WAJ and the JVA, which had in 1982 also assumed responsibility for Amman and Irbid due to citizen discontent. In 1988 the Ministry of Water and Irrigation (MWI) was established and entrusted with monitoring the water sector, water supply, and wastewater system; formulating national water strategies and policies; and R&D, among other responsibilities. The JVA was responsible for and had the authority to develop and provide irrigation water in the Jordan Valley. The WAJ had responsibility for and authority to treat and deliver drinking water to customers, collect and treat wastewater from households, and license and monitor wells.[86] The JVA and WAJ continued to exist as autonomous bodies, thereby constraining the MWI's authority.[87] Additionally, all three bodies were overstaffed and ministers constantly rotated in and out, giving them little time to master their portfolios. The water institutions often seemed to neglect crucial tasks. Experts noted that none of the three institutions, for instance, conducted a full hydrologic analysis of rainfall and stream-flow records, relying instead on averages, and none used historical records to try to predict the occurrence of droughts or their severity.[88]

Jordan's water institutions also lacked sufficient funding. In 1961, the first water tariff (0.2 cents per cubic meter) was introduced in the Jordan Valley. In 1966, this rate was raised to 0.4 cents for those consuming more than 1800 cubic meters per 1000 square meters of irrigated land. The rate was increased to 0.6 cents with no limit on consumption, and to 1.2 cents in 1989. Separate tariff schedules were put in place for Amman and other areas of the Kingdom, which generally paid more. Given the low price of water in the Jordan Valley, as well as a protected domestic market for water-intensive produce like apples and bananas, the agricultural areas of the Jordan Valley consumed most of the country's water at the lowest price, not only short-changing urban and industrial users of water but also resulting in insufficient funds for building and improving future water infrastructure.[89] In 1986, a study recommended unifying the three water tariff schedules and increasing the rates, but no action was taken on the recommendations because, according to WAJ officials, the hikes were politically unfeasible.[90]

Despite reasonably good indicators of human development and territorial control, Jordan was not a developmental success story. Distributive survival strategies among successive Hashemite rulers persisted despite challenges of coalitional infighting, refugee inflows, economic crisis, and geopolitical tension and interference. Rather than abandoning these strategies in favor of non-distribution, the Hashemites transformed existing networks of selective benefits to conform to new circumstances, retaining the support of the same two constituencies that had supported the monarchy in its early years. The economy's structural transformation from agriculture into industry and services saw little improvement in the state's core capabilities, or more demanding aspects of societal penetration and control, such as technological innovation. Similarly, Jordan's 1989 economic crisis and subsequent adoption of market reforms left many distributive networks intact, or shifted them into new venues created by partial economic liberalization.

Notes

1. The terms "East Bank" and "Transjordan" are interchangeable and refer to the territory that is now associated with modern Jordan (as opposed to the "West Bank" of the Jordan River, which is now part of the Palestinian Territories).

2. Amawi, “State and Class,” 73–98.
3. Ibid., 137.
4. Ibid., 129–130.
5. Fischbach, *State;* Vatikiotis, *Politics and the Military*.
6. Dann, *King Hussein*, 13.
7. Aruri, *Jordan: A Study*, 4; Moaddel, *Jordanian Exceptionalism*, 30–31.
8. Glubb, *Changing Scenes,* 100–106, 118.
9. Vatikiotis, *Politics and the Military*, 49.
10. Fischbach, *State,* 138, 155–156, 167.
11. El-Said, “Political Economy,” 257; Moore, *Doing Business,* 61.
12. Fischbach, *State*, 73–75.
13. Carroll, *Business,* 28–29.
14. Moore, *Doing Business,* 65.
15. Amawi, “State and Class,” 505–506.
16. Al-Bakhit, “Political Economy of Trade,” 111.
17. Brand, “Palestinians and Jordanians,” 47.
18. Baster, “Economic Problems,” 29–30.
19. Kanaan and Kardoosh, *Story of Economic Growth*; Knowles, *Jordan since 1989*, 47.
20. Clark, “Jordan’s Fate.”
21. Anderson, *Nationalist Voices.*
22. Abu Odeh, *Jordanians.*
23. Singh, “Liberalisation,” 72–73.
24. Tal, *Politics*, 44.
25. Moaddel, *Jordanian Exceptionalism*, 31.
26. Singh, “Liberalisation,” 73–75; Tal, *Politics,* 41–45.
27. Kingston, “Rationalizing Patrimonialism,” 122.
28. Moore, *Doing Business*, 68; Tal, *Politics*, 75.
29. US Embassy Amman, “Jordan's Tax Reform.”
30. Carroll, *Business*, 31, 40–41; Moore, *Doing Business,* 81.
31. Piro, *Political Economy,* 40.
32. Aruri, *Jordan: A Study,* 8–60.
33. US Embassy Amman, “Tales of Corruption.”
34. Carroll, *Business,* 31; Moore, *Doing Business,* 68.
35. Quoted in Kingston, “Rationalizing Patrimonialism,” 138.
36. Ibid, 125–138.
37. Ryan and Stork, “US and Jordan,” 3; US Embassy Amman, “Pillars Of Jordan’s.”
38. Haddadin, “Evolution of Water,” 39.
39. Hazleton, *Impact of the East Ghor*, 30, 37–38.
40. Satloff, *Troubles*, 9–19.
41. Piro, *Political Economy*, 66–67.

42. Satloff, *Troubles*, 9–19.
43. Harrigan et al, “The IMF,” 266.
44. Parker and Moore, “War Economy,” 243.
45. Carroll, *Business*, 36–39.
46. Harrigan et al, “The IMF,” 266–267.
47. US Embassy Amman, “Pillars Of Jordan’s.”
48. US Embassy Amman, “Tales of Corruption.”
49. Carroll, *Business,* 219.
50. Pripstein-Posusney, “Globalization and Labor Protection,” 10–11.
51. Mansur, “60–40 Economy.”
52. US Embassy Amman, “GOJ to Partially Eliminate.”
53. US Embassy Amman, “Jordan’s Economic Reforms.”
54. US Embassy Amman, “RE: Transparency Of Budgets/Military Spending;” US Embassy Amman, “Jordan's Finance Minister.”
55. Baylouny, “Militarizing Welfare,” 302.
56. US Embassy Amman, “Jordan's Partial Privatization.”
57. Moore and Schrank, “Commerce and Conflict;” Kardoosh and Burgis, “Qualified Success?”
58. Cronin, “Jordan’s Military;” “Initiative.”
59. Marshall, *New Politics*, 12.
60. Peters and Moore, “Beyond Boom and Bust;” Kardoosh, “Aqaba Special Economic Zone.”
61. US Embassy Amman, “Jordan's Tax Reform.”
62. US Embassy Amman, “Jordanian Finance Minister.”
63. Fiscal Reform II Project, *Benchmarking the Tax*, 15–16.
64. In 2007, after a spike in international commodity prices, the government exempted 13 basic commodities from sales tax. US Embassy Amman, “Jordan's Tax Revenues Increase.”
65. International Monetary Fund, “Costly Mideast Subsidies.”
66. US Embassy Amman, “Jordan’s Finance Minister;” US Embassy Amman, “GOJ To Partially Eliminate.”
67. US Embassy Amman, “Jordan Prepares a Tough Budget.”
68. World Bank, *World Development.*
69. US Embassy Amman, “Royal Decree.”
70. World Bank, *World Development.*
71. The Privatization Law of 2000 requires that proceeds not be used to finance current expenditures, but to pay off the government’s domestic and foreign debt, as well as to invest in infrastructure. Kandah, *Uses of Privatization*.
72. Oxford Business Group, “Buy-Back Agreement.”
73. United Nations Department of Economic and Social Affairs, *HASHEMITE KINGDOM OF JORDAN*, 4.

74. *Government Employees by Sex.*
75. "As Arab Spring Burns."
76. Neimat, "JD9m Case of Alleged."
77. World Bank, *World Governance.*
78. World Bank, *World Development.*
79. Amara, "Military Industrialization." Marshall, *New Politics.*
80. World Bank, *World Development.*
81. Ibid.
82. "Drug Smugglers Exploit Iraq Chaos;" Husseini, "Arms Smuggling."
83. World Bank, *World Development.*
84. Little, "A Puppet," 515.
85. Maziad, *Monetary Policy*, 7–11.
86. Hagan, "Strategic," 2.
87. Haddadin, "Evolution of Water."
88. Hagan, "Strategic," 8.
89. Ibid., 28.
90. *Water and Wastewater Sector Assessment.*

CHAPTER 7

Origins of US Aid to Jordan

Put off by Abdullah I's dependence on Great Britain, the Harry Truman administration declared Jordan's 1946 independence to be "immature," and delayed its recognition of the Hashemite Kingdom for three years.[1] By the late 1950s, however, King Hussein had convinced Washington that if the Hashemite monarchy were to fall, the region would become destabilized and provide an entry point for Arab socialism, then Soviet communism. From that point onward, it became practically impossible to consider Jordan's political economy separately from the large and diverse forms of foreign assistance it received from the USA and other donors. This trend persisted even after the Cold War ended and the charismatic Hussein died. His son, Abdullah II, redefined Jordan's strategic necessity to Washington whenever possible to continue receiving favorable forms of US aid.

Successive US presidential administrations and bureaucratic elites were relatively free to formulate Jordan's assistance to maximize the stability and friendliness of the Hashemite monarchy (the one exception being the area of weapons sales, where AIPAC retained some influence). This fundamentally meant molding US assistance to the Hashemites' distributive survival strategy, as well as adapting to changes in distributive networks that the regime had undertaken in order to weather the challenges of mass in-migration, industrialization, and economic reform conditionality.[2] These efforts manifested themselves as discretionary forms of traditional economic aid that did not aim to fundamentally restructure Jordan's distributive political economy, and, of equal importance, deployed both

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donor- and recipient-accountable parallel institutions to provide public goods to Jordanian society in critical sectors like water and regional governance. Such institutions persisted even during the late 1960s and 1970s, when unfavorable Jordanian policy toward Israel and a global oil price boom prompted the USA to delegate responsibility for supporting Jordan's financial needs to its oil-exporting Arab allies.

In the Shadow of British Dominance, 1951–1957

When US assistance commenced in 1951, Jordan was still very much in the orbit of Great Britain, and American policymakers did not yet view it as relevant to Cold War strategy. Secretary of State John Foster Dulles perceived Jordan as an unstable, artificial entity that would easily collapse if the British withdrew from the Near East—which, after the implosion of negotiations over British basing in the Suez in 1953, seemed to be a distinct possibility.[3] The British increasingly believed that their strategic interests lay in the Persian Gulf, but were also concerned that the USA could use Jordan as a foothold to challenge British supremacy in oil-rich Iraq. Rather, Britain hoped for a coordinated Anglo-American policy in Jordan in which the USA would act as a junior partner that would assume responsibility for some of Britain's material burdens.[4]

However, the first impetus for US aid to Jordan was Washington's concern that Palestinian refugees could become a destabilizing force in the region. A Department of State memo from April 1950 claimed,

> The major problems which confront Jordan today and which are of primary concern to the US are the establishment of peaceful and friendly relations between Israel and Jordan, and the successful absorption into the polity and economy of Jordan of Arab Palestine, its inhabitants, and the bulk of the refugees now located there… There are, of course, urgent political reasons for assisting Jordan in her economic development so that large refugee populations may be absorbed. These homeless and jobless people constitute an unstable element in the Near East wherever they have gathered, and there is ample evidence that communists have found fertile ground for their propaganda among them. In order to eliminate this danger to the stability and to the western orientation of the area, the refugees must be settled and provided with the necessary means of livelihood.[5]

As such, Jordan's first US assistance came through UNRWA, which had been established in December 1949 with significant American leadership. For the first years of the agency's existence, the USA was its largest donor (in 1951, e.g., the USA contributed $15.25 million, while contributions from all other countries amounted to $13 million).[6]

The USA began to provide bilateral aid to Jordan in 1952, when it opened a Point Four office in Amman. By 1954, Point Four employed 1500 Jordanians and about 40 American consultants.[7] Describing Jordan as a small, agricultural society, the mission's portfolio included training in agriculture, industrial engineering, and natural resource management.[8] To some extent, Point Four's activities in Jordan resembled those that it was concurrently undertaking in Israel. However, Jordan's weak fiscal position resulted in nearly all of Jordan's economic aid being provided in the form of grants, rather than loans. Additionally, Point Four planned and built infrastructure in Jordan using congressionally appropriated funds, and did so with minimal contact with the Jordanian state. In 1957 alone, Point Four built 163 miles of primary roads, including the East–West road from Amman to Kallia and the North–South road from Ma'an to Dera'a.[9] Identifying water scarcity as a risk factor for riparian conflicts with Israel and Syria, Point Four also established wide-ranging activities in water resources management. In the early 1950s, Point Four renovated 75 Roman and Byzantine cisterns and dug 175 wells, and completed the necessary studies to develop the first master plan for water resource development for the entire Jordan River basin. These comprehensive activities in the water sector rendered Point Four a donor-accountable parallel institution from the outset.[10]

Beginning in 1952, PL 480 food aid became a large component of US aid to Jordan. Arable land was limited and inefficiently managed, and droughts were frequent. American economists projected large annual food deficits and a level of agricultural exports that would only cover a small percentage of import requirements, while Jordanian officials claimed that food aid would create goodwill among the populace toward the USA.[11] After 1954, food aid came in the form of PL 480 Title II grants, which allowed the Jordanian government to import required grains to feed the population, as well as to generate local currencies through the grain that it sold. By 1961, Jordan had received $47.3 million in PL 480 grants, or about 17 percent of its total US economic aid.[12]

The preference of East Bankers to exclude Palestinians from public employment, benefits, and services became evident in the division of labor between bilateral US aid and UNRWA. Point Four and PL 480 would assist the Amman government in providing for the East Bankers in the East Bank, while UNRWA's "blue state" would ensure basic living standards for Palestinians on both sides of the Jordan River. UNRWA functioned as donor-accountable parallel institution that provided public services, sustenance, and employment to a large proportion of Jordan's Palestinian population. UNRWA built four camps prior to the Six Day War and then six more camps thereafter. All Palestinian refugees, whether residing in the camps or not, were entitled to UNRWA services. In 1950, UNRWA registered 506,200 Palestinian refugees in Jordan; this number grew to 688,089 in 1965 and 716,372 in 1980.[13] With 2500 employees, UNRWA was the country's largest employer during the 1950s, as well as its largest supplier and distributor.[14] At the same time, UNRWA's infrastructure projects were disproportionately located in the East Bank, and East Bankers illicitly accessed UNRWA food aid. The USA was aware of this problem, but refused to condition its bilateral aid on the Jordanian government's effective monitoring of UNRWA ration lists.[15]

Owing to the mission's relatively small size at the time, Hussein and his cabinet often invoked Point Four as a scapegoat to ingratiate themselves with the public. In 1953, for instance, Hussein and Prime Minister Fawzi al-Mulqi rejected Washington's offer to finance a major irrigation project in the Yarmouk that would employ thousands of Palestinians, on the basis that it effectively conditioned a portion of US aid on a project that was intended to introduce de facto peace with Israel. Following an Israeli attack on the West Bank village of Qibya that killed dozens of Palestinians that same year, the Jordanian government threatened to close the Point Four office as a means of protesting US aid to Israel. Dulles defused the situation by leaking news of the administration's recent freeze on Israeli aid, which had until then remained secret.[16] But again in April 1954, Minister of the Economy Anwar al-Khatib said that Jordan was still considering closing the mission on account of the "huge and continuing discrepancy between the United States aid to Israel and that to the Arab states."[17]

This sort of behavior ceased in 1956, when revelations of British involvement in the Suez War provided fodder for Nasser's increasingly powerful pan-Arab socialist trend to challenge the Hashemite monarchy. To neutralize criticism, Hussein needed to secure a less controversial patron. In November 1956, Army Chief of Staff Ali Abu Nuwar told the US military attaché in Amman that he would guarantee a crackdown on Jordan's communists, the dissolution of parliament, and the imposition of martial law in exchange for a sufficient amount of US economic and military assistance. "I and the people of Jordan will follow US policies," he said.[18] Washington was initially reluctant, with US Ambassador Lester Mallory personally informing Hussein that, "we had never wished to replace our allies and the UK was still an ally." Mallory also noted that military assistance had been granted to other countries such as Turkey and Iran only following the conclusion of military defense agreements, and that the direct budget support that Hussein requested was not "custom."[19] When Hussein indicated that he might be compelled to turn to the Soviets for assistance, US officials merely warned him against "jumping from the frying pan into the fire."[20]

American and British officials also remained skeptical of Jordan's viability as a state. When Dulles asked British Foreign Secretary Selwyn Lloyd in December 1956, "What is the future of Jordan?" Lloyd replied, "I don't think it's got one, unless it becomes a little Satellite."[21] Hussein's threat, however, succeeded in catalyzing a new discussion in Washington. One proposal involved diverting $30 million in appropriations other countries to Jordan, an idea that Great Britain supported. By January 1957, the administration had formulated an omnibus aid bill that was intended to make US funds available to assist Middle Eastern countries that could potentially come under Soviet threat when the British ultimately withdrew.[22] The bill, which formed the basis of the "Eisenhower Doctrine," was approved in March, preceding Hussein's opposition crackdown by one month.

Cold Warriors, 1957–1973

Hussein's sacking of al-Nabulsi in April 1957 led the USA to provide Jordan with large-scale economic and security assistance. That spring, the CIA began to smuggle in suitcases of cash to Hussein, allegedly about $15,000 per month. Dubbed "Operation NOBEEF," the funds were free of congressional oversight and were intended to allow the king to remunerate his intelligence assets.[23] The USA also began to collect intelligence on potential mutineers within the Jordanian Armed Forces. It has even been conjectured that Kermit Roosevelt, the famed US intelligence operative, tipped off Hussein regarding a coup attempt by Abu Nuwar on April 13, giving the king time to rally Bedouin loyalists and eventually exile Abu Nuwar to Syria.[24]

By the time Hussein communicated his intention to impose martial law to the Eisenhower administration on April 24, and requested US assistance and protection against an Israeli or Soviet intervention, key US officials were convinced that Hussein faced a major challenge from pan-Arab socialism. Dulles persuaded Eisenhower to move units of the US Navy's

Sixth Fleet, as well as a battalion of Marines, to the Eastern Mediterranean to demonstrate support for Hussein, and the administration also encouraged Saudi Arabia to put troops under Hussein's command.[25] On April 29, an agreement was signed to grant Jordan $10 million in economic aid. Another $10 million for the army and $10 million in budgetary support swiftly followed this initial disbursement. In May, the White House instructed the US Embassy in Amman to disburse the aid without conditions, claiming, "political factors were overriding."[26]

Hussein had successfully portrayed himself as a moderate, pro-Western leader who had few indigenous means to neutralize a mounting Arab socialist opposition. In July 1957, Dulles reiterated, "Jordan had never been a viable state."[27] A June 1960 White House study claimed that Jordan's weaknesses left the USA with "little choice but to continue support of Jordan lest without it the state collapse and peace in the Near East be severely endangered in the ensuing scramble for Jordan's territory."[28] Hussein was aware of this logic and exploited it. In early 1958, Hussein demanded $60 million annually from the USA, citing the threat of Nasser's newly formed United Arab Republic (UAR).[29] In 1959, Jordan received $63 million in total aid and saw its economic aid nearly doubled in size.[30] In March 1959, Hussein and Prime Minister Samir al-Rifai requested a $100 million aid package, still citing the threat of the UAR. Jordan's PL 480 aid was increased (it had been a drought year), and it received 12 US military surplus Hunter-Hawker jets.[31] Throughout the early 1960s, Hussein threatened to turn to the Soviet Union if he did not receive more American tanks and planes. While Jordan's status as a conservative monarchy curtailed the credibility of such threats, they nonetheless allowed US military aid to increase from $5.25 million in 1964 to $22.4 million in 1966.[32] In subsequent years, Hussein would also bank on the threats posed by Palestinian refugees and Syrian intervention, as well as Jordan's role in Israeli–Arab peace negotiations, to justify higher aid requests. After the PLO began launching raids into Israel from the West Bank in late 1965, the Johnson administration agreed to sell Hussein A-4 Skyhawks. By 1971, Jordan was receiving $58.6 million in military aid.[33]

In 1962, the Kennedy administration demonstrated its support for the reappointment of al-Tell as Prime Minister by increasing economic aid to $60 million, yet USAID ultimately did not support al-Tell's proposed reforms. Much of Jordan's economic aid was highly discretionary, contained no provisions for reform, and could be allocated within Jordan according to the regime's priorities. Hussein received $40 million in budget support annually between 1958 and 1963, then as of 1964 about \$34 million (still equal to about one-third of his government's expenditures).[34] Budget support severely dwarfed the US aid mission's project budget, and angered economic nationalists like al-Tell, who wished to see more US aid go toward development projects in the hands of Jordanians. During his second term, al-Tell appealed to USAID to support his rural electrification project (a £700,000 commitment), as well as to help support his Seven Year Plan. The USA did not offer financial assistance for these projects, and the US ambassador was furious after al-Tell signed a series of non-concessionary loans to finance them.[35]

To the extent that the US aid mission engaged in projects, it continued concentrating on roads and water. In the late 1950s and early 1960s, Point Four/USAID built the Amman-King Hussein Bridge-Jerusalem highway; a road providing access to the Nabataean ruins at Petra; and a road between Amman and Mount Nebo. In 1960, Point Four constructed Jordan's first dam, the Ziglab, which supported agriculture in the Northern Ghor. Throughout the 1960s, the USA provided the bulk of the funding and technical work for the East Ghor Canal Project, as well as constructed a series of small dams and 40 small irrigation systems, bringing water to 750,000 people in the Jordan Valley.[36] The Americans also created the Central Water Authority of Jordan in 1960, forerunner to the WAJ.

In addition to its support for distributive and public goods, US aid also helped secure Hussein's regime from domestic opposition and enemy states. As much of Jordan's defense and security budget was reserved for salaries and services, the state lacked the means to develop a domestic armaments industry, train its military in the use of advanced equipment and tactics, and build a capable intelligence agency. Hussein needed all of these resources to weed out domestic opponents and protect Jordan from the expansionist designs of Egypt and Syria.

After Hussein's 1957 crackdown, the USA committed to provide Jordan with operational support in surface communications and propaganda activities that would bolster the regime's position. In May 1958, the CIA received an audiotape from the Federal Bureau of Investigation (FBI) that contained incriminating phone conversations between the Jordanian and Egyptian military attachés in Washington. The Jordanian attaché Major General Mahmud Rusan appeared to be the leader of a group of Jordanian army officers that were part of an Egyptian-supported plot to overthrow Hussein. The CIA responded by sending one of its own, under diplomatic cover, to help Hussein get to the bottom of the conspiracy. The officer, Jack O'Connell, was shocked to find that the king acquired intelligence mostly through his own recruits in the army, who were paid through the palace budget.[37] Working alongside two Jordanian contacts in the Royal Court, the CIA eventually produced a list of 22 suspects. The CIA supplied the interrogator of the suspects (as Jordan had no interrogators), and O'Connell returned to Amman as chief of station in 1963. He remained until 1971, devoting his activities to bugging (mostly Soviet targets) and building a close relationship with the General Intelligence Directorate, which was formed in 1964 with many of O'Connell's early trainees in its leadership. In his posthumously released memoirs he remarked, "My job at CIA was to keep the King in power," and, "After eight years in Jordan- far longer than a normal posting- I had almost become part of the government."[38]

Jordan was one of the first Arab countries to receive US military assistance, only preceded by Iraq (1955), Lebanon (1957), and Saudi Arabia (1957). Jordan's initial $10 million military aid grant was used to purchase rifles, jeeps, and M-47 Patton tanks. Between 1966 and 1970, the USA sent hundreds of artillery guns, 300 M-48 Patton tanks, and 18 F-104 Starfighters (Jordan's first supersonic combat jets). After Hussein's confrontation with the PLO in 1970, the USA announced that it would replace all Jordanian arms that were destroyed in the conflict. From 1958, the USA offered military education to the Jordanian armed forces, principally in the use of American weapons.

