

The Palestinians' Lost Marshall Plans

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The report released this week by the US Agency for International Development on malnutrition in the Palestinian territories signals how deep the humanitarian and economic crisis has become. It is heartening to see the growing concern about how to alleviate the suffering of Palestinians and at the same time give them hope of a more prosperous future. To translate this concern into real progress on the ground, we must study the past decade of efforts to aid the Palestinian economy. We should also make a clear-headed evaluation of where the Palestinian economy stands relative to other Arab and developing countries. The facts may prove surprising.

A New Marshall Plan?

The phrase used often by those who wish to assist Palestinians is that we need a new Marshall Plan. A detailed study with just this title has been prepared by successful Israeli businessman Stef Wertheimer, who has garnered support from such influential figures as chairman of the US House of Representatives International Relations Committee Henry Hyde, as well as, of course, Israeli Foreign Minister Shimon Peres.

The essence of the Marshall Plan was to provide financing for dollar-starved European countries, which had many highly profitable investment projects that could not be financed by the limited private funds then available. In other words, these countries had good business environments and well-functioning governments but lacked money. The situation of the Palestinian territories is exactly the opposite. As is well known, they have a bad business environment and poorly functioning governance. But what may come as a surprise is how well endowed the Palestinians have been with foreign-aid funds.

A comparison to the Marshall Plan is telling. The Marshall Plan distributed \$60 billion (at today's prices), which worked out to \$272 per European in the main participating countries. By contrast, by the end of last year according to the World Bank, the Palestinians had received \$4 billion since Oslo, which translates into \$1,330 per Palestinian. In other words, the Palestinians have already gotten more than four times as much as the Europeans got from the Marshall Plan. Or if done on an annual basis, the Palestinians have gotten \$161 per person per year compared to \$68 per person annually under the four-year Marshall Plan meaning the Palestinians have gotten more than twice as much aid for twice as long as Europe got under the Marshall Plan.

Another way to gauge aid to the Palestinians "WBG" (West Bank and Gaza) in the lexicon of international agencies is to compare aid levels to other poor areas. In 2000, according to the World Bank's World Development Indicators 2002, WBG received \$636 million in aid or \$214 for each of the three million WBG residents. That is the highest in the world by far. Only Bosnia, at \$185, is close; shamefully, Israel is third at \$128.

Compared to the \$214 for the Palestinians, the average for sub-Saharan Africa is \$20; for South Asia, it is \$3. Those areas are much, much poorer than the Palestinian territories. Consider a country like Ethiopia, which got about the same amount of aid as the Palestinians but has more than 20 times the population. In Ethiopia, national income is \$100 per person that is per year, not per week. In other words, each Ethiopian's income from all sources is, on average, less than half what Palestinians receive from foreign aid alone.

The cynic could suggest that if the Ethiopians caused more terrorism or threatened global political stability, they would see more dollars headed their way. But that is not all that is at work here. Even compared to countries of great terrorism concern, the Palestinians are in a special class. The world has become concerned about unemployed Pakistani youth educated in radical madrassas, but aid to Pakistan was a mere \$7 per person, one-30th the Palestinian level.

How has the intifada affected aid? The aid has shot up since intensified violence began. The increased aid has come overwhelmingly from Arab states; the PA reported that in the first 18 months of the intifada, Arab countries provided \$677m. in aid. According to the World Bank March 2002 report on the impact of the intifada, donor funding was "only" \$482m. in 1999 before the violence began; it ballooned to \$929m. in 2001. That is an extra \$447m., or \$149 extra per Palestinian. The cynic would say violence pays; the compassionate would say the world has responded to greater Palestinian suffering.

So with all this aid, why has WBG not had better economic performance? The easy answer is that aid to the Palestinians has been used extraordinarily badly. Aid programs the world over face renewed criticism from those

who argue that aid "too often has done harm, by sustaining either grossly inefficient policies, or corrupt and brutal leaders, or too often both together" (in the words of Martin Wolf of the Financial Times).