The USA also used its own military forces to protect the king. Following the bloody deposal of Iraq's Hashemite monarchy in July 1958, the USA twice prepared for Hussein's evacuation from Jordan, and provided financial and logistical support for 3700 British commandos to be flown into the country from Cyprus. The Eisenhower administration ordered that thousands of gallons of fuel be flown to Jordan from Saudi Arabia, persuaded Israel to allow British overflights, and helped the British build a rail link between Aqaba and Amman.[39] In April 1963, President Kennedy ordered the Sixth Fleet to the Mediterranean in response to pro-Nasser riots in Irbid and the West Bank. During the 1970–1971 conflict with the PLO, the USA provided Jordan with water purification equipment, food, and 40 medical personnel from the US Air Force's 48th Transportable Field Hospital—all flown in on six C-130 aircraft.[40]

Washington was taken by surprise when Hussein moved to aid Egypt in the Six Day War, and reacted by cutting Jordan's economic and military assistance. Direct budget support was terminated in December 1967, and in 1968, total US economic aid fell to $18 million ($10.2 million of which were ESF funds). From 1969 to 1970, Jordan received no ESF funds at all, and its US economic aid fell to an all-time low of $3.9 million.[41] Jordan's military assistance dropped to $38,000 in 1968. Yet US policymakers placed the bulk of the blame on Nasser's shoulders, rationalizing Hussein's actions in terms of the country's precarious domestic politics and fear of condemnation by the broader Arab world. As such, the USA largely reinstated military aid in 1969, albeit with a larger loan component, and budget support was reinstated in 1971. One US NSC contingency report called the reduced economic aid levels during 1968 and 1969 a "holding action," while deeming Hussein's moderate regime "key to any Israeli-Arab peace settlement."[42]

Shifting the Burden, 1973–1989

During the 1970s and 1980s, the USA remained Jordan's principal military aid donor. In 1974, Jordan became the first Arab state to obtain antitank TOW missiles, and a US–Jordanian Joint Military Commission was established to coordinate annual bi- and multilateral military exercises, as well as to maintain a strategic dialogue on Jordanian military needs and joint US–Jordanian priorities. In 1977 (the same year that NOBEEF payments were terminated after their presence was revealed by the journalist Bob Woodward), the USA agreed to sell Jordan 14 HAWK batteries at a price of $300 million.[43]

At the same time, the USA allowed oil-rich Arab states to assume more and more responsibility for Jordan's financial requirements. With the exception of countries like Libya, these new donors tended to be in the pro-Western camp during the Cold War (though their policies toward Israel were not aligned with those of Washington). Under the September 1967 Khartoum Agreement, Saudi Arabia, Libya, and Kuwait promised $96 million per year, plus emergency grants, to compensate Jordan for its loss of US economic aid; Saudi Arabia continued its payments even after Hussein's crackdown on the PLO.[44] In 1974, during the Arab League Summit in Rabat, Arab oil exporters (with the exception of Libya and Iraq) pledged $300 million annually in exchange for Hussein's support of a declaration proclaiming the PLO the sole legitimate representative of the Palestinian people. Then, at the 1978 Baghdad Summit, Saudi Arabia, the United Arab Emirates, Kuwait, Qatar, Libya, Algeria, and Iraq pledged $1.25 billion per year over ten years to reward

Hussein's rejection of the Camp David Accords. These contributions caused foreign aid to account for about 30 percent of Jordan's GDP between 1970 and 1980.[45]

At the same time, USAID remained active in projects requiring higher levels of human capital, technology, and management capability, with a particular focus on the JVA, a semi-autonomous local government that was responsible for 85 percent of Jordan's irrigated land. Tasked with managing infrastructure, associational life, and agricultural policy in the Jordan Valley, the JVA aimed to more than double the size of the Valley's irrigated land, thereby boosting agricultural exports and creating jobs for 55,000 people in agricultural labor and support services.[46] Its autonomy protected by Crown Prince Hassan, the king's brother, the JVA was attached to the Prime Minister's office and free from auditing and normal civil service restrictions. It also had little interaction with functional ministries and departments in Amman.[47]

The JVA's autonomy from the central government, as well as the prolific work of USAID in the organization and its principal mandates, rendered it a recipient-accountable parallel institution. From 1973 to 1978, USAID extended the East Ghor Canal as part of the Jordan Valley Irrigation Program.[48] It constructed 72 schools, 16 hospitals, and 14 government administrative centers in the Jordan Valley, Southern Ghor, and Wadi Araba. It established the Jordan Valley Farmers Association in 1978, implemented the Jordan Valley Agricultural Services Project for the Jordan Valley in 1980, and upgraded the Agricultural Research Center at Deir Alla in the mid-1980s. To facilitate agricultural commerce, USAID built 200 kilometers of farm-to-market roads throughout the valley.[49]

USAID continued to finance and build the bulk of Jordan's water infrastructure, tapping new sources of water and expanding and upgrading rural and urban distribution networks. In the late 1970s, USAID completed the Zarqa triangle irrigation project in the Jordan Valley, providing water to one thousand new farms. In the late 1970s and early 1980s, USAID completed numerous water and sewerage projects around Amman and its suburbs, bringing water and sewerage to 800,000 people. In the 1980s, it constructed a new wastewater system for Aqaba, completed studies and design for the Maqarin Dam, and funded the construction of the Zai water treatment plant outside Amman. Further, USAID began renovating wastewater facilities in Amman, Aqaba, Irbid, Zarqa, and 11 other cities and towns in Jordan—much of which it had built in the two preceding decades, and had not been properly maintained.[50]

In the lead-up to the Camp David Accords, Jordan's Arab donors pressured Hussein to reject an Egypt–Israel peace that excluded the rest of the Arab world. The USA, however, sought to woo Hussein's acceptance of it, providing Jordan with a record $440 million in aid during 1978 and 1979. After Jordan rejected the agreement, US aid fell to $72.91 million in 1983 but was not terminated. By contrast, Arab donors were quick to renege on their commitments to Jordan when confronted with falling global oil prices. In 1983, Jordan purportedly only received $750 million from the Gulf states, the lowest figure since 1978. By 1985, the USA had re-established itself as Jordan's major donor. Jordan received $169 million in military aid, nearly all of which was in the form of FMF loans, and $184 million in ESF. This was more than the USA had ever provided to the Hashemite Kingdom, albeit a small amount relative to the Arab aid that had preceded it.[51]

Stalling, 1989–1999

Jordan's 1989 economic crisis, as well as its participation in the 1991 Madrid Peace Conference and its 1994 peace treaty with Israel, might well have prompted the USA to further increase its assistance. Yet King Hussein's alliance with Saddam Hussein in the First Gulf War generated congressional condemnation, and after the Hashemite monarch condemned US regional hegemony in a March 1991 speech, Congress imposed a block on US aid to Jordan. Jordan would only be eligible to receive US aid after President George H.W. Bush certified that Hussein was helping the peace process, resulting in a two-year delay in the disbursement of FY 1991 and FY 1992 appropriations.

Jordan's "peace dividend" from the USA following its 1994 peace treaty with Israel was disappointing to many Jordanians. The USA forgave Jordan's $702.3 million debt, yet by 1995, Jordan's ESF had declined to $19.2 million and military aid consisted of only $10 million in FMF grants and a $35 million transfer of surplus US military equipment.[52] In 1996, the year Jordan was designated a Major Non-NATO Ally, military aid jumped to $268.1 million. Yet half of this came in the form of US defense surplus, which included vehicles, firearms, and ammunition, and it did not include any major weapons systems.[53] The next year, Jordan's military aid fell to $83.89 million, while economic aid rose to $208.75 million.[54] These fluctuations reinforced the notion that Jordan could not be certain of a multi-year aid commitment from the USA, despite making a peace with Israel that had been politically controversial at home and aided the rise of an Islamist opposition.

There are a variety of explanations for the small size of Jordan's peace dividend. Jordan was a much less significant military threat to Israel in 1994 than Egypt had been in 1978. Jordan concluded its peace treaty with Israel after the fall of the Soviet Union, which not only deprived Hussein of bargaining leverage, but also resulted in less congressional support for foreign aid in general. Further, Jordan had relinquished its claims to the West Bank in 1988 and did not occupy any Israeli land, reducing its bargaining power and eliminating the need to compensate Jordan for the costs of withdrawal. Additionally, the USA had grown wary of its assistance to Jordan. The Foreign Assistance Appropriation Act for 1994, which was drawn up before the peace treaty was signed, maintained a strong position against assistance to Jordan on the basis of its alliance with Iraq during the First Gulf War and its intransigence on the peace process. Moreover, the Congress and the State Department hesitated to continue providing USAID's mission in Jordan with more funds.

USAID's "Strategy for Sustainable Development" in Jordan, released in 1994, reflected some of these concerns, and focused on increasing export revenues, growing the private sector, and facilitating private sector employment opportunities over the next three years.[55] At the same time, these activities never demanded the fundamental reforms that would have set Jordan's political economy on a more developmental path. The Sectoral Policy Reform Program (1993–1996) provided up to $50 million in annual cash transfers in exchange for incremental reforms in export and import processing, improved financial institutions and trade regulations for export growth, and regulatory reform to support investment.[56] The 1997–2001 strategy focused on banal symptoms of a deeper political–economic problem, citing (1) failure of mid-level officials to understand technical aspects of reform, (2) inability to articulate reasons for reform to the public, and (3) lack of effective feedback systems. Corresponding efforts focused on improving the effectiveness of the Investment Promotion Corporation, providing technical assistance to Customs Department, and drafting an Intellectual Property Rights bill.[57] In 1998, USAID launched the Access to Micro-finance and Improved Implementation of Policy Reform (AMIR) Program, which focused capacity building for business associations and introducing best practices to microfinance. USAID eventually funded the microfinance component of the government's Social Productivity Program (1998–2000) and implemented it through AMIR's Sustainable Microfinance Initiative.[58] Following continued criticism that Jordan had been inadequately compensated for peace with Israel, in June 1997, the Clinton administration announced that Jordan would receive an additional $100 million in annual aid, to be redirected from the Israeli and Egyptian economic aid packages. That same year, the USA negotiated the QIZ agreement, which allowed Jordan to export manufactured goods containing both Jordanian and Israeli value-added components to the US duty-free.

In spite of a desire to transfer many of its responsibilities to Jordanian water authorities, USAID continued to be very active in this sector. It designed the North Jordan Valley Wastewater Treatment Plant, the Deir Alla-Zai-Dabouq Pipeline, and the Greater Amman Wastewater Masterplan. It built the water supply and wastewater system for Wadi Mousa, which served as the touristic hub for the Nabataean ruins at Petra, and launched into a new phase of repairing and expanding existing infrastructure, much of which it had built in prior decades. This included (1) improving the treatment capacity and performance of the As-Samra wastewater stabilization ponds ($12 million), (2) upgrading the As-Samra wastewater treatment plant to improve the quality of wastewater effluent and to reduce the odor generated by the plant ($12 million), and (3) upgrading the Zai ($6.76 million) and al-Salt water treatment plants ($8.6 million). USAID also rehabilitated and decontaminated seven springs and three wells (Wadi Sir, Qantara, Qairawan, Deek, Salt and Kafrein), thereby increasing the availability of potable water to 300,000 residents in local communities ($22.5 million). During a water contamination crisis in 1998, USAID procured and provided a mobile laboratory and miscellaneous lab equipment to improve Zai plant water testing operations ($150,000). USAID also implemented pest control in communities near the As-Samra Wastewater Treatment Plant ($562,000).

New Leader, Old Patterns, 1999–2010

Upon Hussein's death, the White House issued a public statement of support for Abdullah II, who, two weeks after coming to power, met General Henry Shelton, Chairman of the Joint Chiefs of Staff to discuss security ties and increases in aid. The Clinton administration asked Congress to approve an additional $200 million in military assistance for Jordan ($50 million in 1999 and 2000, then $100 million in 2001), as well as additional economic aid. Between 1998 and 1999, economic aid rose from

$118 million to $289 million, and military aid rose from $92 million to $208.5 million (none of which was in the form of a loan). This aid was not part of a multi-year commitment, but rather a "shot in the arm" to bolster the transition from Hussein to Abdullah.

However, Abdullah made calculated moves that stayed US assistance at elevated levels. He publicly embraced the principles of economic reform, becoming a regular attendee at the World Economic Forum and offering the Dead Sea resorts to host its regional meetings. US officials characterized him as "a very transparent guy" with "star appeal."[59] Expectations increased that the new king might be able to drive through the economic reforms that his father would not, freeing the USA of many of its material commitments while also preserving the rule of a US-allied Hashemite monarchy. USAID's congressional budget justification for Jordan in FY 1999 set targets of 25,000 active microfinance borrowers by 2001, 17,000 new jobs and $4.5 billion in investment by 2001, accession to the WTO by 2000, two major privatizations by 1999, and the introduction of best practice into microfinance institutions by 2001.[60]

However, the September 11 terrorist attacks re-focused the US–Jordan bilateral relationship on security issues as Abdullah II positioned Jordan as a partner in the George W. Bush administration's "War on Terror," offering logistical support and security cooperation. These efforts yielded a one-time payment of $700 million in budget support in 2003, which was intended to help compensate Jordan for the loss of its Iraqi oil grant, and to allow Jordan to meet IMF fiscal targets without cutting politically sensitive social spending.[61] The USA also provided migration and refugee assistance for the estimated 750,000 Iraqi refugees that fled to Jordan between 2003 and 2006. In FY 2006, Jordan became a Millennium Challenge Corporation (MCC) threshold country, making it eligible for up to $25 million in assistance, and in 2010, Jordan concluded a $275.1 million compact agreement with the MCC. Jordan also received antiterrorism assistance from the Nonproliferation, Anti-Terrorism, Demining, and Related Programs account to assist in customs and border control, and small amounts of International Narcotics Control and Law Enforcement funding to support police training and counter gender violence, money laundering, and intellectual property violations. By FY 2008, Jordan received $913.7 million in total assistance. That same year, the USA agreed to supply Jordan with $660 million annually from FY 2010 to FY 2014—its first major multi-year commitment to the Hashemite Kingdom.[62]

Under Abdullah II, US military assistance focused on upgrading the country's air force, including the acquisition of F-16, air-to-air missiles, and radar systems. Jordan also received Blackhawk helicopters, a national command and control system, armored personnel carriers, a border security system, AMRAAM missiles, and JAVELIN anti-tank guided missiles. Beginning in 1999, Jordan was given access to major US weapons systems as EDA. Jordan received HAWK missile information control center upgrades, aircraft radios, radar sets, improved pulse acquisitions, Cobra helicopters, launcher section control boxes, training missiles, test equipment for guided missile systems, HAWK Block 770 missiles, HAWK loaders and transporters, guided missile launchers, HAWK safety and arming devices, and HAWK high power illuminators. Jordan received 15 F-16 fighters in 2000 and 17 in 2003, as well as aircraft parts.[63]

The USA also provided a variety of non-traditional security assistance. The USA funded the International Police Training Center outside of Amman, which opened in 2003 for the purpose of allowing Jordanian and other international trainers to train Iraqi police. An FY 2005 emergency supplemental provided $99 million for the construction of the King Abdullah II Center for Special Operations Training, which served as a regional center for counter-terrorism training. Both training centers supported US operations in the region, but also provided an additional means for Jordanian security forces to earn income by taking international contracts. Jordan also received Coalition Support Funds, which were non-FMF funds appropriated by the Pentagon to support costs incurred by allies in Operation Iraqi Freedom (principally Jordan and Pakistan).[64] By 2004, Jordan had received $93 million in Coalition Support Funds and had a request for $114 million pending—some of which was then rolled into its subsequent military aid package as FMF. However, it should be noted that Jordan (unlike Israel or Egypt) did not benefit from cash flow financing, an interest-bearing account, or permission to use FMF funds for offsets or purchase of domestic armaments.[65]

The largest component of the economic aid portfolio under Abdullah was the Cash Transfer Program. Each spring, USAID and the Ministry of Planning agreed on a set of 20–30 "conditions precedent" (CPs), all of which had to be completed for the Jordanian government to receive the cash transfer, which was required by law to be used to pay down Jordan's foreign debt to the USA and multilaterals. The program also required the Jordanian government to provide an equivalent amount of local currency in Jordanian dinars, which was supposed to be jointly programmed by USAID and the Ministry of Planning. USAID avoided "counterproductive" CPs that would be politically destabilizing and focused on small, feasible changes, such as (1) leveraging support for incremental reforms that already had some support in the cabinet, (2) leveraging small organizational or policy changes that would support USAID projects, and (3) in rare cases, removing trade barriers that were considered discriminatory toward US companies.[66] One respondent claimed, "We *want* the government to have it."[67]

Between FY 2000 and 2002, USAID disbursed all of the cash transfer. According to the USAID Regional Inspector General, all of the 16 CPs were implemented and all local currencies were programmed and used for developmental activities.[68] Yet the CPs can hardly be said to have employed harsh conditionality. Four CPs involved the production of a report or a study, three required the Jordanian government to contract private firms to assist in privatizations, and three related to the development of detailed standards and monitoring capabilities in water and health sectors. Only four CPs pertained to regulatory change, and they had to do with passing legal requirements for WTO accession, a Securities Law, and regulations for punishing water thieves—none of which impinged on the three major sources of Hashemite patronage: the tax system, public employment and fringe benefits, and market protectionism. A USAID Inspector General study of the Cash Transfer Program between 2007 and 2011 found compliance problems with the local currency portion of the program. It claimed that the USAID mission in Amman did not monitor the Jordanian government's expenditures of local currencies, and subsequently about $1.2 million was spent on the Jordanian military and police. Additionally, it found that the Jordanian government withdrew funds from the local currency account before qualified debts were reimbursed, and mingled these funds with its general budget. Further, the USAID mission and the Jordanian government did not agree on any performance indicators for local currency programming.[69]

USAID remained active in all aspects of water and sanitation. USAID spent $9.2 million on a Technical and Economic Study for the Final Design and Construction Supervision of Upgrading and Expansion of the Aqaba Water and Wastewater Facilities. USAID spent $3.65 million implementing two water sector policies needed to enable sustainable use of groundwater aquifers and optimize use of treated wastewater effluent in irrigated agriculture. It spent $1.7 million conducting the strategic planning for the second phase of the JVA, and $4 million examining the practical application of treated effluent from wastewater treatment plants in Aqaba, Mafraq, Wadi Mousa and Wadi Hassan. USAID built the Kafrein water supply system at a cost of $4.5 million, and spent $91 million on the design, construction, and operation of Wadi Ma'in, Zara and Mujib Water Treatment and Conveyance. USAID also spent $76 million on the restructuring and rehabilitation of 16 distribution zones of the Greater Amman Water Supply System. This included construction of 410 kilometers of water mains, 18 water reservoirs, pumping, water system, and rehabilitation of leaking sections. It spent $75 million on the "Development of a New As-Samra Wastewater Treatment Plant on a Build Operate and Transfer Basis," expanded Aqaba's wastewater facilities ($30.3 million), and rehabilitated Aqaba's water facilities ($19.5 million).[70] Additionally, the MCC contributed $275 million in grants to again expand the al-Samra wastewater treatment plant and rehabilitate Zarqa's wastewater and water networks.

USAID made extensive use of the Cash Transfer Program to fund additional water infrastructure, force organizational changes to Jordanian water institutions, and ease the implementation of its own projects. In 2004, JD 14.983 million in local currency was set aside for various improvement and maintenance projects, including the rehabilitation of the Amman water network, the construction of water conveyance systems, the improvement of sewerage systems in seven governorates, and the improvement of the King Abdullah Canal. In 2005, JD 20 million was set aside for this purpose, in 2006 JD 24 million, and in 2007 JD 19 million.[71] In the CPs for the 2004 Cash Transfer, USAID required the Jordanian government to establish a private sector water authority in Aqaba, the MWI to develop an action plan to address administrative losses, the reopening and strengthening of the Groundwater Monitoring and Enforcement Unit at the MWI, and full staffing of the Demand Management Unit at the MWI. While highly interventionist, none of these CPs addressed the fundamental problems of Jordan's water sector: low water tariffs, protected markets for water-intensive produce, and a lack of funding.

Another major site of USAID activity in this period was ASEZ, a special economic zone governed by the Aqaba Special Economic Zone Authority (ASEZA), a recipient-accountable parallel institution with almost complete jurisdiction over the Aqaba port area. USAID funded a 1999 feasibility study for ASEZ, then ran three successive technical assistance programs for ASEZA. The first, the Aqaba Technical Assistance Support Project (ATASP, 2000–2004), provided initial technical support in drafting the

ASEZ Law and had a "carte blanche" from the Jordanian government to set up ASEZA. The second, the Aqaba Zone Economic Mobilization Project (AZEM, 2004–2007), was tasked with the rationalization of ASEZA, building a planning and evaluation directorate and implementing salary restructuring. The third, the Aqaba Community and Economic Development Program (ACED, 2008–2013) worked on strengthening ASEZA and its official developer, the Aqaba Development Corporation (ADC), with an additional focus on cultivating support for ASEZ among native Aqabites that were largely excluded from the benefits of public employment and investment opportunities. USAID was also the only foreign donor to work with the Aqaba Water Corporation. These activities included procuring an accounting system, writing the text of all the company's bylaws, and supplying technical experts. One respondent claimed, "I can't imagine the company without USAID," and while another added, "They are partners. They are in the company."[72]

USAID indirectly supported ASEZA and ADC through the Cash Transfer Program.[73] In 2004, USAID included CPs for ADC staffing and development plans, avoiding overlap between ASEZA and Jordanian customs, and selecting a contractor to manage the Aqaba port facility. As a local currency project, the Jordanian government was required to commit JD 20 million to build capacity for ADC, upgrade the Aqaba container terminal, and provide infrastructural improvements in the area. In 2007, a CP required the Jordanian government to extend a memorandum of understanding that divided ASEZ revenues equally between ASEZA and the central government.[74]

At the national level, USAID was also involved in various small ventures to support the private sector. The AMIR I and II programs played an important role. Initially focused on tourism and microfinance, AMIR I's funding was significantly increased after Abdullah announced that he would like to pursue WTO membership and an FTA with the USA. Due to a lack of experts in the Jordanian civil service ("We were totally unprepared," claimed one former staffer of the Ministry of Industry and Trade), the AMIR team essentially prepared Jordan's entire succession to the WTO in 2000.[75] AMIR also technologically modernized the Amman Stock Exchange and worked with new business associations. AMIR was succeeded by the five-year, $69 million SABEQ project, which gave out $2.9 million in grants to private sector associations, completed dozens of technical assistance projects, and funded study tours. The Fiscal Reform Project (2006–2009), funded at $14 million, provided technical assistance in tax policy, tax administration, budgeting, and public awareness. Yet the culmination of the project was a review of all existing tax legislation, not the production of a new tax code.

Conclusion

In Jordan, the distributive nature of Hashemite survival strategies compelled the USA to avoid forms of aid that would threaten key distributive networks, and embrace forms of assistance that could either be easily absorbed into existing patterns of patronage, or provide order-maximizing resources that the state required but could not generate itself. Most prominently, the USA employed a range of multilateral and bilateral organizations to administer infrastructure and regional governance to Jordanians and, in the case of the UNRWA, to Palestinians resident in Jordan. These forms of aid were expensive and complex to administer, and US perceptions of a hostile local environment often produced feelings of disillusionment about their effectiveness. During times of geopolitical turmoil, such as the ramping-up of the Cold War in the 1950s or the War on Terror of the 2000s, US policymakers were willing to finance Jordan's distributive political economy. However, in times when Jordan's geopolitical relevance ebbed or other donors could help assume the USA's financial burdens, Washington scaled back its activities and retained a foothold that could be used to reconnoiter with Jordan in the future.

Notes

1. Little, "A Puppet," 515.
2. Peters and Moore, "Beyond Boom and Bust."
3. Ovendale, "Great Britain," 284.
4. Ibid., 284–285.
5. Quoted in Abu Odeh, *Jordanians*, 63.
6. Ryan and Stork, "US and Jordan," 8.
7. Bint Talal, *Rethinking an NGO*, 43.
8. Water, Resources, and Environment Office, "Support to Jordan."
9. "U.S. Aids Jordan in Road-Building."
10. Water, Resources, and Environment Office, "Support to Jordan."
11. Lynch to Washington, *Confidential*.
12. USAID, *U.S. Overseas Loans*.
13. "Jordan Camp Profiles;" "Number of Registered Refugees."
14. Baster, "Economic Problems," 30.

15. Lynch to Washington, *Confidential.*
16. Little, “A Puppet,” 517.
17. Quoted in Loves, “Jordan Weighing.”
18. Quoted in Satloff, “Jekyll-and-Hyde,” 121.
19. Mallory, “Incoming Telegram 503.”
20. Quoted in Satloff, “Jekyll-and-Hyde,” 121.
21. Quoted in Little, “A Puppet,” 523.
22. “Eisenhower Doctrine.”
23. Eveland, *Ropes of Sand*, 191; Little, “A Puppet,” 523.
24. Little, “A Puppet,” 524.
25. Ibid., 524.
26. The White House, *Staff Notes No. 121.*
27. Quoted in Little, “A Puppet,” 525.
28. Quoted in ibid., 528.
29. Ibid., 525.
30. USAID, *US Overseas Loans.*
31. Little, “A Puppet,” 525; Ward, “Focus in Jordan Agriculture.”
32. USAID, *US Overseas Loans.*
33. US Agency for International Development, *US Overseas Loans.*
34. Morris, “U.S. Withholds.”
35. Kingston, “Rationalizing Patrimonialism,” 129–141.
36. Water, Resources, and Environment Office, “Support to Jordan.”
37. O’Connell, *King’s Counsel*, loc. 323.
38. Ibid., loc. 1095.
39. Ovendale, “Great Britain,” 300–301; Little, “A Puppet,” 527.
40. Little, “A Puppet,” 541–542.
41. USAID, *US Overseas Loans.*
42. Davies, “NSCIG/NEA Contingency Study.”
43. “US Proposes to Sell $438 Million.”
44. Knowles, *Jordan Since,* 29.
45. Moore, *Doing Business*, 103.
46. Nusair, “Regional Development,” 130.
47. Nusair, “Regional Development,” 61, 128, 133.
48. Water, Resources, and Environment Office, “Support to Jordan.”
49. US Agency for International Development, “Summary of USAID/Jordan Achievements.”
50. Water, Resources, and Environment Office, “Support to Jordan.”
51. USAID, *US Overseas Loans.*
52. Sharp, *Jordan: Background* (2011), 6.
53. Defense Security Cooperation Agency, *Excess Defense.*
54. USAID, *US Overseas Loans.*
55. Knowles, *Jordan Since*, 126.

56. Carroll, *Business,* 191
57. Knowles, *Jordan Since*, 126.
58. Bint Talal, *Rethinking an NGO,* 197.
59. Interview with anonymous respondent, April 5, 2007.
60. Knowles, *Jordan Since*, 128.
61. US Embassy Amman, "DAS Satterfield;" US Embassy Amman, "TFIZ01: Disbursal."
62. Sharp, *Jordan: Background* (2011), 12.
63. Defense Security Cooperation Agency, *Excess Defense*.
64. "Defense Security Cooperation Agency (DSCA); Global War on Terror."
65. US Embassy Amman, "Offer to Facilitate."
66. Interviews with anonymous respondents, January 25, 2007, March 4, 2007, March 5, 2007.
67. Interview with anonymous respondent, April 5, 2007.
68. Office of the Inspector-General, *Audit of USAID/Jordan's Cash*, 19–20.
69. Office of the Inspector General, *Audit of USAID/Jordan's Cash*.
70. Water, Resources, and Environment Office, "Support to Jordan."
71. "Cash Transfer."
72. Interviews with anonymous respondents, May 27, 2010.
73. Interviews with anonymous respondents, March 7, 2007, March 14, 2007.
74. "Cash Transfer."
75. Interviews with anonymous respondents, February 3, 2007, February 12, 2007, April 1, 2007.

CHAPTER 8

US Aid to Jordan: Geopolitical Bargain

US assistance to Jordan was not a developmental success. The composition of US aid was heavily bounded by the distributive imperatives of successive Hashemite rulers, and no US aid activities attempted to fundamentally restructure Jordanian institutions or their underlying political–economic foundations. Rather, discretionary forms of traditional assistance were absorbed into existing or emerging patterns of distribution, further entrenching the political constituencies that benefitted from them and undermining state developmental capacity. Although the parallel provision of public goods brought short-term gains, this practice provided disincentives for the Hashemites to undertake politically painful reforms that could build indigenous institutional capabilities in areas like infrastructure and regional governance.

At the same time, US assistance to Jordan was a geopolitical bargain—at least in times when the USA was the country's major donor. Hobbled by the massive provision of selective benefits to Hashemite constituencies, the Jordanian state was unable to generate many order-maximizing resources through purely indigenous means. As such, Jordan made massive concessions to the USA in its domestic, cross-border, and Westphalian sovereignty. Over time, the Hashemites only retained their juridical sovereignty, which allowed them the needed flexibility to bargain among various aid donors.[1] This is precisely what Jordan did between the late 1960s and again during the Iraqi invasion of Kuwait in 1990, when it turned to Arab donors that would provide more aid and demand fewer sovereignty concessions than Washington.

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State Developmental Capacity

There is no doubt that finance, technology, and human capital from the USA and other donors enhanced the infrastructural power of the Jordanian state in the short term—that is, the Jordanian state was more powerful with donated finance, technology, personnel, and organizations than it would have been in their immediate absence. However, the effect of US assistance on the indigenous developmental capacity of the Jordanian state was generally negative. As reform conditionality was generally superficial, it did not significantly modify the state's despotic power or roll back the state's distributive foundations. The discretionary traditional assistance that Jordan received from the USA and other donors sustained the Hashemites' distributive strategy, allowing the state to be built on unsound political–economic foundations that undermined its infrastructural power. Parallel institutions certainly improved the provision of public goods and often helped to forestall humanitarian crisis. At the same time, these institutions could provide public goods in a suboptimal fashion, be disconnected from the local population, and afford opportunities for corruption. Worse, in bandaging significant problems in strategic areas like water, agriculture, and refugees, they disincentivized reforms that would have otherwise been very likely to occur.

Despotic Power

In Jordan, the relationship between aid and fiscal policy in some ways bore a close resemblance to the rentier model. Jordan always had access to some form of foreign aid, whether it was the British subsidy, US economic and military aid, or financial contributions from Arab oil-exporting states. Between 1955 and 1965, domestic revenue accounted for only 37–55 percent of budget expenditure. Domestic revenues generally increased throughout the 1980s, as Jordan's overall aid levels fell, and reached their absolute peak in 1992. However, tax revenues did not rise significantly as a proportion of gross national income (GNI) after 1965, remaining in the range of about 20 percent of GNI. On the other hand, Jordan's access to foreign aid enabled current expenditures that could frequently exceed 30 percent of GNI (Fig. 8.1).

However, that foreign aid enabled less taxing and more spending did not mean that it enhanced the despotic power of the Jordanian state. Rather, this pattern indicated that Jordanian rulers were highly

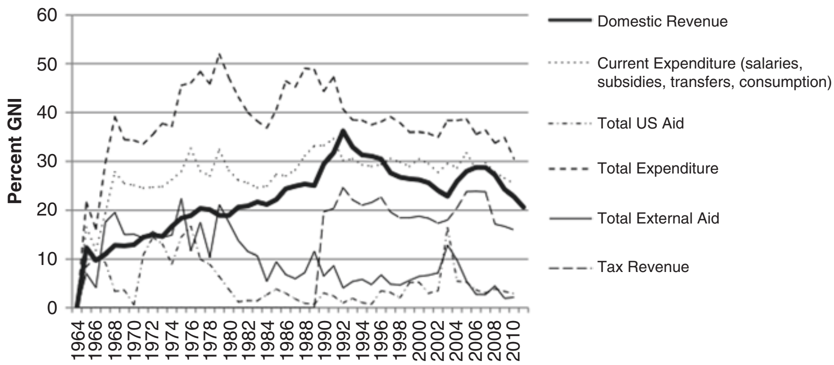

Fig. 8.1 Aspects of the budget of the Government of Jordan, 1965–2010 (Author's calculations based on budget and GNI data from World Bank, *World Development* and Heston et al, *Penn World*; budget data from *Annual Statistical Series;* aid data from USAID, *US Overseas Loans*)

constrained in their ability to introduce reforms that would have deviated from entrenched patterns of distribution. The Hashemite leadership could not simply slash salaries and/or public employment, rationalize the civil service, upgrade the military, price water fairly, liberalize competition, and raise the domestic revenue that the government needed to invest in infrastructure and innovation. These constraints translated into tremendous developmental handicaps, and the regime—so long as it wished to remain in power—could do little to remedy them. In this sense, the donors that provided the fiscal fuel for these distributive arrangements simply allowed low levels of despotic power to persist.

US military and security assistance certainly increased the coercive capabilities of the state, providing the Hashemites with resources to thwart military coups, eject the PLO, and root out groups intent on committing terrorist acts in Jordan. Theoretically, coercion could have been used to suppress popular opposition to developmental reforms had they been introduced. However, that the backbone of the military and security services consisted of tribes who benefitted from patronage made such a strategy unwise. CPs as part of the Cash Transfer Program certainly enabled the undertaking of new studies, organizational changes, and infrastructure projects, but none tackled the core aspects of Hashemite patronage.

Parallel institutions were the principal means by which US assistance augmented the state's despotic power. USAID built, expanded, and maintained Jordan's water infrastructure largely in the absence of consultation with Jordanian society. USAID did not have close, cooperative relations with various Jordanian water authorities or the municipalities where its projects were located—in fact, the text of annual CPs suggests that USAID believed that its local counterparts were poorly managed, and ought to be thoroughly reorganized. American control over Jordan's water sector was so great that USAID could essentially veto or delay projects by refusing to fund them or declining to endorse a project to international lenders and financial institutions (e.g., in the cases of the Red-Dead project and the Disi water conveyor).[2]

ASEZA was vested with independent regulatory authority from the central government in nearly all areas.[3] ASEZA's Chief Commissioner reported directly to the Prime Minister, while five other commissioners presided over portfolios for (1) infrastructure and services, (2) administration and finance, (3) economic development and investment, (4) environment, and (5) customs and revenue. Commissioners received salaries that were estimated to be about 80 percent higher than those of ministers in the central government.[4] After 2004, positions were publicly advertised, and applicants were required to take written entry exams and participate in an interview. Employee evaluations were completed using key performance indicators.

ASEZA used its autonomy to introduce policies and administrative practices that differed fundamentally from those in Amman. It offered investors significant tax breaks on improved land and income, as well as infrastructure that was built and operated by multinational companies and consortia. There were no customs duties on imports, no social services tax, and no taxes on land and buildings. A 5 percent tax rate was applied on all net business income. A 7 percent sales tax was limited to the consumption of selected personal goods and hotel and restaurant services. ASEZA allowed 100 percent foreign ownership, had no foreign currency restrictions, and permitted full repatriation of profits.[5] It had a one-stop-shop for licensing, provided streamlined labor and immigration procedures, and permitted employers to use more than 70 percent foreign labor through special petition.

That ASEZA potentially offered freedom from Amman's politicized, distributive institutions was precisely why tribal interests roundly opposed its establishment as a "state within a state." In order to drive through the ASEZ law, Abdullah appointed a new Prime Minister, Ali Abu al-Ragheb, who helped maneuver the bill through the Financial Committee of the

Lower House. "We got about 80 percent of what we wanted," said one of the Law's proponents, "but we would have been happy with even 50 percent."[6] When it became clear that the ASEZ Law had a number of holes, such as relations with central government ministries and the need to establish ADC as a separate, private entity, ASEZ's proponents sought to fill them through the use of memoranda of understanding rather than reopen legislative debate.

ASEZA was removed from the local society of Aqaba. Parliamentarians from Aqaba had opposed the ASEZ law, citing concerns that the new organizations would hire non-Aqabites at substantially higher salaries. Indeed, many employees of ASEZA, ADC, and the Aqaba Water Company came from Amman, or, in the case of ADC, were foreign consultants ("Aqabites just don't have the same skills," one respondent explained).[7] Since commissioners were appointed by Amman, there were no local elections for ASEZA, even though ASEZA was the local government. ASEZA enthusiasts were purportedly happy with this situation. ASEZA was envisioned as a technocratic body that could do what was right for the development of ASEZ, rather than succumbing to the demands of a "grabby" port community rife with religious conservatism, poverty, and sailors' vices.[8]

Aqabites complained that ASEZA had taken a number of arbitrary decisions without consulting the local community, including clearing an entire neighborhood for real estate development and relocating former residents to a drab, planned community on the outskirts of town. Through its support of neighborhood enhancement teams and local branches of business associations, USAID's ACED project attempted to provide Aqabites with the means to approach ASEZA and investors with their demands. Common requests included street lighting, road paving, street bumps, flashers, fences, parks, rubbish disposal, pest control, and student crosswalks—as well as a patrolman for the girls' school. ASEZA re-paved some roads (with US funds) and engaged in better garbage collection.

That said, there were notable aberrations in ASEZ's autonomy relative to Amman. For instance, the $500 million that was generated by the sale of *the land now occupied by* Aqaba's general cargo port in 2008 was not allowed to remain in ASEZ for further investment and upgrading, but rather was used to help buy back Jordan's debt from the Paris Club.[9] Since 2007, ASEZA was rumored to have gone on a non-meritocratic hiring spree. Businessmen complained about the need for political connections to get permits from ASEZA. And in early 2013, the Anti-Corruption Commission referred a graft case involving former

ASEZA Chief Commissioner Nader Dahabi to the state prosecutor for action. The Commission alleged that Dahabi had sold ASEZ land to business tycoon Sabih al-Masri for JD 6 million, rather than the JD 15 million market price.[10] At the time of this book's writing, the case was under a media blackout. Finally, autonomy could be a doubled-edged sword. For instance, the relative independence of ASEZA's parallel customs administration, which had jurisdiction over the country's only port, caused longstanding turf battles with the Jordanian Customs Authority.

Infrastructural Power

At its core, Jordan illuminates a disappointing paradox of injecting foreign aid into distributive political economies. To the extent that US assistance inherently modified the state's infrastructural power, it also discouraged the incumbent leader from undertaking painful domestic reforms that would have reduced dependency on US assistance and upgraded the state's developmental capacity. Taking the aid and leaving distributive networks in place was the path of least resistance, and a rational choice for distributive incumbents who wanted to remain in power. Furthermore, while the USA's various parallel institutions increased public goods output beyond their previous levels, the very design of these institutions could cause public services to be provided in a suboptimal fashion.

Core Capabilities

US assistance provided significant resources to Jordan's general budget at various points in time. Between 1957 and 1967, US aid was roughly equivalent to the domestic revenues collected by the government (about 20 percent of GNI), and between 1972 and 1977, US assistance was equivalent to 10–20 percent of GNI (though much was tied military assistance). From 1982 onwards, US assistance fluctuated between 2 and 5 percent of GNI, with the exception of 2003, when the $700 million supplemental budget support pushed US assistance to about 18 percent of GNI. Clinton-era debt relief allowed the state to reallocate funds that would otherwise have been used for debt service to other activities. At the same time, the distributive prerogatives of Hashemite kings led them to substitute foreign aid for domestic revenue, stunting the development of the state's extractive institutions. The most dramatic increase in Jordan's domestic revenues took place between 1983 and 1993, a decade when the state had substantially less access to foreign assistance than it had in the past. Jordan's expenditures nearly always exceeded its revenues, particularly as Jordan received massive Arab foreign aid in the 1970s and then tried to substitute it with commercial borrowing in the 1980s. One exception to this trend is ASEZA, whose creation caused Aqaba's tax revenues to rise 40-fold.

US assistance also provided the Jordanian state with technology and human capital that it may not have acquired otherwise. Jordan was almost entirely dependent on US military technology and US military education. USAID employees or hired consultants were present as technical advisers in most major ministries and departments. Certain projects entailed the installation of new technologies in Jordanian institutions, for instance the AMIR project's installation of plasma screens at the Amman Stock Exchange and digitization of the stock trading system at the Securities Depository Center. However, it is not clear that this human capital or technology had a lasting impact. Digitization could certainly facilitate more diverse investor participation in Jordanian capital markets, but more determinative were investor perceptions of Jordan's overall business environment.[11] USAID employees and contractors would take their knowledge and expertise with them when a project ended, and, to the extent that USAID successfully trained government employees, the latter often left government in pursuit of more competitive salaries in the private sector or the Arabian Gulf. ASEZA staff, which largely came from Amman and had little dedication to remaining in Aqaba, received training and then returned to Amman or moved to the Arabian Gulf countries, which offered higher salaries.

Similarly, AMIR's work with new business associations could have enabled information exchange between business and the state, empowering regulatory bodies with essential knowledge to make decisions that would grow the economy. Yet the staff of some of the newer business associations complained that AMIR's assistance involved overpaid foreign consultants, software they did not know how to use, and large budgets for print materials.[12] The deeper problem was that new business associations, which could have acted as a counterweight to the more entrenched Chambers of Commerce and Industry, were in no better position to enter a policymaking environment that remained dominated by tribes and merchant-industrial elites. One new business association employee complained, "There is no venue to speak to the government or to support what we are doing."[13] The director of one business association believed that the Jordanian government succumbed in key moments to US-backed reforms that would harm members' businesses, retorting, "I am the real oil for the country."[14]

Parallel institutions combined many resources—finance, human capital, and technology—into organizations that were generally better governed and managed than their local counterparts. In the short term, these organizations increased the power of the state and elevated public goods output beyond the status quo. UNRWA's "blue state" provided public services, food, and housing to Palestinian refugees. USAID's work in water resources management significantly expanded Jordan's access to water and sanitation. The JVA expanded agricultural output in the Jordan Valley. Thanks to the work of ASEZA and ADC, in 2005 Lloyd's ranked Aqaba as one of the world's top three terminals in the Middle East and the Indian subcontinent. In the absence of US aid, the Palestinian influx would likely have overtaxed urban and rural infrastructure, and introduced competition against Transjordanians for jobs and public services. Jordan may have been forced to ration its water, curb agricultural production, and reduce immigration to urban centers. The once-dysfunctional Aqaba port could have severely disrupted trade and repelled tourists. An unproductive agricultural sector in the Jordan Valley could have increased Jordan's reliance on food imports and provided a window for another insurgency in the area. The implications of the above scenarios for Jordan's political stability would have been severe. What would have happened if the USA had not deployed parallel institutions?

In the distributive polities where they are commonly found, parallel institutions absolve an aid recipient of the need to generate finance, human capital, technology, and organizations that can help resolve a public goods problem. In the absence of US-backed parallel institutions in these strategic sectors, it is likely that the Jordanian government would have been compelled to undertake fundamental reforms. Fixing the country's broken water sector would have required the government to remove protective agricultural tariffs, increase the prices of water and generate enough domestic revenue to finance expansions and maintenance, and restructure the WAJ and MWI on a meritocratic basis. Accommodating Palestinians would have required the state to cease its preferential recruitment of tribes, introduce regulations and investments that supported the growth of the private sector, raise sufficient revenue to expand its urban and rural infrastructure, and restructure national-level bureaucracies so that they could provide public services to a larger population. Fixing the Aqaba port would have required the introduction of meritocratic standards to the local administration; extracting sufficient revenue to hire individuals that could undertake complex public private partnerships with multinational companies; and coordination among the multiple state institutions that would have been active in the area, including customs, finance, trade and industry, health, education, and water. Instead, the USA came to the rescue and Jordan's leadership did not undertake fundamental reforms. The logical conclusion is that if the USA were to withdraw its assistance, "the weeds may grow back in," and Jordan would have had to contend with multiple and severe public goods problems.[15] Despite its solid human development indicators and broad infrastructure, this aspect of Jordanian statehood certainly does not speak to high levels of developmental capacity.

That regional authorities like ASEZA were largely backed by a foreign government, in this case the USA, also posed other problems. While projects like ACED tried to reach out to Aqabites and forge connections between locals and ASEZA, there was little incentive to ensure that these relationships were functional and sustainable. The past performance of an aid contractor ends with the conclusion of the last project. Angry Jordanian voters cannot cut USAID's budget or force the dismantling of the organization through influencing the White House or the US Congress, and American officials have no incentive to act on the behalf of Jordanian interests because they do not have a say in their re-election.

Societal Effects and Territorial Reach

Several USAID activities, principally the parallel institutions, were so comprehensive that they could have had a direct impact at the level of societal effects and/or territorial reach. It is most certainly the case that USAID's activities in the water sector are responsible for Jordanians' relatively good access to water and sanitation. Jordan's growing export figures between 1997 and 2010 can be accounted for by QIZ textile exports, and then the US–Jordan FTA. USAID can also be considered responsible for the economic contribution of logistics and tourism in Aqaba since 2000, and for the revival of agriculture in the Jordan Valley after 1970. That ASEZ and the JVA were located relatively far from Amman in areas that had previously been poorly governed also meant that these particular parallel institutions positively modified the state's territorial reach.

Some of USAID's traditional project assistance also tackled areas that might have been relevant to societal effects, but because these projects were implemented primarily through local partners, their effectiveness was limited. The Fiscal Reform Project, for instance, could have diversified and deepened the tax base, including upgrading the state's ability to collect direct taxes. Yet the Fiscal Reform Project, "… generated a series of analyses for decision-makers within the Government of Jordan, including a synthesis of all tax legislation and tax laws that were in use. However, the Government of Jordan has not yet implemented a new comprehensive tax code as recommended by the project."[16] Given that Jordan's tax system was extremely politicized, it was unlikely that Jordanian institutions would have been given the political mandate to implement the project's recommendations.

While US aid helped Israel improve indigenous capabilities in science, technology, and innovation that drove broader economic growth and development, this was not the case in Jordan. It is not possible to simply point to more restrictive US aid practices as an excuse, specifically less generous military technology transfer and FMF prohibitions on offsets and offshore procurement. For most of its existence, Jordan had no domestic armaments industry from which it could procure anything, and also lacked the expertise, finance, and organizations to absorb and exploit US military technologies. Similarly, civilian collaboration in scientific research between the USA and Jordan did not produce any major successes because Jordan lacked local investment, universities that were structured around the production of high-quality research, and the necessary regulatory frameworks to incentivize research, development, and technology transfer.

Hierarchy

Jordan's inability to generate order-maximizing resources through indigenous means was a consistent feature of its political–economic landscape. From its establishment in 1921 through the mid-1950s, Jordan only survived as a political entity by virtue of continued British resources and interventions. It is not surprising, then, that Jordan's record of performing political favors began at inception. In February 1920, Abdullah I signed the first Anglo-Jordanian Treaty, which formally made Abdullah the head of state and expanded his absolute monarchical powers over Transjordanian society, yet it also banned him from making structural changes to the government (at an informal level, the appointment of the Prime Minister was also at the discretion of the British).[17] Between 1936 and 1939, Palestinian Arab attacks against Jews in Palestine peaked, and the British gave the Transjordanian security establishment the task of blocking weapons being imported into Palestine via Transjordan, as well as arresting Palestinian insurgents who had fled to Jordan.[18] Well after Jordan's independence, "Glubb Pasha" and his British commanders still controlled the management of the Arab Legion.[19] Yet amid negotiations to establish the Baghdad Pact, Hussein reasoned that the costs of sacrificing sovereignty to the British exceeded the benefits of their material largesse. It was then that he more aggressively pursued US assistance, and ultimately subordinated sovereignty to this (at the time) less controversial patron.

As Fig. 2.1 demonstrated, the skew of the US–Jordan hierarchy varied significantly over time. In 1952 and in 2010, the dyad had a strong dominant state skew in favor of the USA (0.69 and 0.86, respectively). The late 1950s, late 1990s, and early 2000s saw a very mild subordinate state skew (about 1.15 on average); and the period between 1965 and 1980 was strongly skewed toward Jordan (2.1). It is therefore necessary to consider why the skew of Jordan's hierarchy was occasionally much more biased toward the USA than that of Israel, as well as to explain the fluctuation of these values across time.

As Fig. 8.2 demonstrates, between 1951 and 2010 Jordan received all six types of order-maximizing resource from the USA. The most consistent elements in the portfolio were public goods in the form of tied/project assistance, parallel institutions, and refugee assistance, which reflected the Jordanian state's lack of organizational and human capacity to build and

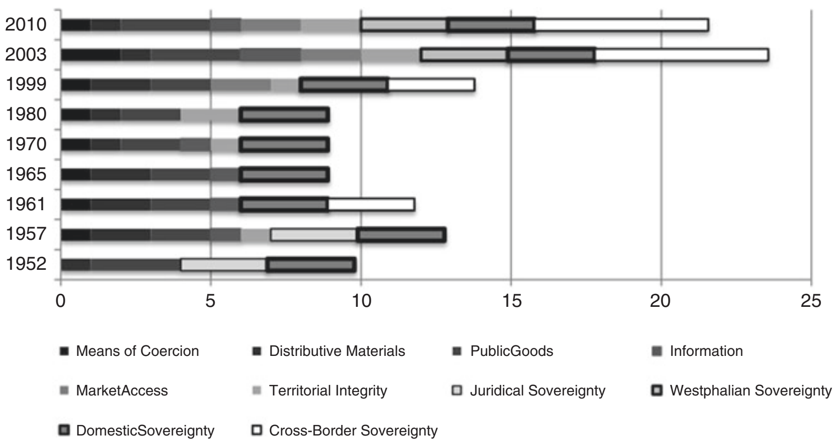

Fig. 8.2 Exchanges of the US–Jordan hierarchy, 1952–2010

maintain infrastructure, formulate and implement economic regulation, and engage in region- or sector-specific development and crisis management initiatives. Another consistent element was distributive goods, such as budget support in the form of cash transfers, NOBEEF payments, and PL 480 food aid—which could be sold for government profit or donated to the tribes. From 1957 onward, with only a brief interruption after the Six Day War, Jordan received various means of coercion.

Other types of order-maximizing resource were relegated to particular time periods. Jordan could only receive major weapons systems after it concluded a peace with Israel and memories of its First Gulf War allegiance to Saddam Hussein had somewhat faded. Intelligence cooperation was concentrated in the 1950s and 1960s (to counter the threat of pan-Arab socialism) and in the 2000s (to counter the threat of violent, mostly jihadist groups). Finally, as Jordan sought access to international markets in the late 1990s and early 2000s, the USA provided assistance for WTO accession and agreed to QIZs and an FTA that would allow Jordan preferential access to its own domestic market.

Jordan's willingness to cede sovereignty to the USA proved significantly higher than that of Israel. In 1952, 9.78 total exchanges of order-maximizing resources and sovereignty concessions occurred in the dyad, the low intensity of which renders this particular data point somewhat less remarkable. By contrast, 21.6 exchanges occurred in 2010 and the skew assumed a value of 0.86. By then, Jordan had ceded its domestic sovereignty through hosting parallel institutions in the water sector and in the form of ASEZA. It had ceded its Westphalian sovereignty in supporting the re-deployment of US forces in Iraq via Jordan. It ceded cross-border sovereignty by conceding to unwanted conditionality in the annual cash transfer, as well as by having a US FTA with TRIPS-Plus provisions.

American officials repeatedly emphasized that Jordan's assistance package was based on Jordan's willingness to comply with US policy preferences ("the course of moderation brings rewards").[20] Jordan's willingness to cede so much sovereignty to the USA reflected its dependency on Washington for a variety of order-maximizing resources. Jordan was incapable of generating sufficient revenues to support the regime's distributive commitments. The state was not able to provide essential public goods, that is, water and sanitation for a growing population, regional governance in key areas of economic activity (the country's only major agricultural area, as well as the country's only port), and crisis management and settlement of refugee inflows. Jordan lacked a domestic armaments industry, and its low value-added products were not price-competitive as exports.

Many Jordanian elites opposed the sovereignty concessions that Jordan made to the USA. Government officials argued that CPs in the annual Cash Transfer Program, while superficial, were humiliating and unwelcome. The country's pharmaceuticals sector opposed the US government's stringent interpretation of intellectual property clauses in the FTA, and criticized the Jordanian government for siding with the USA at the expense of local industry. One respondent said heatedly, "If you rely on USAID and cannot interpret the FTA fairly, I will move my company to a country that does."[21] At the same time, however, Jordan did not relinquish much sovereignty to the USA in the 1960s and 1970s, and since 1961 retained a number of independent alliances from the USA. This variation can be explained by the presence of willing Arab donors, as well as a strategic decision by the Hashemite leadership to retain its freedom to maneuver into new, more lucrative alliances when the USA could not offer what it needed, or demanded too much in return.[22]

Conclusion

In the longer term, US economic and military assistance to Jordan neither upgraded the infrastructural power of the state nor allowed it to introduce developmental policies. In fact, US aid was explicitly formulated to support the distributive survival strategies of successive Hashemite monarchs. Upon entering the country, discretionary forms of traditional assistance were absorbed into distributive networks that undermined despotic and infrastructural power. While parallel institutions provided public goods, they also exerted negative effects on infrastructural power and provided disincentives for fundamental reforms. Yet the same distributive political conditions that undermined the developmental effectiveness of US assistance also rendered it quite effective from a geopolitical perspective. Distributive survival strategies eroded the state's developmental capacity and made it unable to generate order-maximizing resources through purely indigenous means. As such, Jordan became dependent on foreign donors and was forced to bargain with over sovereignty-resource exchanges. In times when Jordan was highly dependent on Washington, its leaders ceded significant sovereignty to the USA.

These patterns largely persisted into the "Arab Spring" era, helping Jordan to weather an influx of at least 600,000 refugees from neighboring Syria, sustained disruptions in the country's energy supply, and rising socioeconomic discontent of tribesmen in peripheral towns like Karak, Ma'an, and Tafileh. The government responded to the protests in Egypt and Tunisia by increasing the salaries of 200,000 current and retired government officials, and ousted Central Bank Governor Faris Sharaf in March 2011 after he refused to allow it to overdraw its account to pay civil servants' salaries.[23] At the same time, attacks on a natural gas pipeline in Egypt's Sinai Peninsula forced Jordan to import more expensive liquid diesel oil, pushing the fuel subsidy bill to $4.5 billion and causing budgetary pressure.[24]

The USA remained Jordan's major donor. In FY 2012, Jordan received its promised $360 million in ESF, $180 million of which was budget support, as well as a one-time budget support transfer of $100 million.[25] The Obama administration's FY 2013 request included $360 million in ESF, $300 million in FMF, and $3.7 million in military education.[26] The USA also authorized $30 million in loan guarantees for Jordan, and during a March 2013 visit, Obama promised to work with Congress to secure an additional $200 million in budget support to "help [Jordan] cope with the influx of Syrian refugees." USAID upgraded and repaired water networks in Northern Jordan to help alleviate stress on the network posed by Syrian refugees.[27] In February 2014, the Obama administration pledged to renew a five-year aid commitment that provides Jordan with $660 million per year, and to provide $1 billion in loan guarantees.[28]

This assistance demonstrated American concern for the stability of Abdullah's rule, but also came with demands for further concessions. In March 2010, NATO officially requested that Jordan take part in training the Afghan Army; by 2012, Jordan had reportedly already trained 2500 Afghans at the King Abdullah II Special Operations Training Center.[29] In March 2013, it was reported that the CIA was working with Jordanian, British, and French intelligence services to train Syrian rebels.[30] It was also reported that Jordan worked with the CIA to supply Syrian rebels with Saudi-purchased arms.[31] In April 2013, US Defense Secretary Chuck Hagel announced that 200 US troops, largely consisting of planners in logistics, intelligence, and operations, would be deployed to Jordan to contain violence along the Syria border and to plan operations to secure Syria's chemical weapons.[32]

Such concessions were not received well by the Jordanian public, a condition that hearkens back to Hussein's conundrum over British aid in the 1950s. Upon his return from an April 2013 visit to Washington, Abdullah received a list of complaints signed by several thousand citizens. The message concluded, "We call on our people of Jordan and the Jordanian military to respond to a conspiracy to implicate Jordan in a conflict against Syria" and "to sweep the aggressor foreign forces from our country."[33] Such opposition could potentially have caused Abdullah to seek a less controversial donor in the Arab world, but unlike in previous decades there seems to have been little interest. In 2011, the Saudi government gave Jordan a grant of $1.4 billion, but reduced its aid the following year.[34] Amid growing street demonstrations, the government opted to roll back fuel subsidies and divert the savings to more politically expedient areas.[35] For once, in the absence of a willing donor, Jordan's leadership was compelled to begin undertaking fundamental reforms.

Notes

1. Brand, *Jordan's Inter-Arab.*
2. Interviews with anonymous respondents, May 19, 2010, May 23, 2010.
3. Interview with anonymous respondent, March 14, 2007.
4. Interview with anonymous respondent, March 14, 2007.
5. Kardoosh, "Aqaba Special Economic Zone," 2.
6. Interview with anonymous respondent, March 14, 2007.
7. Interview with anonymous respondent, March 14, 2007.
8. Interview with anonymous respondent, March 14, 2007.
9. US Embassy Amman, "Aqaba's Economy Treading."
10. Neimat, "JD9m case of alleged graft."
11. The Amman Stock Exchange was listed as one of the California Public Employees' Retirement System's top four improved stock markets, and its trading volume increased by 85 percent within several years. "Success Story."
12. Interview with anonymous respondent, February 27, 2007.
13. Interview with anonymous respondent, February 27, 2007.
14. Interview with anonymous respondent, April 23, 2007.
15. Interview with anonymous respondent, March 14, 2007.
16. Office of the Inspector General, *Audit of USAID/Jordan's Fiscal*, 1.
17. Amawi, "State and Class," 323–325.
18. Abu Odeh, *Jordanians*, 29.
19. Tal, *Politics*, 21–22.
20. Interview with anonymous respondent, April 5, 2007.
21. Interview with anonymous respondent, April 23, 2007.
22. Brand, *Jordan's Inter-Arab.*

23. "UPDATE 1- Jordan ex-cbank head."
24. "UPDATE 1- Jordan hikes gasoline."
25. Sharp, *Jordan: Background* (2013), 11.
26. Sharp, *Jordan: Background* (2013), i.
27. Ibid., 2, 5–10.
28. Kumar, "Obama Promises."
29. Sharp, *Jordan: Background* (2013), 15–16.
30. Entous et al, "CIA Expands."
31. Black, "Syria Says Jordan."
32. Baldor and Cassata, "US Sending 200 Troops."
33. "Alf shakhṣiyah."
34. Sharp, *Jordan* (2011), 1, 8.
35. "TEXT-S&P affirms Jordan's BB/B ratings;" Al-Khalidi, "Jordan hikes gasoline;" "IMF reaches $2 billion."

PART III

Egypt

CHAPTER 9

Hybrid Survival Strategy

In Egypt, historical legacies strongly influenced the distributive survival strategies of its post-1952 political leadership. Khedivial rule had bankrupted the state, prompting a British occupation that created a powerful elite class that stalled attempts to industrialize and support a growing urban proletariat. Nasser's military junta destroyed this ancien régime and promised the country's nascent labor movement guaranteed employment, welfare, and social advancement. This distributive strategy created a new public sector constituency of labor and the urban middle class, whose demands constrained successive leaders even as they liberalized the economy and tried to forge new relationships with the private sector. Sadat retained this traditional constituency but also cultivated a new, parasitic class of crony capitalists, traders, and middlemen who exploited the synergy between economic liberalization and weak domestic governance. Fundamental incompatibilities between these two coalition members compelled Sadat to intensify side payments, further expanding the state and widening economic imbalances. By the time Mubarak installed a reform government in 2004, he was pursuing a hybrid survival strategy that, on the one hand, placated the traditional public sector constituency and, on the other hand, gave a more mature group of crony capitalists, free marketeers, and technocrats control over most major economic portfolios.

Nasser's interventions in the economy delivered temporary growth and improvements in human development, but by 1970, Egypt's state was in dire financial straits and its industries uncompetitive. Sadat's partial

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economic liberalization provided incentives for corruption and collusion between the private sector and the state. By 2004, the Mubarak regime had begun to bifurcate the state into two components: (1) the Nasserist behemoth, which employed a large civil service, retained a large military and State Owned Enterprise (SOE) sector, and administered subsidy schemes; and (2) a number of technically competent and semiautonomous units that sought to improve the government's budgetary position, increase the capabilities of the bureaucracy, and develop a regulatory framework for private sector growth. Ultimately, however, these tasks were unfulfilled, leaving most Egyptians dependent on dwindling state benefits, and with limited prospects in the private sector. It was within this context that the Arab Spring protests forced out Mubarak and the reform government—also destroying the bifurcated state in their wake.

Ismail's Legacy and British Occupation, 1863–1952

The dynasty that ruled Egypt between 1805 and 1952 descended from Muhammed Ali, an Albanian officer who came to Egypt as part of an Ottoman force to expel the French, and who was ultimately proclaimed Pasha and Wali (Governor). Emulating European states of the time, Muhammed Ali brought tax collection under direct control, established modern schools, built modern urban infrastructure and deeper irrigation canals that expanded the cultivation season, and set up agricultural monopolies. These measures imposed high costs on Egyptian peasants (fellahin), who were forced to participate in a seasonal corvée as well as to sell their crops to the government at below-market prices. The combination of peasant surplus and market protectionism provided Muhammed Ali with the financial fuel to professionalize Egypt's civilian and military bureaucracies, bring Egypt to the cusp of industrialization, and wage successful wars of conquest in Sudan and Syria. However, the Anglo-Ottoman Treaty eventually brought his state building project to an end by prohibiting monopolies in the Ottoman Empire, also dealing a major blow to Egypt's economic progress.

By 1876, Khedive Ismail (the fourth of Muhammed Ali's successors) had amassed £89 million in debt through investing in palaces, infrastructure projects, and military technology.[1] Under pressure from European creditors and their governments, a Public Debt Commission was established to supervise Egypt's debt service. Europeans filled the top ranks of the civil service, where they managed debt repayments and privileged expenditures that would cultivate a taxable surplus. By 1881, a major confrontation between nationalists and royalists was brewing, and after riots broke out in Alexandria in June 1882, the British invaded the city and occupied all of Egypt by September.[2]

The British believed that the export of long-staple cotton could help stabilize Egypt, and pursued policies to expand irrigation, reduce land tax, and build a supporting infrastructure of creditors, marketers, and shipping companies.[3] A new elite consisting of landowners and capitalists was deeply intertwined with European finance, transport, and trading houses, and formed the basis of two political parties (the Wafd and the Sa'adists) that rejected a deepening of the state's extractive base and the diversion of expenditure to support a growing urban proletariat. Instead, these parties largely competed against each other for preferential tariffs and government contracts.[4] In the absence of government action, massive strikes by textile workers and civil servants took place in 1947–1948. The incipient labor movement was joined by Egyptian intellectuals, such as Taha Hussein, Naguib Mahfouz, and Rushdi Salih, who started calling for active reform of Egyptian society. There was no response from the two dominant parties, producing a political stalemate that set the stage for the July 1952 military coup.[5]

Building a Public Sector Constituency, 1952–1970

Capitalizing on Egypt's political gridlock and popular discontent, the Free Officers planned and executed their coup in July 1952 in the absence of broad social support. Their first move was to destroy the power of the royal family and the very large landowners with a moderately redistributive land reform.[6] Combined with additional reforms in 1961 and 1969, 13 percent of land was redistributed among small tenants in units of two feddans. Landowners had to sell off excess land or have it requisitioned by the state for redistribution to small farmers, tenants, and laborers. Compensation was paid in state bonds equivalent to about half the value of the land, except to members of the royal family, who received nothing.[7] Then, seeking to cultivate their own coalition of supporters, Nasser and his cohort confronted the incipient labor movement with a simple political-economic trade-off.[8] Labor leaders would acquiesce to the regime's prohibitions against declaring strikes, stoking class antagonism, organizing work stoppages, trying to overthrow the political system, or using force to recruit union members. In return, workers would be given public sector jobs, cheap food, free education and medical care, and affordable housing. By July 1961, the state employed 1.5 million people, up from 400,000 in 1952. The plurality (30.4 percent) was employed in the eighth grade of the civil service, which did not require significant education or special skills.[9]

Nasser initially expected capitalists to play an active role in Egypt's economic development.[10] However, British and French involvement in the Suez War prompted Nasser to nationalize all French and British enterprises in Egypt—about 15,000 establishments in total. Nasser began to encroach upon local capitalists in 1958, when he authorized the Minister of Industry to appoint the Federation of Egyptian Industries president and one-third of its board members, supervise its activities, and veto decisions. Then, between 1960 and 1961, all banks, insurance companies, heavy and basic industries, shipping companies, utilities, foreign trade, and the Alexandria cotton exchange were nationalized. Many other firms were forced to sell 50 percent of their shares to the public sector.[11] By 1963, the public sector accounted for 80 percent of the country's means of production, 80 percent of export trade, 100 percent of insurance companies and banks, 100 percent of import trade, 100 percent of transport and communications, 50 percent of contracting companies, and just over 25 percent of domestic trade.[12]

Nationalized companies, as well as the bureaucracies that were created to administer them, became the means by which Nasser could maintain his distributive commitments to labor and the urban middle class. Between 1960 and 1976, public employment grew at about 7.5 percent annually, by contrast to only 2.2 percent overall growth in employment.[13] Between 1960 and 1970, the number of civil service posts grew by 70 percent and civil service salaries increased by 123 percent—clearly outpacing the 68 percent growth in national income and 20 percent growth in the labor force during the same period.[14] These jobs also came with costly fringe benefits: insurance and provident funds (1955), accident insurance (1958), and employer social security contributions of 10.1 percent.[15] The use of SOEs as employment and social welfare vehicles rather than as productive enterprises meant that they quickly accrued losses and became a burden on public finance.[16] Between 1962 and 1963, Egypt's budget deficit doubled.[17] By 1963, half of the budget was financed by debt, much of which was provided by the Soviet Union.[18] Yet in late 1965, Moscow hesitated to open new lines of credit to Egypt, criticizing the low productivity of the Egyptian public sector.[19] In 1966, Egypt resorted to short-term commercial borrowing at very high commercial interest rates.[20] The

Six Day War then cost Egypt about $400–500 million annually in Suez Canal tolls, $100 million in Sinai oil revenues, and $100 million in tourism, driving the growth rate to zero.[21]

Infitah, 1970–1981

No more willing to squeeze the public sector than his predecessor, Sadat avoided structural reforms after Nasser's death in 1970 and sought an infusion of foreign investment to help bandage the balance of payments deficit, invigorate the financial sector, and rescue decaying industry and infrastructure. Yet local regulations did not permit substantial foreign investment, and Western investors viewed Egypt as a dysfunctional socialist system laden with risks of default, expropriation, and arbitrary government interference. Sadat's policy of Infitah, or "opening," sought to ease some of these constraints by partially liberalizing the financial sector, removing some restrictions on foreign investors, and resurrecting the private sector. The business class that grew out of the Infitah was incorporated into Sadat's ruling coalition. However, their demands also imposed significant costs on the regime's traditional public sector constituency, requiring Sadat to dispense side payments in order to keep the new coalition intact.

Sadat initially faced challenges to his rule from Nasserists in the Arab Socialist Union (ASU), which had been created in 1962 as the country's sole political party. Between 1970 and 1971, Sadat purged Nasserists from the military and bureaucracy, an era known as the Corrective Revolution (*thawra al-saḥīḥīyah or thawra al-tasḥīḥ*).[22] In 1976, Sadat severed the ASU's leftist and rightist elements into competing platforms, and two years later introduced the NDP as the country's ruling party. Opposition leftist parties would continue to guard commitments to the public sector that had been made in the Nasser period. With Nasserist opponents out of the way and a more ideologically flexible ruling party, Sadat could engage in selective liberalization of the economy, eject his Soviet patron, and support the Egyptian private sector. Law 65 of 1971 initiated the Infitah by providing a five-year corporate tax grace period, establishing Free Zones, and permitting autonomous joint ventures between foreign investors and Egyptian state-owned enterprises. Law 43 for Arab and Foreign Investment in Egypt, which ended the public sector monopoly on banking, rendered all foreign investments in Egypt to be part of the private sector, and created an Investment Authority at the Ministry of the Economy.[23]

The Infitah reforms were implemented long before the state developed any capacity to monitor and regulate collusive practices among bureaucrats, foreign investors, and the nascent Egyptian business community. Consequently, a new class of crony capitalists and merchants (the *munfatihūn*, or "openers") emerged from the prerevolution bourgeoisie, members of Nasser's new class of managers, and local speculators.[24] The *munfatihūn* generated their wealth through currency speculation, mediating between the Egyptian bureaucracy and foreign companies, and obtaining quasi-monopolies on the import of Western goods. Although they were a product of economic liberalization, the *munfatihūn* were not interested in fully liberalized markets but rather in obtaining rents.[25] The Infitah therefore succeeded in laying some of the groundwork for foreign investment and private sector growth, but also created additional demands for selective benefits.

Sadat's new coalition was not a happy one. The *munfatihūn* publicly flaunted their wealth and access to Western consumer goods, while inflation drove up the prices of staples like lentils and rice. Additionally, joint ventures threatened to break Nasserist commitments to labor and the new urban middle class. Considered part of the private sector, joint ventures were exempt from labor laws, worker representation requirements, profit sharing with workers, and salary ceilings that applied to public sector companies. At the same time, the public sector's poor reputation scared off the foreign investors on which the *munfatihūn* relied. A longstanding joke was that Egypt's door was open, but nobody wanted to come in.[26]

At this point, Sadat could have abandoned his predecessor's commitments by firing public sector workers, reforming the civil service, privatizing SOEs, and repealing subsidies. Yet the January 1977 riots that roiled through Cairo and Alexandria following the announcement of a plan to roll back from basic consumer subsidies demonstrated that doing so would put Sadat's regime at peril. The riots left 79 people dead. Sadat reinstated the subsidies and pursued a different solution—providing side payments to keep the unhappy coalition intact. The government instituted price controls to reduce the burden of inflation, and legalized guaranteed employment for college graduates in the public sector and the military. The size of the civil service grew from 1.2 million in 1970 to 2.3 million in 1980. As the state began to capture additional rents from modest oil reserves, the Suez Canal, and tourism, Sadat decreed that half of SOE profits were to go to workers, raised the minimum wage, and raised the minimum tax-exclusion threshold. By the early 1980s, Egypt's SOE sector included 391 companies and employed 1.2 million people. Its wage bill grew 19 percent annually between 1975 and 1982.[27]

Sadat's incorporation of the *munfatihūn* into the ruling coalition and his subsequent need to compensate labor and the urban middle class for this decision further eroded the state's developmental capacity. Under Sadat's rule, the Egyptian Federation of Trade Unions became the largest, wealthiest, and most influential association in Egyptian society, acquiring veto power over certain aspects of economic policy. More qualified bureaucrats began to seek higher paying jobs in the Free Zones and Law 43 joint ventures.[28] Those who remained began to engage in corruption and graft, charging foreign investors for helping them navigate the country's overwhelming bureaucracy, or rigging government procurement decisions for a fee.[29] The state became increasingly dependent on indirect taxation, and in 1973, Egypt boasted the world's largest debt service ratio, followed by Uruguay (30.1), Mexico (25.2), and Peru (22.8).[30] An environment of speculation and corruption led to burgeoning black markets in currency, commodities, and imported goods.

Although Egypt's population had doubled since 1950, the government had not made corresponding investments in infrastructure.[31] Egypt's power sector was afflicted by frequent brownouts, blackouts, and load shedding. The telephone system was antiquated and congested, and repair attempts were often futile because cables disintegrated when touched. By 1970, Cairo's sewerage system, designed for a population of two million, broke down under the pressure of serving a population of six million.[32] Piles of garbage lined the streets of Cairo. Egypt's universities also suffered. The number of students doubled to a half million in the late 1970s, yet the government made little attempt to expand facilities or recruit additional faculty, causing the quality of an Egyptian public university education to decline.[33]

Mubarak's "Reformers," 1981–2010

Sadat's survival strategy ultimately failed in its core objective—to sustain his rule. The real value of public sector salaries fell by 45 percent between 1973 and 1989, disappointing many Egyptians' expectations of socioeconomic advancement.[34] Beginning in 1972, the *gama'at islamīyah* (Islamic associations) began recruiting heavily on university campuses for summer programs that promised to expose attendees to a pure Islamic life and an "Islamic solution" to the country's socioeconomic crisis. Favoring conservative Islam to leftism, Sadat permitted the associations to have broad ideological autonomy, and gave the devout bourgeoisie access to the benefits of the Infitah in exchange for their political support. After Sadat traveled to Jerusalem in 1977, however, the associations broke publicly with their "Believing President." That same year, the *takfīr wa hijrah* group kidnapped and murdered a former government official. In October 1981, Sadat was assassinated at a military parade commemorating the eighth anniversary of the Egyptian crossing of the Suez Canal. The perpetrators were military defectors to the Egyptian Islamic Jihad, and their stated goal was to set off a "mass uprising" and "people's revolution."[35]

Mubarak therefore came into power amid significant economic and political turmoil. He ruled under emergency law, crushing violent Islamist groups and allowing the more moderate Muslim Brotherhood a limited participation in electoral politics. He permitted the Egyptian Armed Forces to develop its own empire of civilian and defense industries as a means of providing employment, generating off-budget revenue, and producing subsidized goods. When pressure for economic reform mounted, Mubarak parlayed Egypt's geopolitical relevance toward weaker IMF conditionality. By the early 2000s, however, the *munfatihūn* had evolved into a diverse group of crony capitalists, technocrats, and entrepreneurs that embraced varying degrees of economic reform. To accommodate their various agendas, Mubarak permitted the bifurcation of the state. The bulk of it would continue to distribute ever-dwindling salaries, subsidies, and benefits to labor and the urban middle class, while semiautonomous "technical units" were established to formulate and execute the reformers' preferred policies, acting as pockets of efficiency in an otherwise unfavorable institutional context.

With the budget buoyed by foreign aid, oil revenues, and Suez Canal fees, Mubarak initially did little to reform public finances. Law 157 of 1981 accorded five years' exemption from tax on financial profits for new industrial enterprises of more than 50 workers. Investors in new industrial cities were eligible for a ten-year tax holiday on commercial and industrial profits, exemption from tariffs on imported capital goods, and income tax breaks.[36] At the same time, Mubarak continued to spend between 42 and 54 percent of government revenues on salaries and subsidies.[37] This model became unsustainable after 1986, when oil prices declined and terrorist incidents in the South drove tourists away. Egypt began to borrow, and foreign debt crawled upwards to $40 billion in 1987, $45 billion in 1989, and $50 billion in 1990.[38]

Egypt's first two agreements with the IMF lacked some standard structural adjustment provisions and were only partially implemented, outcomes that have been attributed by some to US meddling.[39] In May 1987, Egypt and the IMF agreed to $325 million in balance of payments support. In addition to some tax and trade reforms, the government pledged to phase out concessional exchange rates and to not raise government salaries more than 10 percent without offsetting measures. The agreement collapsed in November 1988, shortly after the government approved a 25 percent increase in public sector wages, citing concerns about widespread social unrest.[40] The 1991 agreement stipulated privatization, reducing the budget deficit, decreasing interest rates, reforming investment laws, exchange rate unification, tax reform, and decreasing subsidies. Only the latter three items were implemented.[41] As the economic crisis deepened, however, IMF conditionality became more stringent. Egypt's next two agreements in 1993 and 1996 contained standard requirements, many of which were implemented: currency devaluation; privatization and investment reforms; decreasing the budget deficit; decreasing government subsidies; tax reform; banking, trade, and capital market liberalization; and labor deregulation.[42]

However, public sector workers pushed back hard against the IMF agenda, causing the privatization process to reach a standstill in 1998. The government had planned to privatize SOEs to firms that could then negotiate new wages and salaries with unions under a new labor law and slowly release labor through attrition. This strategy largely failed once investors demanded more flexibility, and a wave of protests began.[43] In 1997, the government instituted an optional early retirement scheme for public sector employees, but only 182,000 people bought into it.[44] The civil service accounted for 42 percent of new job creation throughout the 1990s, and by 2001, employed 27.7 percent of the labor force.[45] A British study found that 30 percent of the SOE labor force was redundant, while 40–50 percent was under-qualified.[46] Perhaps most worrisome, the high financial cost of these distributive commitments incentivized the "Big Four" state-owned banks to lend to un-creditworthy borrowers, as well as to bear the "burden of social responsibilities." The result was a large quantity of non-performing loans that increased the risk of a banking crisis and reduced the general population's access to credit.[47]

Despite Mubarak's inability to reign in public expenditure, the state's revenue-generating capabilities improved considerably between 1990 and 2005. A General Sales Tax was introduced in May 1991, reducing complexity, doubling revenues, and acting as a more elastic revenue source than its predecessor, the Consumption Tax. In late 1993, a Global Income Tax unified the tax structure, doubled the family burden allowance (excluding 3 million low-income taxpayers form taxation), and expanded the practice of withholding.[48] Taxes on goods and services grew from 16 percent of revenue in 1990 to 23 percent in 2006, while taxes on income and capital gains rose from 23 percent of revenue in 1990 to 32 percent in 2006.[49] Utilities tariffs were also increased. In the power sector, Egyptian companies averaged 104.4 percent cost recovery between 1999 and 2004, and 134 percent cost recovery in telecommunications.[50] However, the reforms left the issue of corporate taxation untouched, and insufficiently broadened the income tax base because they did not deal with the country's intricate system of deductions and credits.[51]

After disappointing election outcomes in 2000 and 2005, Mubarak began to distance himself from "Old Guard" officials who advocated large-scale public employment, subsidies, and state intervention in the private sector. The beneficiaries of this shift were the descendants of the *munfatihūn*, which had evolved into a diverse group of crony capitalists, entrepreneurs, and technocrats that now found support in Mubarak's son and presumed heir, Gamal, who had been appointed to the NDP General Secretariat in 2000 (and in 2002 became the head of its Policies Secretariat).[52] Gamal and his "reformers" were in fact not unified in their preferences toward economic reform.

A small contingent of technocrats, such as Youssef Boutros Ghali and his longtime deputy, Mahmoud Mohieddin, adhered to the prevailing development philosophies of the international financial institutions in which they had spent much of their careers working. A group of crony capitalists who had benefitted from a poorly regulated privatization process and preferential access to government contracts also advocated continued privatization as a means to obtain yet more sweetheart deals, but rejected deeper regulatory and judicial reforms that would have denied them these opportunities. And another group was composed of entrepreneurs who were interested in bringing a fully liberalized market economy to Egypt. Many were affiliated with multinational corporations, consulting firms, and financial services companies, and consequently sought to improve the quality and transparency of Egypt's financial sector and regulatory environment. To a point, then, all three breeds of reformer shared some common goals.

In 2004, Mubarak appointed a reform government under the premiership of Ahmed Nazif, an engineer, businessman, and former Minister of Communication and Information. Boutros Ghali became Minister of Finance, and Mohieddin became Minister of Investment. Minister of Industry and Trade Rachid Muhammed Rachid was a businessman and former president of Unilever North Africa, Middle East, and Turkey. Minister of Transportation Muhammed Mansour's Mansour Group was the distributor for GM, Caterpillar, Microsoft, and Compaq, as well as the owner of the McDonald's franchise in Egypt and a partner in the Mansour-Maghraby Investment and Development Company. Central Bank Governor Farouk El Okdah, appointed in 2003, was a Wharton-educated economist.

The new government faced a number of political and institutional obstacles. Parliament, which was still a bastion of the NDP's Old Guard, generally opposed economic, regulatory, and administrative reforms, and sought to discredit the reform government as pawns of the US and Western capitalist interests. The Chairman of the Central Auditing Agency, Gawdat al-Malt, had similar views and a legal mandate to review the activities of different administrative units.[53] The Egyptian bureaucracy was logistically incapable undertaking complex reforms. In some departments, few employees could speak English or operate a computer, and there were few specialists in budgeting, capital market regulation, and international trade. More qualified employees could not be attracted, even at the managerial and advisory levels, because of restrictive civil service regulations.

Boutros Ghali had encountered some of these problems as Minister of International Cooperation in the 1990s, and attempted to bypass them through creating off-budget technical units in which donor funds would be used to hire the required experts at market salaries. One individual involved in these early efforts gushed, "Here started the parallel ministry. Leave the rest to drink their coffee, read the newspaper, and catch the bus before one o'clock."[54] During the Nazif government, this practice became widespread in all major economic ministries. Senior staff in technical units usually had a doctorate or a master's degree, as well as foreign language and computer skills. Junior staff tended to have social science or computer science degrees from the English section of public universities, or the elite, English-speaking American University in Cairo. Compensation ranged from between LE 1200 per month for a junior secretary to LE 22,000 for senior staff.[55]

The technical units and the reformist ministers at their helm formed the basis of a new, bifurcated state that, on the one hand, enabled reformers to undertake some developmental policies, and, on the other hand, still provided a stream of selective benefits to labor and the urban middle class. The Egyptian economy grew by about 5.8 percent annually between 2005 and 2010, and in 2008, was designated as the World Bank's top regulatory reformer.[56] A 2005 tax overhaul caused tax revenues to increase from 13 percent of GDP in 2003 to 16 percent in 2009, principally through taxes on income and profits. Capital market reforms drew the participation of international investment managers. Between July 2004 and March 2006, the government concluded 49 privatizations that generated over $500 million.[57]

However, the pace of privatization slowed in early 2006, following labor protests, media criticism, and falling demand for floated shares. The government moved forward with the sale of 80 percent of the shares of the Bank of Alexandria to the Italian bank Sanpaolo IMI, but postponed indefinitely the sale of Banque du Caire in 2007 after bids for 67 percent of its shares did not meet the minimum reserve price.[58] By 2009, the government still had shares in 695 joint ventures and only 20 percent of the public sector had been privatized. One hundred and seventy-two SOEs still employed about 401,000 people.[59] Further, the Nazif government did not act to curb public expenditure. In 2005, Mubarak increased public sector bonuses, and in May 2008, he mandated a 30 percent pay increase for public sector employees.[60] Reacting to a general increase in global food and fuel prices, government subsidies rose from 30 percent of expenditure in 2003 to 46 percent in 2008.[61] Consequently, Egypt's Government Effectiveness seore hovered around –0.40 between 2002 and 2010 and its control of corruption score fell from 0.29 to –0.55, all despite a marked improvement in Regulatory Quality (–0.50 to –0.16).[62]

Hybrid Survival Strategy and the Bifurcated State

The changing survival strategies of Egypt's rulers exerted variable effects on the developmental capacity of the Egyptian state. Nasser's distributive survival strategy restricted the state's ability to roll back harmful levels of public employment, subsidies, and tax breaks, while also doing harm to the state's finances, human capital, and industrial base. Sadat's creation of the *munfatihūn* and subsequent decision to include them in his ruling coalition facilitated state-business collusion and drove the state into financial difficulties. Mubarak's drift toward a hybrid survival strategy introduced some improvements to the state's developmental capacity—yet reforms were limited by his unwillingness to abandon labor and urban middle class constituencies.

Distributive commitments undermined the state's core capabilities. As in Jordan, public sector salaries and subsidies crowded out capital expenditure, reducing public sector capital formation from 77 percent of GNP in 1961 to 1.2 percent in 2010.[63] Annual budget deficits translated into an onerous level of sovereign debt, equivalent to 107 percent of GNP in 1978 and 131 percent in 2007.[64] With 5.7 million employees near the end of Mubarak's rule, the Egyptian bureaucracy was tremendously overstaffed and governed by a confusing system of salary compensation and added/non-added bonuses.[65] Employees were poorly paid and unmotivated, and often lacked the requisite training and skills.

At the level of societal effects, Egypt's overall economic growth was subject to significant fluctuation. Average per capita GDP in the 1960s was about \$500, which put Egypt on par with many East Asian countries at the time, but as Nasser's socialist experiment faltered this figure plunged before rebounding to about \$700 per capita GDP under Sadat.[66] The economy fared better under Mubarak, but, with a 2011 per capita gross national income (GNI) of only \$2600, Egypt only qualified as a lower middle income country, according to the World Bank's official classification scheme (compared to Jordan, which at \$4380 narrowly qualified as upper middle income, and Israel, which at \$28,930 was high income). Egypt progressed on human development indicators, though not as significantly or rapidly as Israel or Jordan. Infant mortality rates decreased from 179 per 1000 live births in the 1960s to about 27 in the 2000s. Literacy increased from 38 percent of adults in 1976 to 72 percent in 2010. Egypt performed poorly in the realm of technological innovation. Residents averaged 68 annual patent applications during the 1960s, 126 applications during the 1980s, and 502 in the 2000s. High-tech exports were only 0.41 percent of manufactured exports in 1994 and 0.87 in 2010.[67]

Although Egyptian military manufactures may have accounted for as much as 10 percent of the official economy, Egypt's military made no substantive contribution to developing the country's technological capabilities.[68] The military produced lower value-added consumer goods, household appliances, and industrial machinery. It also co-produced weapons systems under license from Western and Asian defense companies.[69] These enterprises were supported by favorable terms, including the ability to acquire cheap land and labor, as well as the military's exemptions from corporate tax. However, Egypt exported strikingly small quantities of armaments. These included about $348 million in weapons to Iraq during the 1980s, as well as occasional sales to Sudan, Somalia, and Kuwait—but little else.[70] This is because the Egyptian military opted to generate subsidized goods for the domestic market, and its armaments industries did not benefit from coordinated state support for upgrading their own capabilities.

By 2010, 100 percent of the urban population and 99 percent of the rural population had access to improved water sources, and 93 percent of the rural population and 97 percent of the urban population had access to an improved sanitation facility. Eighty-nine percent of all roads were paved, and there were 13 telephone lines per person.[71] Yet Egypt was periodically troubled by insurgency and terrorism, indicating some problems with territorial control. In 1997, the Islamic Group and Egyptian Islamic Jihad massacred 62 people at Deir El Bahri in Upper Egypt. Despite the presence of 13 police stations in North Sinai alone, economically and politically marginalized Bedouin managed to conduct successful smuggling operations and attack government installations and tourists, for example, the 2004 Taba hotel bombings, a 2005 bombing in Sharm al-Sheikh, and a 2006 bombing in Dahab.

Nonetheless, Mubarak's willingness in the last decade of his rule to suppress the demands of the NDP Old Guard permitted limited upgrades to the state's developmental capacity. The use of technical units, which attracted human capital and financing, inherently augmented the state's core capabilities. In addition, the state developed better capabilities to regulate a liberal market economy and to conduct a more independent monetary policy. By 2001, Misr for Clearing, Settlement, and Depository was efficiently clearing and settling all exchange and over-the-counter trades in securities. By 2004, the Capital Market Authority had defined its organizational functions as a capital market regulator, and had improved computational and research capabilities. The Cairo Alexandria Stock Exchange had moved closer to becoming self-regulating. And Egyptian judges and prosecutors were familiar with and could adjudicate on the basis on the Capital Market Law.[72]

The Central Bank of Egypt also made considerable progress toward independence under the Nazif government. It employed a variety of instruments for the purpose of achieving price stability without substantial political interference; developed internal reforms that minimized corrupt practices in its own organization; and pushed through a major restructuring of the financial sector. The latter entailed the divestiture of public sector banks from joint venture banks, the privatization of Bank of Alexandria, the settlement of non-performing loans, liberalizing salaries in state-owned banks, and arranging a 20-year bond from the Ministry of Finance to repay Egypt's public sector debts to the domestic banking sector. By the time the protests began in 2011, Egypt's foreign exchange reserves had grown to seven months' worth of imports.[73]

Yet Mubarak's hybrid survival strategy, as well as the bifurcated state that it left in its wake, was ultimately a halfway house that could not stand. The pockets of efficiency that were produced by reformist ministers and their technical units ultimately served their own constituencies—wealthy businesspeople and technocrats who were already at the top of the socioeconomic stratum. Those who were not in a position to benefit from these reforms, including laborers and civil servants, were forced to continue living with preferential yet poorly paid public employment, a corrupt bureaucracy, rising prices, a poor educational system, and a stunted private sector that would not or could not employ them or their children. In January 2011, a massive social upheaval spread from Cairo to the cities of the Nile Delta, leading to Mubarak's resignation the following month.

Notes

1. Kemmerer, "The Fiscal System," 191.
2. Tignor, *Modernization*, 74; Vatikiotis, *The History*, 129.
3. Baring, *Modern Egypt*, 313–314; Beinin and Lockman, *Workers on the Nile*.
4. Tignor, *State, Private Enterprise*, 139.
5. Vatikiotis, *The History*, 356.
6. El-Ghonemy, "An Assessment," 254–255.
7. Migdal, *Strong States*, 186.
8. Mansfield, *Nasser's Egypt*, 151; Cooper, "State Capitalism."
9. Abdel Fadil, *Political Economy*, 11.
10. The First Five Year Development Plan for 1960–1965 stipulated that 55 percent of locally funded investment was to be provided by the private sector. Rivlin, "Nasser's Egypt," 274.
11. Cooper, "State Capitalism," 25–26.
12. Harik, *Economic Policy*, 19.
13. Waterbury, *Exposed,* 240.
14. Ayubi, "The Structure."
15. Abdel Fadil, *Political Economy,* 30–32

16. Waterbury, *The Egypt*, 101–104.
17. Ibid., 114.
18. The Egyptian government paid back many of these loans in exports of leather, textiles, yarn, and soap, causing trade between the two countries to increase from 11 percent of total Egyptian exports in 1950 to 61 percent in 1970. Tansky, *US and USSR Aid*, 148–149; Hansen and Nashashibi, *Foreign Trade Regimes*, 21–22; Waterbury, *The Egypt*, 171.
19. Abdel Khalek, "Foreign Economic Aid," 438; Barnett, *Confronting the Costs*, 98; Waterbury, *Exposed*, 64.
20. Hansen and Nashashibi, *Foreign Trade Regimes*; Harik, *Economic Policy*,111.
21. Barnett, *Confronting the Costs*, 111.
22. Lippman, *Egypt After Nasser*, 30.
23. Rivlin, *Dynamics of Economic Policymaking*.
24. El-Meehy, "State, Private Industry," 21–22.
25. Sfakianakis, "Whales of the Nile."
26. Esfahani, *Experience of Foreign Investment*, 8.
27. Rivlin, *Dynamics of Economic Policymaking*, 7, 21–23.
28. Waterbury, "Open Door," 73, 79.
29. Rivlin, *Dynamics of Economic Policymaking*, 6.
30. Abdalla, "Role of Foreign Capital," 94–95; Rivlin, *Dynamics of Economic Policymaking*, 111; Barnett, *Confronting the Costs*, 136.
31. Atherton, *Interview with Alfred*; US Agency for International Development, *Country Development Strategy Statement FY 1985*.
32. Pritchard, *Sustainability*, 3–4.
33. Kepel, *After Jihad*, 82.
34. Brownlee, *Democracy Prevention*, 52.
35. Kepel, *After Jihad*, 81–86.
36. Soleiman, *State and Industrial Capitalism*, 43–44.
37. International Monetary Fund, *Arab Republic of Egypt—Staff Report*; International Monetary Fund, *Arab Republic of Egypt—Recent Economic*; International Monetary Fund, *Arab Republic of Egypt—Statistical*.
38. Quandt, *United States and Egypt*, 43–44.
39. Krueger, *Economic Policies*.
40. Harik, *Economic Policy*, 22.
41. Momani, "Role of the International Monetary Fund," 79.
42. Alissa, *Political Economy*, 4.
43. Aidi, *Redeploying the State*, 142–143.
44. IBM Consulting Services, *Privatization*, 17.
45. Aidi, *Redeploying the State*, 180.
46. Ibid., 3–4.
47. "DSP II Monitoring Plan."

48. Barents Group LLC, *Egypt Public Finance*, ii.
49. World Bank, *World Development*.
50. Pritchard, *Sustainability*, 10–11.
51. Barents Group LLC, *Egypt Public Finance*, ii.
52. Stacher, *Adaptable Autocrats*, loc. 2093.
53. US Embassy Cairo, "Central Auditing Agency."
54. Interview with anonymous respondent, December 12, 2007.
55. Baradei, *Do Parallel Structures*, 30–33.
56. World Bank, *World Development*.
57. US Embassy Cairo, "NAZIF SLOWS DOWN."
58. US Embassy Cairo, "BANQUE DU CAIRE."
59. Aidi, *Redeploying the State*, 141–143.
60. US Embassy Cairo, "Egypt's New Tax Law:" Abdelhamid and El Baradei, *Reforming the Pay System*, 6.
61. World Bank, *World Development*.
62. World Bank, *Worldwide Governance*.
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CHAPTER 10

Origins of US Aid to Egypt

By the time that the Free Officers assumed power, Egypt boasted a population of over 22 million, as well as a relatively developed civilian-military bureaucracy and an economy on the cusp of industrialization. Egypt was the most powerful country in the Arab world, and Nasser was intent on using this inherent Cold War relevance to extract the most favorable terms from both Washington and Moscow. Unlike Israel, whose commitment to the West was unquestioned, and Jordan, whose threats to defect were less credible, Nasser made good on his word by signing a Czech arms deal in 1955. Egypt's first-generation US aid program therefore reflected a growing antagonism between Cairo and Washington, and ultimately descended into an operation that penalized bad behavior by withholding tranches of food aid. In 1967, Nasser's enticing of Syria and Jordan into the Six Day War prompted the USA to terminate both its aid program and its diplomatic relations. Egypt therefore did not have the opportunity to graduate from its first-generation US aid program, but given its dependence on Soviet and Arab assistance during the subsequent decade, it very likely would have failed in this endeavor.

US assistance recommenced in 1975, as Washington escorted Egypt and Israel to a final "land for peace" deal after the October War. Having found a reliable strategic partner in Sadat, the second-generation US aid program included a large military aid component that catered to the Egyptian military's desire to replace aging Soviet equipment and built relationships between the US and Egyptian militaries through training

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and joint exercises. Despite Egypt's demands for pure budget support, US concerns about the country's longer-term stability resulted in one part of the aid being programmed into more discretionary areas like a CIP and PL 480, and the other part being put into infrastructure projects. At the same time, funds could be diverted to more discretionary activities during times of political crisis, and Washington refrained from imposing conditionality.

As the reformers' power grew, USAID supported the development of market regulatory institutions, and during the reform government of 2004–2010, began imposing more stringent economic reform conditionality that corresponded with the reformers' agendas. In addition, USAID financed technical units in ministries controlled by reformers, and supported them with downstream implementation of policies using on-demand technical assistance programs. These activities, when considered together, comprised a form of recipient-accountable institution that helped reformers bypass the constraints of a larger political system and bureaucracy that was controlled by the Old Guard and oriented toward preserving selective benefits to labor and the urban middle class.

The Nasser Period, 1952–1967

Despite the close relationship between the Egyptian monarchy and Great Britain, the USA was worried about the refusal of political elites to address rising discontent among Egypt's subaltern classes, and actually welcomed the Free Officers coup in July 1952. The US Ambassador in Cairo, Jefferson Caffery, ensured King Farouk's safe departure from Egypt and then quickly moved to establish relations with Nasser and his coconspirators.[1] Washington also immediately acted to curb the rapid and potentially destabilizing migration of peasant farmers to Cairo and other urban areas. In 1953, it established the Egyptian-American Rural Improvement Service, which would engage in land reclamation and community development, two objectives that seemed to mesh with the Free Officers' concern for the plight of the fellahin.[2] However, this seemingly auspicious beginning marked the beginning of 15 years of difficult negotiations with Nasser. The USA offered and withdrew promises of infrastructure support, weapons, and food aid in an attempt to make Nasser comply with US preferences, and Nasser in turn rejected these offers for less demanding forms of Soviet assistance.

The Free Officers' desire for military aid was apparent no more than one month after the coup. In August 1952, General Muhammed Naguib mused, "We must obtain modern weapons of war somewhere.

I cannot say who will supply us if America and the Western democracies refuse their aid."[3] In September, Truman issued a statement of support for the Free Officers, and in December, Deputy Secretary of Defense William Foster told Naguib and Nasser that a weapons deal would be forthcoming. In July 1954, as the Egyptian and the British governments negotiated a treaty for phased British withdrawal from the Suez Canal, the USA began formulating a $40 million aid package that was equally divided between economic and military assistance.[4]

Nasser, who was demanding about $100 million in military aid alone, balked at this lower figure and rejected congressional efforts to condition the aid on the establishment of a Military Aid Advisory Group to monitor its use, as well as Egypt's participation in a dialogue with Israel. Instead, he turned to the Soviet Union, announcing in September 1955 that Egypt would use cotton revenues to buy $200 million of Czech arms. In December, the USA and Britain responded by pledging $56 million and $14 million in financing for the Aswan High Dam, but paired it with unattractive conditions: (1) one-third of all annual internal revenue was to be devoted to the dam over 15 years, (2) no new foreign debt obligations were to be incurred, (3) the World Bank would monitor the project, (4) bidding for dam construction was to be closed to Soviet bloc, and (5) Egypt was required to reach agreement with the Sudanese on Nile waters.[5] Nasser's response was naturally lukewarm, and in May 1956, Egypt became the first Arab country to recognize the People's Republic of China. Eisenhower cancelled the offer, convinced that Nasser was trying to engage the USA and the Soviet Union in a bidding war. Nasser subsequently nationalized the Suez Canal, leading to a joint British–French–Israeli military intervention against Egypt that aimed to regain control over the Canal Zone and remove Nasser from power. The USA, Soviet Union, and UN ultimately forced the invaders to withdraw—rendering the Suez Crisis a major political victory for Nasser.

Between 1959 and 1960, the Eisenhower administration offered a number of short-term aid packages to Egypt, usually in six-month installments that contained a large PL 480 component. Washington viewed food as Egypt's Achilles Heel; by 1960, PL 480 grain accounted for 66 percent of Egyptian grain imports.[6] Kennedy, in seeking better relations with Nasser, initially continued the policy of continuous negotiation, and by 1961, PL 480 accounted for 99 percent of wheat imports and 53 percent of net supply. In February 1962, Kennedy sent economist Edward Mason to Cairo, where he presciently observed that the only way that Egypt could double its national income over a 10-year period was to restraint spending on social services and the military and channel these savings toward development programs. That same year, the USA concluded a three-year-long PL 480 agreement for $431.8 million in food aid for FY 1963, 1964, and 1965.[7]

The first-generation aid program was drawn down and eventually eliminated under Johnson, who grew frustrated by Nasser's interventions against Western interests in places like Congo, Libya, Jordan, and the Arabian Gulf. In December 1964, Egypt accidentally shot down a plane belonging to a friend of Johnson. US Ambassador Lucius Battle informed the Egyptian government that food aid would be cut off unless Egypt moderated its behavior, to which Nasser responded with a public denunciation of the Johnson administration. Johnson responded by withholding a remaining tranche of aid, forcing Egypt to dig into scarce foreign exchange reserves to pay for commercial wheat imports. Such machinations continued until February 1967, when Nasser informed Battle that he was no longer interested in the PL 480 aid.[8] After the Six Day War, the USA closed its Embassy and the USAID mission, leaving Nasser to rely exclusively on aid from the Soviet Union and Arab oil exporters.

Commodities, Infrastructure, and Technical Assistance, 1975–1992

The October War led to the re-establishment of US diplomatic relations with Egypt and the development of a second-generation US aid program that bore little similarity to its predecessor. Between 1973 and 1979, the USA mediated the phased withdrawal of Israeli forces from the Sinai and brokered a land for peace agreement between the two countries, eliminating the possibility of war between the region's two most powerful and mutually antagonistic states. Promises of American economic and military assistance to both parties became a crucial part of the "peace process." US aid was intended to compensate both parties for the "cost of peace," a term that captured the logistical costs of withdrawal and cleanup, as well as domestic and foreign opposition to the deal.

US assistance initially supported the cessation of hostilities and protecting the Sadat regime as the Egyptian president began his rapprochement toward Israel. As part of the Sinai I disengagement in 1974, the USA provided about $85 million to clean up the Suez Canal area, including $15 million to locate and remove unexploded ordnance.[9] The Nixon, Ford, and Carter administrations spent between $20 and $25 million on presidential security for Sadat, including a $2 million armor-plated helicopter, an elaborate communications system for Sadat's own guards, and training for presidential guards. American security firms also consulted on bulletproof clothing for Sadat (which he never wore), the use of polygraph equipment, and explosives detection.[10]

The reopening of the USAID mission in 1975 prompted a number of questions about the type and volume of assistance that Egypt was to receive. The Egyptian leadership was aware that making peace with Israel would very likely empower domestic critics of the regime, and lead to Egypt's isolation from the broader Arab world (indeed, Egypt was eventually expelled from the Arab League and its Arab aid terminated). Egypt indicated that it expected economic aid on par with that of Israel, as well as large and immediate PL 480 grants.[11] The Egyptian government rejected proposals to projectize, tie, or condition the aid toward developmental ends, and, in the words of one former US official, displayed "zero interest in any engagement on economic policy."[12]

Heavily primed by Carter administration officials, Congress welcomed Sadat as a "dashing and exciting character," that could maintain peace between Israel and Egypt, yet was also concerned that Egypt was "dysfunctional and socialist" and could become a "bottomless pit" for US aid.[13] The Department of State shared some of these trepidations. A 1974 US diplomatic cable claimed, "The Egyptian bureaucracy is stricken with inertia, even at the highest levels, and it is probable that they have not even decided on an authoritative mechanism by which to structure their development needs."[14] US officials were aware that distribution formed the core of Sadat's political survival strategy, and had noted the significance of the 1977 bread riots. At the same time, they expressed "anxiety as to what will happen if the reforms don't take place," and worried that poor short-term execution of the aid program would lead Congress to terminate the whole effort in the future.[15]

Egypt initially received more economic aid than Israel, its portfolio growing from $250 million in 1975 to $815 million in 1979.[16] American policymakers initially chose to limit the Egyptian government's discretion over the aid by allocating it among a CIP, physical infrastructure, and technical assistance. Further, Congress appropriated Egypt's ESF and food aid with a substantial loan component through FY 1983, believing that the prospect of debt service would incentivize good economic performance. However disappointing this was for Egyptians, who pointed at Israel's "blank check," the USA for two decades did not impose bilateral conditionality on any of its aid, and, for a time, possibly used its influence with the IMF to shield Egypt from a harsher structural adjustment program.[17]

Infrastructure projects served to (1) spend a large volume of USAID's Egypt budget without turning the entire program into a cash transfer, and (2) respond to a series of reports that cited Egypt's decaying infrastructure as major obstacles to public health, commerce, and economic development.[18] Frank Wisner, who served as the US Ambassador from 1986 to 1991, reflected that, at the time, he would have preferred to help develop Egypt's capital markets, but if the large infrastructure projects had not been undertaken Cairo would have drowned in her own sewage.[19] USAID ultimately spent \$5.81 billion on infrastructure in power, telecommunications, and water and wastewater between 1975 and 2004.[20]

The \$600 million allocated for telecommunications funded four successive upgrades of telecommunications networks in Cairo, Alexandria, and Port Said (1978–1996, \$322 million), as well as technical assistance (1993–2006, \$282 million). This work was estimated to account for 15 percent of new lines. The \$1.8 billion for electrical power infrastructure and technical assistance projects included the installation of gas turbine generators at Helwan (1976–1980, \$67 million), thermal power plants at Ismailia (1976–1988, \$250 million) and Shubra al-Kheima (1979–1991, \$261 million), the Aswan High Dam power station (1982–1995, \$140 million), and the Talkha Combined Cycle Plant (1982–1991, \$65 million), as well as network modernization projects like the electric power distribution system (1973–1980, \$30 million), a national energy control center (1976–1987, \$42 million). Power Sector Support I (1989–2004, \$461 million) and II (1994–2005, \$172 million) combined technological upgrades with technical assistance. USAID estimated that these contributions accounted for 35 percent of power upgrades during the same period. The \$3.4 billion for water and wastewater initially targeted emergency wastewater and sewerage in Cairo (1977–1989, \$225 million) and Alexandria (1977–1984, \$14 million), as well as servicing war-damaged cities near the Suez Canal (1978–1988, \$165 million). USAID then expended and upgraded facilities with Alexandria Wastewater Expansion I (1979–1997, \$422 million), Cairo Sewerage II (1984–2005, \$816 million), Provincial Cities Development (1982–1991, \$384 million), Canal Cities Water and Wastewater II (1987–2000, \$377 million), Secondary Cities Development (1994–2005, \$325 million), and Alexandria Wastewater Expansion (1997–2004, \$203 million). Although most of these programs contained technical assistance components, USAID also ran standalone technical assistance projects, Cairo Water II (1988–1998, $145 million), Water Use and Management (1976–1984, $13 million), and Egypt Utilities Management (1997–2005, $318 million).[21]

Despite their large cost and duration, it would not be appropriate to characterize USAID's infrastructure activities in Egypt as a parallel institution. These projects did not provide most of the public goods in the sectors at hand, and USAID rarely returned to repair or upgrade infrastructure that it had already built. USAID also worked extensively with local institutions, and devoted considerable technical assistance to the General Organization for Greater Cairo Water Supply, the Egyptian Electricity Agency, the Egyptian Electric Utility and Consumer Protection Regulatory Agency, and the many entities involved in Egypt's water sector. This is not to say that parallel institutions would not have been useful, however. Delays in industrial and infrastructure projects generated a large "pipeline" of unspent funds, which the Egyptian government sought to reallocate to more discretionary activities.[22] No records could be located that clarify why a parallel institution approach was not used, but a plausible hypothesis is that Egypt, by contrast to Jordan, was too large for USAID to effectively build and maintain all of its infrastructure. Additionally, Nasser era guarantees of free education and public employment had resulted in the proliferation of engineering degrees among Egypt's urban middle class, which may have produced more technically qualified local counterparts for USAID projects.

Egypt's high population growth and low self-sufficiency in grain again rendered PL 480 a suitable form of aid, particularly since very cheap wheat bread (*ʿaish baladī*) was viewed as a political right by Egypt's urban poor. Egypt received about $218 million annually in PL 480 aid from 1975 to 1991. Most of this was delivered as Title I loans.[23] In 1981, PL 480 Title I shipments accounted for about 17.5 percent of total wheat consumption.[24] As in other cases, the PL 480 program afforded the Egyptian government the ability to profit from donated grain.

Egypt's CIP was justified on the basis of foreign exchange shortages, and allowed Egyptian public (1975–1992) and later private sector entities (1986–2008) to import a range of US goods using dollar grants or low-interest loans repayable to the Egyptian government in Egyptian pounds.[25] The program was earmarked in annual appropriations bills, and received $200–300 million annually.[26] After 1982, the Egyptian government was required to set aside local currencies equivalent to the dollar value of the

CIP grant. In addition to its quick disbursements, which stood in stark contrast to the infrastructure projects, Congress admired the CIP's "four bangs for the buck," which were: aiding the Egyptian private sector, providing foreign exchange, supporting US exporters, and generating programmable local currency.[27] However, the CIP was more discretionary in practice than on paper. USAID viewed local currency as a mechanism to curb inflation rather than an opportunity to advance reforms through local currency programming.[28] The CIP was often used as a conduit for funds from the project pipeline, so as to preclude their return to the US Treasury if left unutilized within one fiscal year, as was required by the Brooke Amendment to the Foreign Assistance Appropriations Act of 1985. Converting the project pipeline into CIP funds was also authorized during times of political crisis. After the 1977 bread riots, for instance, Congress authorized $190 million in project aid to be converted to a CIP loan to finance the import of grain.[29]

In the 1980s, Egypt's infrastructure had been sufficiently upgraded to free up funds for other uses. USAID wanted to retain a large project component in the economic aid portfolio, the goal of which was to "deflect into constructive channels Egypt's desire to convert the AID program into little more than a budget/balance of payments support facility."[30] The new projects were aimed at decentralization ($355 million between 1974 and 1983); food and agriculture development ($363.5 million); social services ($330 million); and transportation, industry, commerce, and finance projects ($945 million). At this point, USAID's strategy in Egypt began to more openly discuss the importance of private sector development, though it was realized that a comprehensive push in this direction would be "self-defeating."[31]

In the late 1980s, Egypt's dire economic situation eventually broke USAID resistance to budget support after it became clear that Egypt's high debt service on FMF and other loans was only exacerbating the country's poor budget and foreign exchange positions. By the end of 1984, Egypt's military debt to the USA was $4.55 billion, and its US debt service was almost as large as annual US economic aid receipts.[32] In 1984, the Department of State forced USAID to divert pipeline funds to finance a $102 million cash grant, and USAID continued to disburse between $115 and $230 million annually throughout the late 1980s.[33] The money was used to finance US commodity imports, debt repayment, or mutually agreed upon activities.[34] Then, after Mubarak invited Soviet technicians to repair aging military equipment, the USA responded by converting all of Egypt's aid to grants from FY 1985 onward.[35]

Once Egypt began to receive cash grants, economic reform conditionality became a contentious issue. Mubarak had not yet come to support economic reform, the economy was struggling, and Egypt had already been through largely two unsuccessful rounds with the IMF. In March 1989, the White House and the Congress decided to withhold $230 million in assistance to Egypt contingent on significant economic reforms.[36] A 1989 USAID status update fumed, "Since 1987, the GOE hasn't undertaken reform sufficient to implement an IMF Standby Arrangement, permit further continuation of debt rescheduling, or attract additional donor resources."[37] It concluded that USAID efforts to support agriculture or private industrial projects were futile barring policy changes or performance-based projects, and that, if the status quo persisted, a more efficient use of the aid would be to shift it back into urban infrastructure projects.[38] In August, however, the State Department released half of the $230 million without forcing Egypt to implement requested budget cuts. Then, in exchange for Egypt's support in the First Gulf War, the USA forgave all of Egypt's $6.998 billion military debt and helped organized broader debt relief from Paris Club creditors, resulting in about $10 billion in debt forgiveness.[39] Needless to say, the USA could have used its purse strings at this point to leverage more fundamental reforms in Egypt's political economy, but for strategic reasons it chose not to.

Although its peace agreement with Israel significantly reduced Egypt's risk of interstate war, US officials believed that it was important to provide Egypt with elevated levels of military assistance to cultivate regime support among senior officers, reduce feelings of US bias toward Israel, and replace Egypt's Soviet arsenal with an American one—not only cultivating a new dependency but also providing the possibility for interoperability with US forces if needed. Egypt began to receive military aid in 1979, after the Carter administration pushed through an "all or nothing" deal to sell 60 F-15s to Saudi Arabia, 50 F-5Es to Egypt, and 75 F-16s and 15 F-15s to Israel. By FY 1983, Egypt was receiving a $1.3 billion annual military appropriation, a level that remained in place for decades. Cash flow financing was permitted as of FY 1986, and when Egypt became a major non-NATO ally in 1989, it gained access to EDA.[40]

Egypt's military assistance was largely spent on US-manufactured weapons that were not as sophisticated as those offered to Israel, but nonetheless came from the top shelf of the US defense arsenal. Between 1979 and 2006, Egypt bought 36 Apache helicopters, 220 F-16 fighters, 880 M1A1 tanks, as well as F-4E jets, Perry Frigates, various light aircraft, and Hellfire, Sparrow, and Sidewinder missiles.[41] In terms of EDA, Egypt received spare parts, vehicles, ammunition, M60 tanks, grenade launchers, Seasprite helicopters, Hawk loaders, transporters, minders, and radars, Chaparral missiles and launchers, Perry class frigates, and platoon post commands.[42] In 1984, the US Defense Security Assistance Agency approved the use of appropriated funds for the construction of the Egyptian Tank Plant Factory. When it was discovered that the factory duplicated existing capabilities, the USA approved a co-production agreement for M1A1 tanks, without which the factory would have been deemed useless and a political embarrassment. Egypt began to co-produce the tanks in 1991.[43]

The US and Egyptian militaries developed a close relationship based on joint military education and exercises. A Bilateral Military Cooperation Committee met annually to discuss defense, cooperation, and strategy. A military education program allowed roughly 600 Egyptian officers to study in the USA each year. Every other year since 1983, Egypt (in cooperation with US Central Command) hosted Operation Bright Star, the largest international military exercise in the Middle East. Egypt and the USA conducted their first joint naval exercise in August 1986.[44] Each military maintained its own office in the other's capital city, with two star generals as military attachés and relatively large staffs. The USA also deployed its own military to support the Egyptian leadership several times. After Sadat's assassination, Reagan initially did not put US naval forces on alert in the Mediterranean, allegedly because US diplomats were unsure as to whether or not Sadat had died. When it became clear that this was the case, the USA sent B-52 bombers loaded with conventional ammunition to an upcoming joint military exercise. The USA also sent AWACS to Egypt in October 1981, February 1983 and March 1984, after Mubarak requested them to monitor Libyan flights.[45]

Pushing Reform, 1992–2004

Debt forgiveness made the use of limited economic reform conditionality more palatable in Cairo and in Washington.[46] Congress began earmarking $200 million of Egypt's annual economic aid for conditional cash transfers, which USAID converted into a series of multiyear programs with their own distinct titles: Sector Policy Reform I, II, and II (1992–1994, 1995–1997, 1996–1998); and Development Support Program I and II (1999–2002, 2001–2007). Each cash transfer program contained numerous reform "benchmarks" with an assigned dollar value, giving USAID a basis to withhold funds if individual reforms were not implemented.[47]

Until 2005, the benchmarks were a "Chinese menu" of small reforms intended to override red tape or a small yet strategically placed opposition (similar to USAID's use of CPs in Jordan). Chemonics International, the US development contractor that oversaw the implementation of Development Support Program I, explained:

> To support a developmentally important reform that has little or no support within the government and is highly unlikely to be achieved wastes leverage. Similarly, using cash grant funding to encourage a government to implement a reform that is likely to be put in place anyway wastes valuable resources. The objective is to focus on those reforms that are significant and have both support and opposition within the government, and then use the availability of cash grant financing to strengthen the ability of the reformers to move the policy change through the government.[48]

Each cash transfer program was bolstered by a multifunctional, multi-sectoral technical assistance project. The Technical Assistance for Sector Policy Reform (1992–1996), for instance, was paired with Sectoral Policy Reform I and II and provided technical assistance for capacity building, as well as the formulation of regulation in trade, finance, and fiscal policy.[49] Internal reviews of the cash transfer through 2005 were critical, claiming that USAID had undermined its leverage by granting numerous extensions to the Egyptians, and that the dollar value of the most important benchmarks often could not surpass their political and economic costs to the Egyptian leadership.[50]

USAID also ran a number of projects that sought to build the capacity of Egyptian institutions to privatize SOEs, regulate market activity, and implement public–private partnerships. The Public Finance Administration Project (1989–1998) encouraged the government to focus on improving domestic revenue collection, restructured revenue departments at the Ministry of Finance, and installed automated systems.[51] The Egypt Capital Markets Development Project (1998–2004) worked on the modernization of securities market institutions, business associations, and the regulatory framework for securities trading.[52] The Privatization Implementation Project (2000–2004) provided technical assistance for privatization, and the Assistance for Customs and Trade Facilitation Project (2002–2007) aimed to reorganize the customs regime and reduce nontariff barriers. The USA and Egypt also concluded a Science and Technology Cooperative Agreement in 1995, which was renewed in 2001 and 2005. The agreement created a Joint Fund that financed study, collaborative research, and technology transfer grants. Such efforts aligned with the preferences of

Gamal's emerging group of reformers and provided some institutional foundations for private sector development, but they did not roll back distributive commitments to labor or the urban middle class, which continued to burden the budget and hinder the overall performance of the civilian bureaucracy, perpetuating the hostile environment for business.

The proliferation of USAID projects that were nominally friendly toward private sector development provided Washington with a new slogan to describe the US–Egypt relationship: "from aid to trade." In reality, however, Israel's announcement that it would wind down US economic aid confronted Washington with a dilemma over how this change should affect Egypt's assistance levels. From the time of Kissinger, US policymakers had supported the notion that aid to Israel ought to outsize that to any of the Arab countries because, as Kissinger summarized, "its weakness might tempt its neighbors to seek military solutions."[53] The Special International Security Assistance Act of 1979 consequently pegged US aid appropriations to Israel and Egypt, respectively, at a 3:2 ratio.[54] Thus, when Netanyahu announced in 1996 that Israel would no longer require US assistance, the State Department stood firm that these changes would compel proportional reductions in Egypt's aid package.

Some US policymakers, especially in State and Defense, believed that the military was the most important supporter of the Egyptian regime, and that US military aid to Egypt should therefore not be cut.[55] Congress was of a similar mind. Rep. Sonny Callahan (R-AL), Chairman of the Foreign Operations Subcommittee, proposed an $80 million decrease in Egypt's ESF and a $40 million increase in FMF for Egypt, which was later amended to become a $40 million reduction in ESF with no changes to FMF.[56] The "glidepath" itself, an agreement to hold military aid constant and reduce economic aid by half over a period of ten years, was informally negotiated among the White House, Congress, and the Egyptian government.[57] In an attempt to compensate Egypt for its losses, a greater portion of the economic aid was programmed into the cash transfer, and from 2000 onwards the military assistance was deposited into an interest-bearing account at the Federal Reserve Bank of New York.[58]

A Partial Confluence of Interests, 2004–2010

When it became clear that proportional reductions in US aid to Egypt would occur and that the economic aid component would bear the full brunt, the USA began to consider how Egypt's remaining economic aid could be most effectively reallocated. In 2002–2003, the Department of State undertook an assessment of USAID's Egypt portfolio, and concluded that USAID should concentrate its resources on several key economic reforms, principally through using benchmarks and local currency programming in the annual cash transfer.[59] The assessment designated the Egyptian financial sector as being in urgent need of reform, highlighting problems of non-performing loans, political interference, and poor management.[60] The USA then attempted to negotiate with Egypt a "Financial Sector Memorandum of Understanding" that would replace the Development Support Program II cash transfer. It was also decided to wind down the CIP, which was criticized for its lack of conditionality, distorting effects on Egypt's foreign exchange policy, and perceived irrelevance to Egyptian economic reformers.[61]

Officials in the State Department believed that Egypt's need for budget support would compel the government to sign the Financial Sector Memorandum: "The idea was that we would give the Egyptians an [expletive] of money for some specific reforms and not ask how they spent it."[62] Yet negotiations stalled in early 2004. Clearing non-performing loans was a prerequisite for many of the proposed benchmarks, and many obligors tended to be high-profile individuals or SOEs that generated employment. Additionally, privatizing the government's shares in state-owned and joint venture banks would require a comprehensive audit of accounts in public sector banks. It would have been problematic if the Central Bank's records were found to differ from any audit conducted according to international best practice.[63]

The appointment of the Nazif government lent new momentum to negotiations for the Financial Sector Memorandum. The Memorandum, concluded in March 2005, required the Egyptian government to implement a number of policy reform benchmarks that were located within six "policy items," to receive as much as $800 million (much of it taken from the pipeline) over the three years of the program. These items included (1) producing a plan to reorganize the Central Bank of Egypt, including retaining qualified staff; (2) implementing a comprehensive reform of the banking system, including privatization of state-owned banks; (3) strengthening financial sector regulation; and (4) privatizing a major public insurance company.[64] After high-level intermediation with the Congress, the CIP's earmark was eliminated in 2006 and replaced with the explicit provision that $227.6 million be withheld until the Secretary of State reported to the appropriations committees that the benchmarks for the Memorandum had been met for FY 2005.[65]

Well aware of institutional obstacles to economic reform, USAID undertook efforts to supply reformist ministers with recipient-accountable parallel institutions that would help them formulate and implement new administrative and economic policies. USAID used Implementation Letters to furnish technical units in individual ministries with funds for staff positions, services, and equipment. These resources could be used for any ministry business, not just for work on USAID projects. In 2007, it was estimated that USAID financed the salaries of over 80 senior staffers and subject-matter experts at the Central Bank of Egypt, the Ministry of Finance, the Ministry of Industry and Trade, and the Ministry of Investment.[66] Further, USAID supported the technical units with a large, open-ended technical assistance program, TAPR II, which was involved in nearly all of the major economic reforms Egypt undertook between 2004 and 2010. Its activities included drafting a new Customs Law for the Ministry of Trade and Industry, helping the Central Bank of Egypt review all of its operational processes, aiding in the establishment the Egyptian Banking Institute and the Egyptian Insurance Supervisory Authority, reviewing the 2005 Income Tax Law and drafting the framework for the Property Tax Law, and supporting the institution of a Treasury Single Account system at the Ministry of Finance. TAPR II also implemented the first group of Modern Customs Centers and Integrated Logistics Centers, as well as an Audit Selection System for the Income Tax Department, and trained 15 work teams to implement the new tax authority.[67]

USAID's intensification of economic reform activities between 2004 and 2010 was completely in line with the geopolitical logic that had dominated the relationship for the prior 30 years. Egypt's economic turmoil had always preoccupied American policymakers concerned with the long-term viability of a friendly regime, yet without a local partner reform efforts would be futile if not destabilizing. Now that a powerful faction of reformers had emerged within Mubarak's ruling coalition, it became acceptable for USAID to support their preferences to some extent. Barely had US and Egyptian preferences on economic reform begun to converge; however, when suddenly the USA began to advocate for political reforms in Egypt—not only a clear red line for the Mubarak regime but also a dangerous policy to pursue in the context of the geopolitical relationship.

During the first George W. Bush administration, the USA exerted very little pressure upon Egypt for political reform. Democracy and governance activities were relatively low profile and focused on "locally-owned" economic reforms, "expand[ing] dialogue," encouraging accountability, and agenda setting.[68] The State Department's new Middle East Partnership Initiative (MEPI) framed its goals in terms of economic development, education, women's empowerment, and political participation—not explicit democracy promotion.[69] In 2004, the Ministry of International Cooperation and USAID signed an agreement to provide ESF funding for civil society organizations.[70] However, following Law 84 of 2002, NGOs had to be approved by the Egyptian government to receive foreign funding, and approved NGOs tended to be those that worked primarily on socioeconomic problems and avoided politics.[71]

During Bush's second term, however, the USA began exerting greater and more explicit pressure on Egypt for some type of political reform. In his February 2005 State of the Union address, Bush opined, "… the great and proud nation of Egypt, which showed the way toward peace in the Middle East, can now show the way toward democracy in the Middle East."[72] In the FY 2005 Foreign Operations Appropriations Bill, Congress prohibited USAID from withholding funding from NGOs that had not been approved by the Egyptian government: "That with respect to the provision of assistance for Egypt for democracy and governance activities, the organizations implementing such assistance and the specific nature of that assistance shall not be subject to the prior approval by the Government of Egypt."[73] Senator Sam Brownback (R-KS), a longtime advocate of Coptic Christians who had sponsored the amendment, explained, "It is an abuse of taxpayer funds to have these funds spent at the discretion of the government of Egypt."[74] In March 2005, USAID announced that it would begin using a legal loophole to fund groups that were not registered as NGOs but rather as "civil companies," thereby allowing funding decisions to bypass Egyptian government approval.[75] Between 2005 and 2008, USAID awarded 80 direct grants and cooperative agreements, ranging between $192,000 and $1.4 million each, to strengthen civil society activity in human rights, anticorruption and transparency, elections, civic participation, and civic education.[76] Of these recipients, 38 percent were civil companies, law firms, or limited liability partnerships that were not registered as NGOs.[77]

The timing and motive of US pressure for political reform in Egypt is debatable. Executive Branch officials and the Congress had certainly become concerned about who might succeed Mubarak, then 77 years old and in poor health. The 2005 parliamentary and presidential elections, if run in a more liberal fashion, might (1) increase the power of small, moderate opposition groups in the political arena, (2) serve as an opening for the USA to support such groups, and (3) provide an outlet for political participation that would help prevent radicalism among disenchanted and economically marginalized groups. These concerns may have been incompatible with Mubarak's short-term interests, but they were fully in line with a longer-term US geopolitical strategy toward Egypt. There was also concern that Egypt's military was no longer the strategic partner that it had once been. Egypt's forces, US officials felt, had not adapted to a post-Cold War context that required better border control and counter-terrorism capabilities, and they had not achieved full interoperability with US Forces despite having a nearly 100 percent American arsenal.[78] Finally, Bush's push for political reform also coincided with the rise of an influential "democracy community" in Washington. Members included high-profile Middle East specialists working at Inner Beltway think tanks, as well as organizations like Freedom House, the International Republican Institute, and the National Democratic Institute, which engaged in election monitoring and support for civil society. These groups formed an informal network, but also established collaborative forums like the Project on Middle East Democracy and the Working Group on Egypt, which provided information about Egypt's restrictive political climate, and made proposals about how the USA could advance political reform.[79]

Elliott Abrahms, who was the lead Middle East staffer at the NSC during this period, later claimed, "Nobody was even talking about getting rid of Mubarak."[80] Rather, US officials spent the months leading up to the 2005 elections seemingly in dialogue with Gamal Mubarak about election procedures and his father's presidential campaign. Exalting Gamal's reformers against the corrupt, statist, and authoritarian "Old Guard," US officials praised Gamal's packed schedule, personal letters to NDP precinct bosses, and attempts to "fire up" youthful NDP voters—the "intensity" of which the elder Mubarak was said to enjoy.[81] One September 2005 cable gushed, "At a strategic level, we need to exploit the new openness that [Gamal] Mubarak underlined in an address following an NDP meeting after the presidential victory when he said, 'let us expose ourselves to an outside world with an innovative mind.'"[82] It also attributed the sidelining of the Old Guard to Gamal's influence:

> The Mubarak campaign, which led by example, and ensured, at least on TV, improved media access for the candidates, was a creation of the reformers. We now need to get them to apply the same energy to improving the conduct of the parliamentary elections… We should continue to support members of the Gamal Mubarak reform group when they come to Washington

> through high-level meetings throughout the Administration and public statements in support of their role in Egyptian society.[83]

However, the winter 2005 parliamentary elections were characterized by low turnout, vote rigging, and violence. The US Embassy observed that the elder Mubarak appeared to favor slow, controlled change.[84] However, now that the issue of political reform had been brought to the table, Congress was not as charitable. A December 2005 congressional resolution expressed “the disappointment of the people and the Government of the United States.”[85] In the House, Rep. Dave Obey (D-WI) proposed two unsuccessful amendments, one to cut $200 million in military aid to Egypt from the FY 2007 Foreign Operations Appropriations Bill, and another to reallocate $100 million of ESF to fight AIDS in Darfur. In February 2007, Congress rescinded $200 million in previously appropriated ESF assistance. Then, having initially promised Egypt’s reform government that it would defend controversial FTA legislation, the Bush administration terminated the negotiations, allegedly as a means of penalizing Mubarak for his refusal to release defeated presidential candidate Ayman Nour from prison.[86]

At this point, the Bush administration appeared to recognize that even if its tabling of the political reform issue had been done with a view to maintaining a longer-term geopolitical relationship with Egypt, the issue was gathering an unwanted momentum that was deeply harming the relationship in real time. After a strong Muslim Brotherhood showing in the 2005 parliamentary elections, and Hamas’ 2006 takeover of the neighboring Gaza Strip, the administration started to change its strategy.[87] On a February 2006 tour of the Middle East, Secretary of State Condoleezza Rice claimed, “We can’t tell Egypt what its course can be or should be.” In 2007, US Ambassador Francis Ricciardone recommended that the direct grants program be reduced given the inability of grant recipients, including US democracy organizations, to absorb funds.[88] In the FY 2009 Omnibus Appropriations Act, several congressmen quietly removed the Brownback amendment and inserted a $20 million cap on democracy and governance funding. In February 2009, Ricciardone’s successor, Margaret Scobey, pronounced Egyptian reactions to political reform conditionality as “uniformly negative” across the political spectrum, and argued, “We should take advantage of the change in the Administration and assistance levels to renew the US–Egypt partnership around common goals, aimed at tackling chronic problems retarding social and economic development.”[89]

However, the debate over political reform succeeded in harming broader negotiations on US economic assistance. In 2007, with the conclusion of the Financial Sector Memorandum of Understanding looming, USAID began to negotiate the future of the assistance program with Egyptian officials, principally Nazif and Minister of International Cooperation Fayza Abou al-Naga. US officials were initially inclined toward converting all of the economic aid into a cash transfer that would focus on four sectors, but received considerable pushback from Egyptian officials. Nazif stated a preference for a larger aid package. Aboulnaga and her advisers preferred minimal conditionality, debt relief, or support for the slow phase-out of government subsidies.[90] In the end, the Bush administration committed to give Egypt $1.3 billion in military aid over the next decade, and then cut Egypt's FY 2009 ESF assistance by half. Egyptian officials, stunned by the announcement, requested that news of the $200 million request not be made public, and scrambled to propose a new idea for a bilateral endowment.[91]

In the meantime, the USA and Egypt clashed over Egypt's lax border security. Washington wanted Egyptian security forces to crack down on Bedouin smuggling networks that transported illicit weapons into the Hamas-controlled Gaza Strip, a move that was likely to exacerbate the central government's tensions with the Sinai Bedouin and position the Mubarak regime as a patsy of Israel in the eyes of the Egyptian public. Further, the Egyptian Ministry of Defense refused to divert FMF or its own resources for this purpose. In the FY 2008 Foreign Operations Appropriations bill, Congress conditioned $100 million in economic or military aid on Rice's certification that Egypt had taken "concrete and measurable steps" to promote the independence of the judiciary, curb police abuses, and clean up smuggling networks on the border between Egypt and Gaza.[92] The USA sent an Army Corps of Engineers team to the Egypt-Gaza Border in November 2007 to survey the situation and recommend technological requirements for border security. The Egyptian government subsequently requested $23 million in recommended surveillance equipment and training.[93]

The Obama administration dealt with Egypt on purely geopolitical terms, requesting only $20 million in democracy and governance funding for FY 2010.[94] At the same time, the new administration was confronted with the task of reinvigorating a much smaller ESF package while bilateral relations were at an all-time low and both governments were internally divided on how to proceed. Nazif believed that the economic aid should be kept intact over the long term, and particularly emphasized the importance of Implementation Letters, claiming, that the funds were "channeled to areas where it is difficult to use Egyptian government funds… It will put us into trouble if we don't find a way to pay for this."[95] The Ministry of International Cooperation, by contrast, proposed a ten-year, $4.2 billion bilateral endowment as a means of reducing the size of the aid program over time, repaying old ESF debt, and providing itself with greater discretion over ESF programming.[96]

The US Embassy deemed the Ministry of International Cooperation's proposal "unacceptable," favoring instead projectized ESF that would reach average Egyptians, and a small, $50 million endowment—which, if run well, could justify continued US support.[97] The US Ambassador believed that the USA should maintain control over ESF programming so long as Egypt continued to face short- and medium-term economic challenges, as well as a looming transition. There were also practical constraints, including a US government policy of not endowing public institutions and the separate legislative processes for ESF appropriation and debt relief: "Congress would never support the establishment of a massive fund of appropriated dollars that would operate beyond the normal oversight and control of current US regulations relating to development assistance. This is just a non-starter."[98]

The FY 2010 Consolidated Appropriations Act made $50 million available for the establishment of an endowment, and earmarked $25 million for democracy activities, leaving little funding for anything else.[99] Consequently, USAID terminated the Implementation Letters, the cash transfer, and technical assistance for economic reform. USAID experts noted that some ministries, including the Central Bank and the Ministry of Finance, eventually found alternative means to hire technical experts at market rates. The cash transfer was deemed to be too large of an expense for such a small economic aid portfolio and, with no cash transfer, there was no need for large, open-ended technical assistance programs that would assist in the implementation of cash transfer benchmarks.[100]

Conclusion

Between 1975 and 2004, the general outlines of US aid to Egypt were drawn by geopolitical strategists who sought to stabilize the authoritarian rule of Sadat and Mubarak by bolstering the Egyptian military, permitting these leaders' distributive strategies to continue, and working with the

Egyptian government to provide needed infrastructure. Economic reform conditionality was delayed for as long as possible, and when used, did not disrupt major distributive networks. The USA only began to apply more rigorous economic reform conditionality and focus on developing market regulatory institutions after 2004, when Gamal Mubarak's reformers were given control over the major economic ministries. At the same time, however, the USA did not use this moment to demand the dismantling of distributive networks laid in the Nasser period, in particular, the large and politicized civil service and a massive subsidy bill. Military aid remained untouchable, even as Washington's jitters over a Mubarak succession and political reform hacked away at ESF funding. As regards US economic aid to Egypt in this period, it would be difficult to explain its erosion in purely geopolitical terms. The reformers still wanted access to forms of US aid that could help them drive through their agenda, but the tabling of political reform drew multiple interests into a spiral of conflict, souring discussions over ESF programming and ultimately leading to the demise of its more developmentally oriented activities. Unfortunately, the onset of the Arab Spring protests in January 2011 and Mubarak's resignation the following month preclude us from knowing whether the economic aid program would have recovered alongside a mending of bilateral relations.

Notes

1. Alterman, *Egypt and American*, 3.
2. Ibid., 63–95.
3. Quoted in Burns, *Economic Aid*, 11.
4. Ibid.
5. Ibid., 54–56.
6. Ibid., 121.
7. Ibid., 131–132.
8. Ibid., 170.
9. Burns, *Economic Aid*, 180.
10. Tyler, "U.S. Spent Millions."
11. "US Ambassador Hermann Eilts."
12. Interview with anonymous respondent, March 17, 2010.
13. Interview with anonymous respondent, January 10, 2010.
14. "Arthur Houghton to H. Freeman."
15. "Statement of Morris Draper," 158–159.
16. USAID, *U.S. Overseas Loans*.
17. Krueger, *Economic Policies*; Momani, "Role of the International Monetary Fund."

18. Weinbaum, *Egypt*, 212–213; Mitchell, "America's Egypt," 29; Atherton, *Interview with Alfred*.
19. Wisner, *Interview with Frank*.
20. Pritchard, *Sustainability*.
21. Ibid., 5–7.
22. United Press International, "Egypt Depicted as Unable;" Cody, "US Sending Aid Faster;" Quandt, *United States and Egypt*, 43.
23. Blue et al, *PL 480*, 2.
24. Blue et al, *PL 480*, ix.
25. Private sector entities were defined as having less than 40 percent public ownership. This figure was later lowered to 20 percent public ownership.
26. Lieberson, *Recent Evaluations*, ix, 31–32.
27. USAID–Egypt developed a computerized system to both monitor the program and code the origins of US imports in specific congressional districts, and instructed all USAID–Egypt control officers for congressional delegations to have a list of items procured from the visiting members' districts. Interview with anonymous respondent, February 5, 2008.
28. Lieberson, *Recent Evaluations*, 31.
29. US Agency for International Development, *Project Evaluation Summary*, 30.
30. US Agency for International Development, *Country Development*, 37; Weinbaum, *Egypt*, 214–215.
31. US Agency for International Development, *Country Development*, 30; Weinbaum, *Egypt*, 74–75.
32. Handoussa, "Fifteen Years," 114.
33. *Grant Agreement*, 8.
34. Kempe, "US May Have to Ease;" *Status Report: Egypt* (1987); *Grant Agreement*.
35. Brownlee, *Democracy Prevention*, 45.
36. Ottoway, "US Withholds"; Brownlee, *Democracy Prevention*, 55.
37. *Status Report: Egypt* (1989), 5.
38. Ibid., 8.
39. Momani, "Role of the International Monetary Fund," 134; "Egypt Debt Treatment – May 25, 1991."
40. Sharp, *Egypt-United States* (2005), 10; Sharp, *Egypt: Background* (2006) 28; Stockholm International Peace Research Institute, *SIPRI Arms Transfer*.
41. Ibid.
42. Defense Security Cooperation Agency, *Excess Defense*.
43. Marshall, *New Politics*, 12,14.
44. Sharp, *Egypt-United States* (2005), 8–10.
45. Germani, "US Orders AWACS."
46. Momani, "Role of the International Monetary Fund," 34.

47. Salim, *Al-musāʿadāt al-amrīkīyah*.
48. Chemonics International, *Technical Assistance*, 13.
49. "Project Description: Technical Support for Sector."
50. GAO, *USAID's Cash Transfer*; US Embassy Cairo, "USAID-Egypt Program Review."
51. Barents Group LLC, *Egypt Public Finance*.
52. Chemonics International, *Final Report: The Egypt Capital*.
53. Quoted in "Israel Can Still Afford."
54. Sharp, *US Foreign Aid*, 22.
55. Axelrod, "US-Egypt Defense," 1, 6.
56. Hingeley, "FY 1999 Foreign Operations Bill."
57. Miner, "Report Language FY 1999."
58. Office of the Secretary of State, "Indyk-Moussa."
59. US Embassy Cairo, "USAID-Egypt Program Review."
60. "DSP II Monitoring Plan."
61. US Embassy Cairo, "Ambassador Discusses ESF;" US Embassy Cairo, "USAID/Egypt Program Review."
62. Telephone conversation with anonymous respondent, March 24, 2009.
63. Welch, "Nomination for Herbert."
64. "DSP II Monitoring Plan."
65. Previous cash transfers had not been so specifically written into legislation. The typical clause was, "Cash transfer assistance may be provided with the understanding that Egypt will undertake significant economic reforms that are additional to those which were undertaken in previous fiscal years."
66. Interview with anonymous respondent, May 10, 2007.
67. BearingPoint, "Technical Assistance for Policy."
68. US Embassy Cairo, "Egypt's New Money Laundering Law."
69. Brownlee, *Democracy Prevention*, 76.
70. Office of the Secretary of State, "NEA DAS Cheney's Meeting."
71. Interview with anonymous respondent, April 29, 2010.
72. "Text of President Bush's 2005 State."
73. "H.R. 3057."
74. "Sam Brownback."
75. US Embassy Cairo, "Addressing MIC's Objections;" US Embassy Cairo, "A New Approach."
76. Office of the Inspector General, *Audit of USAID-Egypt's Democracy*, 9.
77. US Embassy Cairo, "Addressing MIC's Objections."
78. Interview with anonymous respondent, February 26, 2010.
79. See, for example, McInerney, *The Federal Budget* (2010); "Mission Statement;" Working Group on Egypt, "A Letter to Secretary Clinton;" Working Group on Egypt, "A Second Letter to Clinton:" "Working Group on Egypt Meets;" Working Group on Egypt, "Egypt's Parliamentary Elections."

80. Quoted in Brownlee, *Democracy Prevention*, 83.
81. US Embassy Cairo, "The Sound And The Fury:" US Embassy Cairo, "PDAS Liz Cheney's."
82. US Embassy Cairo, "Next Steps on Democracy."
83. Ibid.
84. US Embassy Cairo, "Taking Stock Of Egypt's Elections."
85. Dumke, "Congress and the Arab,"100.
86. Interview with anonymous respondent, April 29, 2010.
87. Brownlee, "Heir Apparency," 49.
88. US Embassy Cairo, "Egypt's FY 2009 ESF."
89. US Embassy Cairo, "A New Approach."
90. US Embassy Cairo, "Restructuring ESF Assistance."
91. US Embassy Cairo, "Egyptians React Sharply."
92. Sharp, *Egypt: Background* (2009), 33–34.
93. US Embassy Cairo, "Egypt Signs Letter."
94. McInerney, *The Federal Budget* (2010).
95. US Embassy Cairo, "Nazif Affirms Importance."
96. According to the plan, the endowment would be administered by the Ministry of International Cooperation and financed by ESF funds (which would phase out over ten years), repayment of old ESF debt, and matching funds. Ministry of International Cooperation of the Government of Egypt, *US Economic Aid*.
97. US Embassy Cairo, "GOE Proposes New Model;" US Embassy Cairo, "Request for Guidance."
98. US Embassy Cairo, "Request for Guidance."
99. Cook, *The Struggle*, 229; McInerney, *The Federal Budget* (2011).
100. Interviews with anonymous respondents, June 23, 2010.

CHAPTER 11

US Aid to Egypt: Illusive Bargains

As in Jordan and Israel, the survival strategies of Egyptian leaders not only affected the type of assistance that the USA provided but also shaped the impact of that assistance on the developmental capacity of the Egyptian state and the nature of the US–Egypt hierarchy. Between 1975 and 1992, US assistance helped Egyptian leaders to keep distributive commitments to labor and the urban middle class in place, which restricted the range of economic policies that the state could adopt and, in providing traditional assistance that could be absorbed into existing patterns of distribution, undermined the state's infrastructural power. Dependent on a variety of support from Washington, Egypt's leaders made significant concessions in juridical, Westphalian, and cross-border sovereignty. US aid to Egypt during this period was a developmental failure and a geopolitical success, just like that to Jordan.

As opposed to Jordan's Hashemite rulers, however, Mubarak changed the fundamentals of his survival strategy over time. As Mubarak moved toward a hybrid model that combined both distributive and non-distributive elements, Egypt's state began to bifurcate into a more developmental element that relied heavily on the support of foreign donors to drive through reforms that mattered to Gamal's faction, and a non-developmental element that remained behind to distribute selective benefits to labor and the urban middle class. For a time, US aid appeared to boast some limited developmental success and also leverage major

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concessions in Egypt's sovereignty. However, Mubarak's hybrid survival strategy and the bifurcated state that it produced were unsustainable, and ultimately collapsed in the wake of the Arab Spring—taking the illusive successes of US aid with them.

State Power

In his detailed historical study of US aid to Egypt, Weinbaum summarizes, "High levels of assistance often seem to be inversely related to Egypt's ability to use the aid effectively or wisely."[1] Most accounts of US economic aid to Egypt pillory its developmental ineffectiveness, attributing this failure to a hostile economic environment, geopolitical imperatives, bureaucratic pathologies, or the incompatibility between an American neoliberal economic agenda and "Egyptian priorities."[2] These accounts have some weaknesses, including their focus on individual economic aid projects (which neglect the bigger picture) or macroeconomic outcomes like per capita GDP growth (which are too far removed from assistance itself). Refocusing the analysis on the relationship between US assistance and the state's developmental capacity resolves these problems and produces somewhat different conclusions.

Discretionary forms of traditional assistance like cash transfers, PL 480 food aid, and the CIP supported the underlying priorities of Egypt's government budget. As in Jordan, such support limited the state's despotic power by reaffirming distributive commitments to coalition members, while also precluding the development of the state's financial, human, and organizational resources. However, Mubarak's acceptance of some economic reform conditionality in the early 1990s, and then his embrace of a hybrid survival strategy in the mid-2000s, allowed US assistance to exert some positive effects on the state's developmental capacity. Projects that established and/or upgraded market regulatory institutions provided Egypt with a necessary basis to govern its partially liberalized economy, and technical assistance for tax reform increased the government's tax revenues. Recipient-accountable parallel institutions, while limited in their scope, nevertheless increased the state's despotic power by permitting reformist ministers to undertake and implement developmental policies. However, Egypt's hybrid model proved to be politically unsustainable, and the Arab Spring swept away many of these successes.

Despotic Power

As in Jordan, distributive strategies caused the Egyptian state to bear some similarities to the rentier model. The government budget suffered from insufficient domestic revenues and high current expenditures, which marked entrenched commitments to the leader's most important political constituencies. In the mid-1980s, food and fuel subsidies were equivalent to about 20 percent of government revenues, and expenditure on public sector salaries approached 20–30 percent of revenues between 1981 and 1992. Even after conceding to economic reform conditionality in the early 1990s and inducting a reform government in 2004, Mubarak continued to divert a significant portion of the budget to these areas. The bureaucracy accounted for 42 percent of new job creation in the 1990s.[3] Between 2005 and 2006, spending on salaries and subsidies increased from 15 to 21 percent of GNP. Unlike Jordan, however, Egypt made considerable progress in improving domestic revenue collection. Tax revenue rose from 14 percent of GNP in 1990 to 19 percent in 1992, and by 1993 overall domestic revenue excluding grants was equivalent to about 36 percent of GNP.[4]

US economic aid supported these broader prerogatives, particularly in the first two decades of its existence, when it was equivalent to between 6 and 14 percent of GNP.[5] Some of this support was quite direct. Between 1975 and 1979, for instance, the CIP's largest beneficiary was the Ministry of Supply ($430.9 million), which used the program to import industrial raw materials and foods.[6] Sixty-seven percent of local currencies generated by the Private Sector CIP Program were used for general budget support. Naturally, cash transfers and their local currencies also supported the government budget, as did PL 480 food aid. In more indirect terms, US military assistance, which may have accounted for as much as 80 percent of the Egyptian Armed Forces' annual procurement budget, and infrastructure projects likely freed up resources in the general budget for distributive purposes. In this sense, US aid only helped maintain existing constraints on the state's despotic power by helping to fulfill successive presidents' material commitments to the same political constituencies.

US assistance increased the despotic power of the Egyptian state only when it employed mechanisms that overruled opposition to developmental policies. After 1992 and especially after 2004, benchmarks in the annual cash transfer were used to drive through reforms that were embraced by the reformers and rejected by the Old Guard. Several of the individuals who were interviewed for this study emphasized that the dollar value of the benchmarks was often too small to force the adoption of a particular reform, but that the benchmarks helped reformist ministers set the agenda in the cabinet and the parliament because they linked specific reforms with US aid, and, by virtue of that, the broader US–Egypt relationship. The benchmarks also provided political cover for the reformers, allowing them to present what was essentially their own agenda under the guise of donor conditionality.[7] Additionally, recipient-accountable parallel institutions formed by the joining of USAID-financed technical units with the TAPR II project allowed reformers to bypass the difficult negotiations on employee compensation, procurement, and mandate that they would have otherwise had to undertake with the cabinet, parliament, and other corners of the bureaucracy—which still harbored many Old Guard officials who could scupper their efforts. Each of these parallel institutions was under the control of the USAID mission and one single minister.

Of course, some of the ministers who served in the Nazif government could have been rent-seekers themselves, in which case such autonomy could have been harmful. Following Mubarak's ouster in February 2011, many of these officials were put on trial for corruption. However, the cases were highly politicized, and, even if the allegations were true, none of them appear to have had anything to do with USAID activities. Rachid was sentenced in absentia to five years in jail and a LE 18.8 million fine for altering Export Development Funds Programs to benefit several of his companies, and to another five years for misusing funds for the Industrial Modernization Center. Boutros Ghali was sentenced in absentia to 30 years in jail and a LE 70 million fine for using a public printer for his 2010 parliamentary election campaign, as well as for using and giving away impounded cars from the Customs Authority. Nazif and Boutros Ghali, along with former Minister of the Interior Habib al-Adly, were also charged with awarding a contract to produce license plates to a German businessman without using competitive procurement rules, resulting in a one-year suspended jail term for Nazif, ten years for Boutros Ghali, and five years for al-Adly.[8]

Infrastructural Power

US assistance exerted both short-term and long-term effects on the Egyptian state's infrastructural power. US aid inherently expanded the state's core capabilities by providing finance, technology, and know-how, while infrastructure and border security projects immediately broadened the state's territorial presence. In the longer term, discretionary forms of traditional assistance, such as budget support, food aid, and the CIP, supported patterns of distribution that crippled the state's overall capabilities. Unlike in Jordan, however, Mubarak's gradual and limited embrace of reforms allowed some USAID projects to exert longer-term, developmental effects. Technical assistance projects that aimed to build capacity in market regulatory institutions and rationalize the tax code produced results that were attractive to investors, as did the parallel institutions created to assist reformers after 2004. Nonetheless, the use of parallel institutions in critical sectors allowed Mubarak to put off more fundamental reforms, and also introduced problems of cross-sector collaboration.

Core Capabilities

Between 1976 and 1992, when US assistance accounted for a sizeable portion of the Egypt's budget and GNP, Sadat and Mubarak eagerly substituted domestic revenue with foreign aid. However, Egypt's sovereign debt crisis of the late 1980s combined with a falling aid/GDP ratio ultimately forced Mubarak to improve domestic revenue collection. USAID projects played a central role in preparing Egyptian institutions for the task. The Public Finance Administration Project (1989–1998) supplied the basic design of the General Sales Tax, as well as overhauled and computerized the Sales Tax and Tax departments at the Ministry of Finance to enable better collection and enforcement. The contractor, Barents, convinced the Government of Egypt, wary of the political consequences of inflation, that the predicted 3–4 percent rise in prices that followed the introduction of the GST would be only a one-time phenomenon. By the end of the project, Egypt had doubled its sales tax revenues, and possessed a revenue instrument that was less susceptible to exogenous shocks, posed fewer economic distortions, and was less regressive than its predecessor.[9] Yet, as was the case for many other aid projects at the time, their impact could be circumscribed by Mubarak's distributive commitments. The government refused to discard a complex system of discounts and additions in the income tax that afforded public sector employees substantial tax breaks, as well as to develop systems of corporate income taxation and property tax. Consequently, overall income tax levels were reduced, benefitting the *munfatihūn* and their descendants, without broadening the overall tax base, resulting in lower collected income tax. Barents concluded, "The ability to streamline and modernize tax administration and introduce significant economies was likely to be constrained to some degree by the Government's general employment policies."[10]

Even a decade later, during the period of the reform government, distributive commitments continued to intervene. Following TAPR II's support to the Ministry of Finance to help implement the June 2005 Income Tax Law, income tax revenues subsequently increased despite an overall slash in rates. Yet efforts to improve the budgeting process were fundamentally thwarted by Mubarak's commitment to salaries and subsidies. Energy subsidies, which disproportionately benefitted industrial producers and owners of automobiles and home appliances, continued to account for about half of the annual subsidy bill. Subsidies in the power and water sector remained substantial, retarding the incentive for full cost recovery, and low utilities tariffs in Cairo failed to cover operation and maintenance and capital costs of most utilities infrastructure.[11] Additionally, the embeddedness of patronage networks across the Egyptian bureaucracy thwarted TAPR II's attempt to create a Treasury Single Account at the Ministry of Finance. This would have consolidated 48,000 bank accounts held by various ministries, departments, boards, and agencies at the Central Bank of Egypt and various commercial banks, and centralized budgetary power away from 650 different entities with budgetary authority in favor of the Ministry of Finance.[12] In its final report for TAPR II, the contractor, Deloitte, claimed, "…although ownership of the reform existed at the highest levels of the institution, implementation was hampered by those who wanted to maintain the status quo and had the most to lose through reform efforts."[13]

USAID's greatest development successes came in policy areas where reforms would do little harm to labor or the urban middle class. The benchmarks attached to the Financial Sector Memorandum substantially increased the capabilities of the Central Bank of Egypt, and reduced the ratio of non-performing loans to total gross loans from 24 percent in 2003 to 11 percent in 2010.[14] The Capital Markets Development Project helped the Central Bank, Ministry of Finance, and Capital Market Authority to define their respective roles in the issuance of government debt securities, enabling a successful debut issue of sovereign Eurobonds.[15] At the Ministry of Investment, TAPR II and the Egyptian Financial Services Project supported the establishment of the Egyptian Financial Supervisory Authority in 2009, which had a mandate to supervise "non-bank financial markets and instruments, including the Capital Market, the Exchange, all activities related to Insurance Services, Mortgage Finance, Financial

Leasing, Factoring and Securitization."[16] Various technical assistance projects also built capacity for public–private partnerships, and between 1990 and 2008, the private sector invested $16.6 billion in 23 public–private partnerships in telecommunications, water, power, and sewerage.[17] TAPR II's Trade Environment Component and the Customs Reform Unit at the Ministry of Finance simplified inspections and customs procedures through an Electronic Data Interchange and helped establish a one-stop-shop at the General Organization for Export and Import Control. Egypt's rating in Doing Business Across Borders subsequently improved, moving from 86 in 2006 to 24 in 2008.[18]

At the same time, US parallel institutions and technical assistance projects posed some long-term problems for state capabilities. Employment of Egyptian staff by USAID and its contractors lured qualified bureaucrats out of the civil service. Technical units were more likely to attract Egyptians working in the private sector, but were nonetheless harmful in disincentivizing more fundamental reforms. The appointment of the Nazif government in 2004 attested to the political power and influence of the reformers, and the consequent need for Mubarak to cater to its preferences. Had recipient-accountable parallel institutions not been available from the USA and other donors, Mubarak would likely have been confronted with a decision between disappointing the reformers or scrapping the distributive commitments that positioned their Old Guard rivals to thwart their reforms, and perpetuated forms of state economic intervention that were inimical to their agenda. With access to parallel institutions, however, these distributive commitments could remain in place, and Mubarak was empowered to build a bifurcated state that served, on the one hand, distributive demands of labor and the urban middle class, and, on the other hand, reformist demands of crony capitalists, entrepreneurs, and technocrats.

The USA's central role in Egyptian economic policymaking, from supporting distribution to pursuing economic reform and preferential trade, also distorted normal channels of information exchange between the Egyptian business community and the Egyptian state. Since the early 1980s, the American Chamber of Commerce in Egypt devoted considerable resources to developing relationships with USAID and US policymakers, knowing that it was the US government that was in the best position to secure economic reforms, private sector aid, and free trade. In 1981, AmCham Egypt initiated its first annual "door knock," which permitted dozens of Egyptian businesspeople to go to Washington to lobby for their economic policy preferences back in Egypt. AmCham did not cultivate such relationships with the Egyptian cabinet or the parliament and, in the end, was disappointed by the US government's termination of FTA talks.

Finally, Egypt did not use US military aid to upgrade its own domestic armaments industry. Egypt indeed had much less permissive arrangements than Israel, but Egypt did not even manage to exploit its M1A1 tank co-production agreement with the USA. Rather, the military used its co-production agreement as a means to expand employment at the expense of efficiency. As Marshall points out, even though Egypt possessed more tanks than sub-Saharan Africa and Latin America combined, by 2012 the M1A1 tank facility had implemented only ten production cycles, some of which experienced major cost overruns. Although the basis for co-production was to enable Egypt to export the tanks, the only sign of an export is a possible sale of 140 tank units to Iraq.[19]

Societal Effects

It is likely that US infrastructure projects played some role in improving Egypt's human development indicators, especially in the 1970s and 1980s, when the infrastructure program was quite large. Infant mortality rates dropped from 145 per 1000 live births in 1975, the first year of the program, to 26.4 in 2004, the last year in which USAID committed funds to infrastructure projects.[20] It is also likely that US assistance, in providing commodity support, debt relief, assistance for economic reform, and infrastructure projects, more generally buoyed Egypt's economy. Since the second-generation US aid program began, Egypt did not experience a single year of negative GDP growth, and in fact experienced notable increases in GDP during (1) the mid-1970s (in 1976 GDP growth was 14.6 percent), when US aid was relatively large relative to the crisis-bound economy; and (2) between 2004 and 2008 (in 2008 GDP growth was 7.2 percent), when the US supported the Nazif government with a battery of parallel institutions and economic reform conditionality.[21] However, with little capacity for innovation within the Egyptian military, US co-production agreements could not be marshaled toward upgrading Egypt's domestic armaments industry or broader technological capabilities, as they had been in Israel. The Joint Fund of the US–Egypt Science and Technology Cooperative Agreement did not boast any major accomplishments.

Territorial Reach

US assistance probably made its greatest mark on the state's territorial reach through infrastructure projects, especially in water and sewerage. USAID built heavily not only in Cairo and in Alexandria but also in poorer and more marginalized areas. In 2004, USAID estimated that its water and wastewater projects served 6.082 million people.[22] Additionally, Congress' conditioning of US aid on Egypt taking steps to improve Gaza border security forced the military to strengthen its presence in the Sinai, an area prone to smuggling, insurgency, and terrorism. The number of tunnel openings discovered by Egypt increased from 20 in 2004 to 119 in 2007.[23] However, in 2009, the State Department claimed, "Israeli officials asserted that Egypt took steps to prevent arms smuggling from the Sinai into Gaza, but can do much more in terms of arresting, prosecuting, and incarcerating smugglers, destroying tunnel infrastructure, and providing socio-economic alternatives for Bedouin involved in smuggling activities."[24]

Hierarchy

Like Jordan, Egypt made relatively few sovereignty concessions to the USA at times when another major donor was available. After Egypt had firmly moved out of the Soviet camp, it made more concessions to the USA than Jordan or Israel, but it also received substantial order-maximizing resources in return. However, during the Nazif years, Egypt became dependent on US conditionality, technical assistance, and parallel institutions to help implement the reform agenda, a major point of vulnerability. In 2007, Egypt succumbed to conditionality on its military assistance to improve border security in the Sinai, and from that point onward took measures to reduce smuggling in the Sinai-Gaza tunnel network. Even if US officials claimed that the efforts were unsatisfactory, they still marked a policy change that was tremendously unpopular with the Egyptian public and an important concession in cross-border sovereignty.

With a skew of 0.69 in 1955, Nasser's Egypt was initially a subordinate state in a US-dominated hierarchy. Egypt received some public goods (development projects) and distributive materials (food aid) from the USA, and, in return, did not substantially reorient its foreign policy away from the Anglo-American alliance that it had been bequeathed through 70 years of British occupation. Egypt had only six independent alliances from the USA in 1955, whereas the world average was about nine independent alliances. Additionally, Egypt sacrificed some of its Westphalian sovereignty by permitting NAMRU-3, a US Navy medical research unit that was commissioned in 1946, to remain in Cairo.

However, as Nasser moved to consolidate his support among labor and the urban middle class and embraced a pan-Arab socialist strategy, he exploited Egypt's powerful position in the Arab World to extract more aid from international donors that would exert fewer demands upon Egypt's sovereignty. The Soviets offered generous economic aid, technical advice that coincided with Nasser's statist agenda, and the military assistance that Nasser had been denied by the USA. Additionally, Moscow would not demand that Cairo make amends with Israel. By 1965, Egypt still received US assistance, but the only concession that it made in return was to continue to allow NAMRU-3 to operate on Egyptian soil.[25] With 12 independent alliances (well above the global average of seven), Egypt no longer ceded any juridical sovereignty to the USA. Then, with the discontinuation of US assistance in 1967, the hierarchy ceased to exist.

The US–Egypt hierarchy did not recommence until 1975, when under Sadat Egypt began to receive large amounts of US assistance as part of the peace process. By this point, Nasser's distributive policies had driven the Egyptian state to fiscal and organizational ruin. Unable to substantially alter his predecessor's distributive commitments and facing the additional burden of attracting private investment to Egypt, Sadat became dependent on order-maximizing resources from the USA, especially infrastructure projects and commodity support but also new technologies and training for the military. Washington's leverage over Egypt increased substantially during the first five years of the assistance program. The hierarchical skew dropped from 1.73 in 1975 to a value of 1.03 in 1980 (a year in which Egypt possessed only one independent alliance from the USA) (Fig. 11.1).

Sadat's assassination shocked American officials and caused worries that Egypt might reorient its foreign policy back to the Soviet Union under Mubarak's leadership. Although Mubarak made several small overtures to the Soviets in order to press for faster and larger military assistance, he never distanced himself from the USA, which remained Egypt's major aid donor. The two countries signed a bilateral investment treaty, and, during the First Gulf War, Egypt permitted US overflights, re-fueling at Egyptian bases, and flow-through capacity in the Suez Canal.[26] After the 1993 attacks on the World Trade Center, Egyptian intelligence began to cooperate with US counterterrorism efforts, facilitating the capture and interrogation of

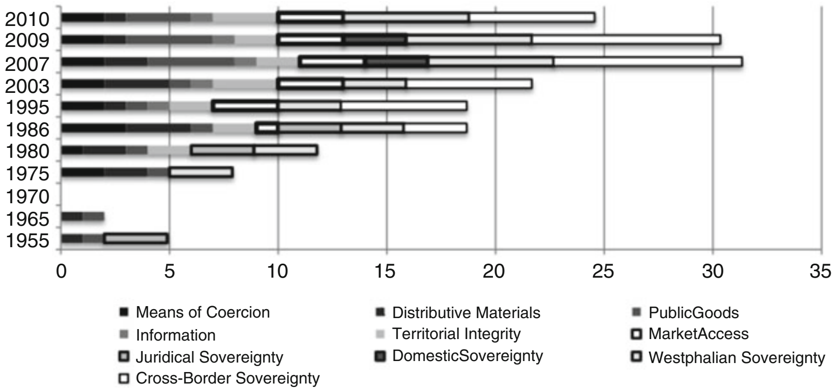

Fig. 11.1 Exchanges of the US–Egypt hierarchy, 1955–2010

suspects on Egyptian territory. In June 1995, President Clinton issued a presidential decision directive that authorized extraordinary renditions, which entailed capturing an alleged terrorist and transferring them to a third country for judicial proceedings. The USA provided Egypt with intelligence agents and charter jets, and Egyptian intelligence would bring the suspects (11 between 1995 and 2000) back to Egypt.[27] The 9/11 attacks and subsequent wars in Iraq and Afghanistan prompted even more concessions, as US policymakers pressed Egypt for logistical support. Between 2001 and 2005, Egypt granted the USA 20 overflights per day on average.

One might hypothesize that as Egypt's economy improved it would become less dependent on the USA for order-maximizing resources and therefore cede less sovereignty. However, as Egypt began to undertake economic restructuring, it began to cede fragments of its sovereignty that had theretofore gone untapped—simply because Egyptian reformers could not implement their policies without a battery of US assistance. The first five cash transfer programs imposed conditionality that the Old Guard of the NDP rejected, as did the Financial Sector Memorandum of Understanding.[28] In both cases, Egypt ceded cross-border sovereignty. Egypt also ceded domestic sovereignty through its acceptance of recipient-accountable parallel institutions that were intended to empower reformist ministers in their daily work.

Egypt's sovereignty concessions increased even further between 2007 and 2009, the nominal cause of which was the rise of Hamas in the Gaza

Strip and, in the eyes of the US Congress, the corresponding need for the Egyptian military to contain the illicit flow of goods travelling through the Gaza tunnels. From the moment that Congress began to debate imposing conditionality on Egypt's military aid, Egypt began to take measures to tighten its control over the Gaza border. It was clearly not a step that Egypt would have taken on its own. The Commander in Chief of the Egyptian military, Mohammed Tantawi, bristled at the recommendations of the Army Corps of Engineers team, and the Egyptian defense attaché in Washington explained, "It's our sovereignty, our dignity, and I am not going to let you come to put up some equipment to observe my home, 24/7. You don't have this right."[29] Yet by December 2007, the Egyptian government submitted a Letter of Request for $23 million in surveillance equipment and training, which had been recommended by the US Army Corps of Engineers team.[30] The conditionality worked. Egypt continued to enforce the Gaza blockade, and in 2009 began building with US assistance a steel wall that extended 25 meters underground. From 2007 onwards, Egypt therefore sacrificed some of its cross-border sovereignty, blocking black market trade with Gaza at the behest of the USA and Israel. This move was incredibly unpopular with the Egyptian public, which accused Mubarak of being a partner in implementing an Israeli policy that economically strangled the people of Gaza.

Since the conditionality could have been linked to either military or economic aid, it is difficult to discern which one the Egyptians were most afraid of losing, and what consequently motivated the military to comply with US preferences. Egypt's military aid had lost about half of its initial value because of inflation. Given that the Egyptian military had not developed substantial armaments production capabilities, a reduction in US military assistance would have also cut into Egyptian military procurement, and possibly left the military lacking spare parts and training. Kissinger himself had once predicted that military aid would buy the USA the most leverage with Egypt, musing, "It is also true, regrettable as this might be, that usually you gain more influence in countries by military assistance than by economic aid; because economic aid can be replaced a lot easier than when you have the military forces of the country dependent on the spare parts."[31] Yet, in the context of USAID's activities in Egypt, economic aid could also have been subject to this same logic. Parallel institutions are expensive, require coherent organization, and house large quantities of human capital and technology, rendering only a few donors willing or able to provide them. Just as a donor can wield power by threatening to terminate an otherwise unavailable military technology, it can also do so by threatening to withdraw an otherwise unavailable parallel institution.

It was, in fact, the economic aid that was more likely to be affected if Egypt did not improve its border security with Gaza. Some US officials had long defended military assistance as the core of the strategic relationship, and viewed ESF as somewhat less important. Several respondents claimed that Department of Defense officials had come to think of the economic aid and a shield for the military aid; if Congress wished to cut or condition Egypt's assistance, it would come first from the economic component. This was well known to the Egyptians. In fact, the economic aid had already been unilaterally reduced for FY 2009—but it was not yet clear that the technical units, the open-ended technical assistance, or the cash transfer program would be eliminated.

These forms of economic aid were highly valued by the reformers. As the US Embassy and USAID mission engaged in discussions with Nazif over economic aid in January 2007, the Prime Minister had expressed a preference for continued ESF over aid graduation. He thought that the value of the cash transfer was too small given the size of Egypt's economy, and brought up the issue of parity with Israel. Then again in 2008, he emphasized the importance of US economic aid to the technical units. However, it is not clear whether the Gamal Mubarak faction was powerful enough outside of the economic policy realm to influence the behavior of the Egyptian military, which had jurisdiction over the border security issue; Gamal himself had a detached relationship from the generals. Only the elder Mubarak and his advisers would have been able to do so.

The Bush administration, in halving Egypt's ESF appropriation for FY 2009, triggered the demise of specific tools in USAID's portfolio that not only had moved the economic reform agenda forward but may also have garnered the USA unprecedented leverage over Egyptian sovereignty. Had Hosni Mubarak been able to successfully orchestrate Gamal's inheritance of the presidency, as numerous analysts have suggested was his intention, the USA would likely have acquired even more leverage over Egypt because a good section of the ruling coalition would have depended on American assistance for the passage and implementation of economic reforms that were favorable to their interests. From a national security perspective, then, the decision to cut ESF and then to eliminate its most popular efforts among the reformers was not a rational one but an unexpected outcome of a runaway conflict over political reform that involved various members of Congress, the democracy community, and officials in the Bush administration.

Conclusion

While Jordan and Israel fell into two extreme positions with regards to US aid's developmental and geopolitical effectiveness, Egypt ultimately came to exhibit a very different dynamic. Egyptian leaders relied heavily on distribution to survive, but Mubarak eventually adopted a hybrid survival strategy that included elements of non-distribution as well. The empowerment of a faction of economic reformers within the ruling coalition changed not only the nature of the Egyptian state but also how US assistance was formulated and incorporated into it. Some aspects of the aid continued to undermine despotic and infrastructural power by supporting distributive commitments, while specific efforts targeted market regulatory institutions for upgrading with near-surgical precision. That Egypt's reformers depended on American conditionality and recipient-accountable parallel institutions to elevate and implement their agenda also meant that Egypt became more dependent on the USA, and ceded more sovereignty than ever before.

At first blush, US aid to Egypt in the last decade of Mubarak's rule appeared to represent a happy medium of developmentalism and geopolitical efficaciousness. In identifying and supporting a group of local reformers, the USA encouraged some upgrading of state developmental capacity and also extracted larger concessions in sovereignty. Yet the developmental effectiveness of US assistance in Egypt was highly circumscribed. High levels of GDP growth were attainable, but the institutions from which they arose were not indigenous to Egypt and therefore evaporated when US aid was cut and reprogrammed. Further, the technical units (as well as the conditionality and project assistance that supported them) represented only a few pockets of efficiency in a broader sea of institutional ineptitude and developmental stagnation. Outside of a small economic elite, most Egyptians did not benefit from a functioning stock exchange, the privatization of state-owned banks, or greater ease of setting up a business because they did not possess the minimum capital to buy stocks, open bank accounts, purchase insurance, or open a formal business. Despite steady GDP growth, the average Egyptian faced worsening economic prospects as public sector salaries and subsidies were eroded, and the private sector could not offer them employment.

The outcome of the Arab Spring protests in Egypt is testimony that, while geopolitically motivated US assistance is intended to support friendly incumbent leaderships, it may not always have this effect—an argument that is not addressed by the three research questions in this book, but which intersects with its broader narrative. US assistance might not placate all of the right groups in society to ensure regime survival, and, in the case of US support for Egypt's bifurcated state, may actually have expedited the regime's fall. Mubarak's resignation also revealed that, even though Egypt's military materially benefitted from US assistance, the latter was not sufficient to ensure its mobilization against regime opponents. The military ultimately did not deploy massive violence against the anti-Mubarak protesters, and the Supreme Council of the Armed Forces (SCAF) encouraged Mubarak to resign.[32]

Egypt's post-2011 experience also demonstrates how a previous leadership's distributive commitments can continue to shape the new leadership's decisions about state building and sovereignty. With a brief interlude from June 2012 to July 2013, when Muhammed Mursi of the Muslim Brotherhood's Freedom and Justice Party occupied the presidency, Egypt has since been ruled by the SCAF. The SCAF initially kept many prominent technocrats and their protégées at the helm of Egypt's economic institutions.[33] These technocrats pushed for an agreement with the IMF that would cover a $10 billion financing gap, as well as advocated for the selective retrenchment of subsidies; one Minister of Finance, Hazem al-Beblawi (himself an early scholar of the rentier state) even criticized foreign aid as an "anesthetic" for Egypt's real problems.[34] However, key decisions on economic policy were ultimately taken at the political level, and the SCAF pursued an expansionary fiscal policy that continued to devote most of the government's expenditures to subsidies, debt service, and the salaries of 6 million public sector employees.[35] The government also began to renationalize companies, for example, the Tanta Flax and Oil Company and the Al-Nasr Company for Steam Boilers, after workers protested layoffs and early retirement schemes.[36]

The SCAF's return to a distributive survival strategy once more threatened to make Egypt dependent on sources of external support—something that the government initially resisted by borrowing heavily from its own banking system. In late 2012, 50 percent of the reserves in the country's banks were held in T-bills and state bonds, and 75 percent of deposits were diverted to finance the state's recurrent expenditures. Interest rates were a record 16 percent, and the Central Bank of Egypt twice lowered the reserve ratio in 2012 so that banks would have excess liquidity to buy more T-bills—rendering the bank's independence highly questionable.[37] Egypt also renegotiated a gas deal with Jordan that was anticipated to yield $250 million in additional revenues, sought to collect back-taxes, and attempted to woo funds from Egyptian expatriates with diaspora bonds and cheap land sales.[38]

Since 2011, Egypt's hierarchy with the USA has become less intense and less skewed toward Washington, whose ability to support the SCAF was restrained by democracy advocates and public opinion more broadly. In April 2011, Foreign Minister Nabil el-Araby said that Egypt would open the Rafah crossing with Gaza, calling its initial closure "shameful."[39] Egypt began looking for new donors. After initially rejecting World Bank loans, in July 2011 Egypt signed a $2 billion agreement that included a $247 million grant for Egyptian civil servants working with international organizations; a $330 million loan to modernize the railway between Assiut and Beni Suef; a loan of $600 million to finance the North Giza Power Station; a $100 million loan for modernizing the New Valley irrigation system; and two loans of $219.75 to connect the Gulf of Suez energy station to the central electrical grid.[40] In mid-2012, the Bank also committed $500 million to the South Helwan power station and an additional $240 million to the North Giza power station, bringing its investments in Egyptian electrical infrastructure to over $2 billion. The government also reinvigorated its bilateral relations with the Arab petromonarchies, an effort that was eased by emerging tensions among Saudi Arabia, Turkey, Iran, and their respective regional allies. In late 2011, Egypt received $470 million in loans for budget support from the Abu Dhabi-based Arab Monetary Fund (AMF).[41] In June 2012, Egypt concluded a deal for a major aid package from Saudi Arabia, including $1 billion in budget support (deposited in Egypt's Central Bank as an eight-year deposit); $500 million to buy Egyptian T-bonds; a $750 million line of credit to import fuel products; and $430 million in other aid.[42] During Morsi's tenure, Egypt also secured about $13 billion in loans and grants from Islamist-friendly governments in Turkey and Qatar. Following Morsi's deposal, Egypt returned some of the Morsi-era funding and secured additional pledges of $12 billion from Saudi Arabia, the United Arab Emirates (UAE), and Kuwait. In January 2014, Saudi Arabia and the UAE pledged another $5.8 billion.[43] These transfers indicated the initiation of new hierarchies that threaten to displace the USA as Egypt's dominant partner. In April 2014, Egypt and Saudi Arabia announced that they were preparing to sign a customs cooperation agreement that would not only prevent double taxation but also promote Saudi investments in Egypt (the Customs Authority had already exempted all means of Saudi road transportation from fees and taxes).[44] That same month, senior Saudi officials claimed that Saudi Arabia was withholding more aid until the presidential election, and would announce a large aid package if the SCAF's General Abdel Fattah al-Sisi were to be elected.[45]

Notes

1. Weinbaum, *Egypt*, 2.
2. Burns, *Economic Aid*; Weinbaum, *Egypt*; Handoussa, "Fifteen Years;" Quandt, *United States and Egypt*; Sullivan, "Bureaucracy."
3. Aidi, *Redeploying the State*, 180.
4. Author calculations based on data from World Bank, *World Development*.
5. Author's calculations based on data from USAID, *U.S. Loans* and World Bank, *World Development*.
6. The Ministry of Supply was followed by the Ministry of Industry ($321.2 million), and the Ministry of Trade ($128 million). Zaalouk, *Power*, 81, 124.
7. Interviews with anonymous respondents, January 27, 2008, February 20, 2008, May 28, 2008.
8. "Jail for Former;" Bassiouni, *Corruption Cases*.
9. Barents Group LLC, *Egypt Public Finance*.
10. Ibid., II-2.
11. Emerging Markets Group, Ltd., *Evaluation*, 5.
12. Deloitte Consulting LLP, *Final Report*, 50–51.
13. Ibid., 128.
14. World Bank, *World Development*.
15. Chemonics International, *Technical Assistance*.
16. "Who is EFSA?"
17. Hyde, "Alternative Guide."
18. Deloitte Consulting LLP, *Final Report*, 9–11.
19. Marshall, *The New Politics*, 14–15.
20. World Bank, *World Development*.
21. Ibid.
22. Emerging Markets Group, Ltd., *Evaluation*, 21, 26.
23. Sharp, *Egypt: Background* (2009), 7.
24. Zanotti, *Hamas*, 32.
25. Peake et al, *Defense Department's Enduring Contributions*, 7.
26. Wisner, *Interview with Frank*.
27. Brownlee, *Democracy Prevention*, 64.

28. SPR I, II, and II, as well as DSP I and II until 2005 are coded as unwanted conditionality under sovereign concessions, but not as wanted conditionality under public goods. The Financial Sector MOU is coded as both wanted and unwanted conditionality.
29. Quoted in Brownlee, *Democracy Prevention*, 120–121.
30. US Embassy Cairo, "Egypt Signs Letter."
31. "Secretary Kissinger's Minutes."
32. Bellin, "Reconsidering the Robustness."
33. Butter, *Egypt in Search*, 5.
34. Quoted in Aggour, "Hazem El Beblawy."
35. "Egypt Confronts Economic Hardships."
36. Ahmed, "Egypt's Tanta Flax."
37. Samhouri, *Egypt's Looming*; Werr, "MIDEAST MONEY-Egypt."
38. Abdel Latif and Kholaif, "Egypt Targets $2 Billion;" Fekry, "Revised Gas Export."
39. "Egypt to Open Gaza."
40. Nour Eldeen, "Egypt Accepts."
41. "Egypt Gets Budget Help."
42. "Saudi Mulls Funding;" "Egypt to get $430 million."
43. Samhouri, *Egypt's Economy*.
44. Aggour, "Egypt, Saudi Arabia."
45. "Saudi Arabia to Provide."

CHAPTER 12

Conclusion

Whether their motives are geopolitical or not, members of the international donor community generally like to believe that the effectiveness of their aid can be manipulated through adjusting its volume, composition, or mode of delivery. Yet a principal claim of this study is that the USA often had circumscribed options in formulating its assistance to Jordan, Egypt, and, for a time, Israel. Even more damning, the overall ability of US aid to effect development and leverage concessions in the sovereignty of subordinate states was almost entirely outside of Washington's control. Rather, the survival strategies of incumbent leaders strongly conditioned the nature of US aid and its subsequent impact on development and hierarchy.

Leaders who used distributive survival strategies provoked US policymakers to make available more discretionary forms of traditional aid, to avoid potentially destabilizing activities, and to provide parallel institutions in strategic sectors. This assistance ultimately supported existing distributive arrangements, perpetuating the state's inability to introduce developmental policies and to implement them over territory, while parallel institutions provided further disincentives for reform and could independently erode the power of the state. However, the dependency of distributive rulers on American order-maximizing resources for not only their own survival but also for economic development, national security, and participation in international markets, compelled them to cede large amounts of their states' sovereignty. This was the story of Jordan, as well as the story of Egypt well into the Mubarak era.

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By contrast, leaders who used non-distributive strategies permitted US assistance that could restructure and upgrade their state institutions and their economies, but were also entrusted with discretionary aid to cover shortfalls in finance, armaments, and human capital. Once this assistance touched down, non-distributive leaders simply incorporated it into existing developmental frameworks that supported institutional upgrading, economic development, and technological innovation. Given the upward trajectory in the state's developmental capacity, even in the absence of US aid, parallel institutions were unnecessary. While developmentally effective, such aid was geopolitically ineffective because these same leaders were less dependent on order-maximizing resources, and were therefore unwilling to cede significant amounts of sovereignty. This is largely the story of Israel, barring the moderately distributive period of 1967–1985.

The latter part of Mubarak's rule in Egypt combined both of these patterns, but here US aid effectiveness was not equal to the sum of its parts. Mubarak's hybrid survival strategy, on the one hand, placated a historical coalition of labor and the urban middle class with selective benefits in the form of salaries, subsidies, and tax breaks, while building pockets of efficiency to serve the interests of a rising group of crony capitalists, entrepreneurs, and technocrats who favored further economic reforms. The rise of reformers in Mubarak's inner circle gave USAID a foothold to apply meaningful conditionality and technical assistance, but these efforts still remained circumscribed by the Old Guard and the larger part of the Egyptian state that existed to serve them. The reformers' dependence on US aid to preserve their institutional space also appears to have given the US greater leverage over Egyptian sovereignty. In 2010, this arrangement might have appeared to be a developmental and geopolitical boon for Washington, but the collapse of the Mubarak regime in 2011 rendered these bargains illusory.

Not only did incumbent survival strategies, then, shape the trajectory and outcomes of geopolitically motivated US assistance, they also presented something of a paradox. Recipients that were more likely to use US assistance to great developmental effect were also those that were more likely to retain their sovereignty, and even buck US policy preferences. Their bilateral relationships were less characterized by hierarchical exchanges than they were by normal alliance politics that characterizes countries of more equivalent power and material capabilities. By contrast, recipients that were more likely to use US assistance to a negative developmental ends were also those that were more likely to cede fragments of their sovereignty, allowing the USA to acquire control over important transport routes, markets, domestic institutions, and alliance patterns. Egypt, which for some time appeared to offer the best of both worlds, turned out to be an unsustainable configuration that ultimately vanquished much of USAID's developmental impact, and threatened to remove Egypt from the US geopolitical orbit.

Elsewhere in the Middle East

Although the cases in this book were carefully selected to permit a structured, focused comparison that allows some basic theoretical generalizations, the resulting arguments can surely be tested against other cases of geopolitically motivated US assistance in the Middle East and other regions. The only scope conditions that apply are that (1) the recipient must be in a position to willingly relinquish its sovereignty, and (2) US interest in the recipient must be primarily geopolitical, rather than developmental, commercial, or humanitarian. These conditions exclude bilateral relations that are defined by colonialism, empire, coercive military-intelligence intervention, and occupation; traditional assistance relationships that are rooted in samaritanism; and the work of nongovernmental and charitable organizations. However, they still afford researchers an ample selection of cases.

In many ways, US assistance to Iran's Pahlavi regime bears similarities to some of the cases considered here. The Shah of Iran was not able to attract significant amounts of US assistance until key players in the Eisenhower administration became convinced that domestic opposition groups, in this case the Tudeh Party, could provide a foothold for Soviet infiltration—concerns that were exacerbated by NATO's reliance on Iranian oil and the 1951 nationalization of the Anglo-Iranian Oil Company by Prime Minister Muhammed Mossadeq.[1] After the CIA supported a 1953 military coup that permitted the Shah's return to power, Iran briefly became an aid dependent state. The USA provided the Iranian government with the budget support it would need to pay civil servants, oil workers, and security personnel, as well as offered PL 480 food aid that could be sold as an additional source of government revenue.[2] The USA provided financial and technical assistance for traditional aid projects in agriculture, public health, housing, education, roads, highways, ports, railroads, telecommunications, power, and water, and also ran a large public administration training program through a partnership with the University of Southern California.[3] In this sense, Iran is similar to Egypt and Jordan.

However, the Iranian case also exhibits some important differences that may allow the theory advanced here to be further developed in new directions. Despite access to a large amount of US aid and, after 1957, hydrocarbon revenues, distribution did not appear to play a major role in the Shah's survival strategy. Rather, as Yom's recent work highlights, the Shah relied on coercive assistance from the USA to destroy the Tudeh and other opposition networks in the 1950s, and in the two subsequent decades, he proceeded to alienate important social constituencies such as landed elites, the Shi'a clergy, and the bazaar. Between 1953 and 1957, Iran's military and police spending more than tripled in size, and, in 1956, the USA began to assist the Shah in building a new intelligence service, SAVAK, that would counter both domestic and foreign threats.[4] The Shah's primary reliance on coercion to remain in power stands in contrast to Egypt and Jordan, where US aid played a key role in shoring up regime constituencies by supporting large-scale public employment, subsidies, and a range of particularistic benefits—or, in the very least, allowing such patterns of distribution to remain intact.

Iran can also provide insight into how the availability of windfall hydrocarbon rents affected the relationship between US aid and state building, as well as the intensity and skew of the hierarchical dyad—insights that Egypt, Jordan, and Israel cannot offer. Of course, access to oil revenues freed Iran from its dependence on US budget support, which might have tipped the skew of the US–Iran hierarchy away from Washington and toward Tehran. However, Iran still relied on US technical expertise and military technology, dependencies that the USA exploited when it terminated cash transfers in 1956 and dramatically increased its provision of technical advisers and military aid.[5] After 1972, when the USA began to supply Iran with weapons on commercial terms, it gave Tehran permission to purchase any weapon available in the US arsenal, including F-14 and AWACS aircraft, Phoenix and Maverick missiles, destroyers, and a surveillance system that cost $500 million.[6] As such, Iran did grant some concessions in its sovereignty to the USA. It had no independent allies, allowed the CIA to maintain listening stations throughout the country, and in a 1964 Status of Forces Agreement granted criminal immunity to US military personnel. At the same time, there is no evidence that the USA was able to impose unwanted economic or political reform on Iran, and, despite the presence of 900 civilian technical advisers by 1979, there does not appear to be any evidence that the USA operated parallel institutions in the country.

The Sunni monarchies of Saudi Arabia, Bahrain, and Oman may also provide additional insight. US aid to these countries fundamentally revolved around the negotiation of US basing rights. Since the Second World War, the USA had had an interest in maintaining a permanent military presence in various countries of the Arabian Gulf for the purpose of protecting energy assets, ensuring free maritime passage, and, at various points in time, deterring Soviet expansion and supporting regional counterterrorism efforts. In return, host nations could benefit from US military technology, training, and defense of their territorial borders—capabilities that they often forewent in their pursuit of distributing hydrocarbon revenues to their own societies. At the same time, US forces often drew criticism of their government hosts from Arab nationalists, elite rivals, and insurgent groups, requiring incumbent leaders to weigh the benefits of basing and various forms of military aid against possibly destabilizing domestic opposition tendencies.[7]

These tensions were evident in US basing negotiations with Saudi Arabia, which permitted a US military base to be established at Dhahran after the conclusion of the Second World War, before the monarchy had access to large-scale oil revenues. Dependent on US financial and technical assistance, as well as concerned about its Hashemite enemies, the Saudi monarchy allowed the USA to retain these basing rights throughout the 1950s. However, Nasser's pan-Arabist trend continued to criticize Dhahran into the early 1960s. The government ultimately terminated the basing rights in 1962. US forces were only allowed to return after the Iraqi invasion of Kuwait in 1990, and, after the USA succeeded in deposing Saddam Hussein, were again required to leave. Remarkably, these terminations did not appear to upset the bilateral relationship, and the USA was allowed to keep a "light footprint" model that allowed US advisors to be deployed for training missions or to provide assistance in the maintenance and operation of US-supplied military equipment.[8] These dynamics support the impression that hydrocarbon revenues can result in hierarchies that are skewed away from the dominant state, but do not render them fully independent of US resources—especially in times of crisis.

Beyond the Middle East

Other regions of the world have also been exposed to prolonged periods of geopolitically motivated US economic and military assistance. Asia, in fact, was the largest regional recipient of US assistance between 1948 and 2009, accounting for nearly 38 percent of all obligations.[9] Much of this assistance supported postwar reconstruction in Japan, US basing access in the Philippines, and the containment of communism in South Korea, Taiwan, and South Vietnam. However, Japan and South Vietnam are not eligible for comparison, as much of this assistance was disbursed during periods of coercive US military intervention in these countries.

In South Korea, non-distributive rulers used traditional forms of US assistance to great developmental effect, but were unwilling to make significant sovereignty concessions. Syngman Rhee, the octogenarian, anticommunist ruler who was installed by the USA during its postwar occupation of the country, derived his domestic support from a narrow coalition of business elites and agrarian bureaucrats. Although Rhee and his supporters were corrupt, his immunity to populist demands allowed him to insulate the most important economic policy bureaucracies from patronage appointments. His successor, Park Chung-Hee, drew on his support from the military and civilian technocrats to put down popular protests and condition the conglomerates' access to capital and other selective benefits on their performance.[10]

US assistance generally aimed to restructure and upgrade Korean institutions, and included technical assistance for land reforms and institutional capacity building. During the Rhee period, the Korea Military Advisory Group trained South Korean forces, and at the end of the Korean War, dispatched them on "civic action" missions to help the Army Corps of Engineers rebuild damaged infrastructure.[11] South Korea used US funds and technical assistance to build local economic planning institutions, the Economic Planning Board in South Korea. Park incorporated US commodity assistance into his preferential allocation of capital. At the same time, South Korea bucked Washington's attempts to impose economic reform conditionality. Throughout his tenure, Rhee refused American demands to devalue the currency, decrease military expenditures, or normalize relations with Japan—fearing Korea's reintegration as a subordinate partner in a resurrected Greater East Asia Co-Prosperity Sphere.[12] Park's unwillingness to abandon the state's heavy-handed role in allocating foreign capital and subsidizing exports (two important elements of the East Asian developmental state model) prompted the USA to cut South Korea's economic aid from $1.1 billion in 1969 to $119.5 million in 1975, then phase it out completely in 1982.[13]

An emerging area of inquiry might be found in Central Asia. It is unlikely that among the countries of Kyrgyzstan, Kazakhstan, Tajikistan, Turkmenistan, or Uzbekistan researchers would find instances in which any type of foreign assistance is used to increase the state's developmental capacity. These post-Soviet governments are led by local strongmen who rely heavily on the support of their own families and associates, who control large swathes of the bureaucracy and the local economy.[14] Interesting, however, is the fact that these rulers rely on order-maximizing resources from *three* potential donors. Russia's interest in the region stems from its historical control over these countries, and the economic and political ties that were foraged during that time. China's interest is derived from its desire to stabilize the Western province of Xinjiang. The USA has relied on these countries to secure transport routes and military staging into Afghanistan.[15] As Cooley's work suggests, Central Asia therefore poses an interesting venue to observe how the presence of multiple potential donors affects bargaining dynamics within hierarchical dyads. For instance, in 2009, Kyrgyz president Kurmanbek Bakiyev renegotiated a more expensive basing agreement with Washington after promising to shut down the US base at Manas in exchange for Russian economic aid.[16]

Despite a long and well-publicized list of US interventions in Latin America and the Caribbean, many of these cases are not useful for comparison. Prior to the Second World War, the USA provided foreign assistance to many Caribbean countries that was explicitly intended to improve their ability to collect revenue and stabilize their own polities—including running eight fiscal receiverships that saw the USA assume total control over the host governments' customs houses. However, the primary motive for such assistance was not geopolitical but commercial. By 1929, American companies had invested over $200 million in the region, and continually contended with the threat of expropriation and government default. Further, the threat of unwelcome US intervention always loomed, which makes it difficult to discern the contractual nature of these states' respective relationships with Washington. The Roosevelt Corollary was used to justify more than 30 armed interventions in the Caribbean between 1904 and 1934. The Platt Amendment was invoked in 1906, 1912, and 1917 as a means to redeploy US troops to Cuba for periods of time. In 1915, US Marines invaded Haiti, and then in 1916 the USA occupied the Dominican Republic.[17]

Franklin Roosevelt's "Good Neighbor Policy," which terminated the US occupations of Nicaragua and Haiti and led to the annulment of the Platt Amendment, only temporarily expelled the threat of forceful US intervention. As part of Washington's backyard during the Cold War, Latin America was once more threatened by US intervention, much of which also sought to undermine democratically elected governments. At the onset of the Cold War, it is believed that there were only between 360,000 and 500,000 communists in the entire region, and unlike in the Middle East and Asia, they were largely ignored by Moscow. Nonetheless, the USA opposed leftist political groups in Latin America on the basis of the belief that inability to secure the Western hemisphere would affect its credibility elsewhere. Commercial interests also continued to play a role. These elements were all present in the USA's 1953 intervention to overthrow Guatemala's democratically elected president, Jacobo Arbenz Guzman. Arbenz's land reforms and broader social agenda had threatened a traditional elite of large landowners, the Church, and the military, as well as the interests of the United Fruit Company.[18] The USA then supported the subsequent Castillo Arms government with over $100 million in economic aid, technical assistance, and counterinsurgency aid.[19]

Even the Alliance for Progress period, whose $15 billion in expenditure was intended to cure the poverty and injustice that the Kennedy administration associated with social upheaval, was punctuated with covert intelligence operations against elected governments. Elected leaders such as Arturo Frondizi in Argentina, João Goulart in Brazil, and Cheddi Jagan of British Guiana refused to partner with Washington against Cuban communism. In Guyana, the CIA sponsored favored candidates and helped rig elections. In Brazil, the CIA supported the campaigns of favored candidates for 600 state legislature seats, 15 federal Senate seats, 8 state governorships, 250 federal deputy seats, and 8 state governorships, as well as funneled aid away from pro-Goulart strongholds like Pernambuco even though they were often desperately poor.[20] Goulart was ultimately deposed in a military coup, whose conspirators had told the USA of their plans in advance and successfully appealed for Washington's support in the aftermath. The USA welcomed the deposal of Chile's Salvador Allende in a military coup, and subsequently furnished the new government with helmets and flares, PL 480 food aid, and a $238 million dollar loan from the Inter-American Development Bank. The Chilean military ordered $100 million in new equipment and spare parts, emerging as the fifth largest customer in the world for the US defense industry.[21]

Conclusion

What does US aid "buy" in the Middle East? Reams of paper have been dedicated to studies, commissions, and dissertations that preoccupy themselves with why US assistance to countries like Egypt, Jordan, and Israel does not yield both developmentalism and the projection of US power. Their recommendations usually involve more aid, less aid, different aid, different aid organizations, and so forth. Some of these studies attribute aid's failure to a hostile local environment, or politicization of individual projects, yet none systematically discuss how US aid complements the priorities of recipient governments. Few studies of US aid would invoke a discussion of the British occupation in Egypt, the Hashemite family's attempts to establish itself as Jordan's ruling dynasty, or Mapai's consolidation of control over key institutions prior to Israel's independence. In their neglect of the aid recipient's own history and domestic politics, most studies of US assistance in the Middle East have failed to comprehend the centrality of incumbent survival strategies to its developmental and geopolitical success.

This study cannot generate a list of policy recommendations to "improve" US aid to its geopolitical allies in the Middle East, quite simply because it sees domestic factors as paramount to understanding the effectiveness of geopolitically motivated US aid. If anything, US officials who work intimately with these bilateral relationships should better cultivate and disseminate their understanding of their allies' survival strategies, engage the broader US government and US public in expectation management, and cease to commission studies on how US aid to these recipients could have been more efficiently formulated. It is very unlikely that US assistance to Jordan will ever be developmental so long as the Hashemites persist in their distributive survival strategies, just as it is unlikely that the US–Israel hierarchy will have a strong dominant state skew so long as Israeli leaders continue to embrace non-distribution. Rather, some allies are good at using aid developmentally. Others are good at subordinating their sovereignty. Washington cannot choose which option it would prefer.

Notes

1. Yom, *Resilience to Revolution*, 108.
2. Yom, *Resilience to Revolution*, 114; Gasiorowski *US Foreign Policy*, 106.
3. Gasiorowski *US Foreign Policy*, 108.
4. Ibid., 117–118.
5. Ibid., 101, 104.
6. Ibid., 113.
7. Gresh, *Gulf Security*.
8. Ibid.

9. USAID, *U.S. Overseas Loans.*
10. Peters, "Special Relationships."
11. Brazinsky*, Nation-Building.*
12. Woo, *Race*, 52–55.
13. USAID, *U.S. Overseas Loans.*
14. Cooley, *Great Games.*
15. Cooley, *Great Games*, 3–7.
16. Ibid., 3.
17. Rabe, *The Killing.*
18. Rabe, *The Killing*, 43–44.
19. Streeter, *Managing the Counterrevolution*; Rabe, *The Killing*, 57.
20. Rabe, *The Killing*, 107.
21. Rabe, *The Killing*, Chapter 6.

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