But the problem is not just with the aid agencies, which keep shoveling the money out the door irrespective of results. The bigger problem is that aid cannot provide what the Palestinians need, which is peace and better governance. The biggest single barrier to Palestinian growth is their violence against Israel, which forces Israel to impose closures and curfews. Those who want to relieve the suffering of the Palestinians should concentrate on stopping their offensive, which would allow Israel to lift the devastating restrictions on the flow of goods. Restoring employment in Israel is an implausible dream for now, but if goods could flow easily, many Palestinian businesses could thrive. Reforming Palestinian governance the popular issue over recent weeks would also help, but in fact, the PA functions at about the same level of corruption and incompetence as most Arab governments, and those countries have had better growth records than WBG since Oslo. The main problem is the violence which causes closures and restrictions.

The Palestinians have many valuable assets: a well-educated labor force, entrepreneurs used to competing with artificial state aid, and large markets right next door in Israel. The Palestinian economy could grow rapidly if we could put in place a non-Marshall Plan: more peace and better governance, without aid money that props up failing leaders and reduces the urgency for needed political actions like ending the violence.

How Poor are Palestinians?

One reason that the flood of foreign aid is unnecessary and quite possibly harmful is that the Palestinians have the income to pay more of their way in the world. The simple fact is that Palestinians are middle-income, not poor.

It is instructive to compare Palestinian incomes to those of other Arabs. According to the World Development Indicators 2002, in 2000, WBG income per person was \$1,660. That was higher than in such middle-income Arab countries as Algeria (\$1,580) or Egypt (\$1,490). To be sure, Palestinian income has fallen as the violence has worsened. In its March 2002 report on the impact of the violence, the World Bank's estimate was that Palestinian income per person fell 19 percent in 2001, which would put the income at about \$1,340. That is still above a country such as Morocco (\$1,180 in 2000). The World Bank's estimate was that harsher closure could mean that Palestinian income may fall 20% more in 2002, which would put the per-capita income at \$1,070. That is a truly catastrophic fall. The extent of the disaster can be seen in the fact that today, Palestinian income may be only 14% higher than in Syria, where per-capita income was \$940 in 2000.

As the comparison above shows, the Palestinians pre-intifada were solidly middle-class in the Arab world: their income was above the average for all Arabs. With the disastrous violence of the last two years, Palestinians have slipped down to become lower-middle-class among the Arabs somewhere below Morocco but above Syria. This reality is bleak, but nothing like the end-of-the-world rhetoric used by some supporters of the Palestinians.

It is rare indeed to hear the hard truth that the real economic basket case among Israel's Arab neighbors is Syria, not the Palestinian territories. That fact is inconvenient for those who would blame Israel for all the ills of the region. The Assad family, not Israel, has been the leading economic disaster in the Levant. When they took over Syria 30 years ago, Syria had higher income per person than Egypt, but now Egypt's income is higher by half, despite Egypt's poor growth record during those three decades.

Further, the Syrian economy is not the only suffering Arab economy that begs comparison with the Palestinians. Even after the terrible blows they have brought upon their economy, the Palestinians remain head and shoulders above the poor Arab states with average incomes below \$400 a year, namely Yemen (\$370), Sudan (\$310), and the fringe Arab League members Mauritania, Somalia, and Comoros. In their desperate condition of 2002, Palestinian income remains more than three times higher than that of Arabs in these poor countries. If the Arab League is concerned about poverty among the Arabs, it might think about mobilizing international attention to the plight of these people. In 2000, the combined foreign aid that went to all of these 43 million truly poor Arabs, living in five countries, was less than what the three million Palestinians received, though Palestinian income was then four times as high as that of the poor Arabs. The disparity has only grown as aid to WBG has mushroomed since September 2000.

The sophisticated observer should at this point object that income is not all that counts when calculating how well off one is. The phrase "social indicators of development" is used for all those other things which matter in determining the standard of living. The World Bank does not provide much information about Palestinian social indicators of development, so we have to confine ourselves to just a few measures. The evidence about social indicators among Palestinians is striking.

To quote the World Bank, in its 2001 report *Poverty in the West Bank and Gaza*, "on basic health indicators, such as infant and under-five mortality and life expectancy, WBG performs at the level of upper middle countries. When compared with the regional averages, its health indicators are above average." According to the World Bank's World Development Indicators 2002, WBG infant mortality is lower than in any of Israel's other Arab neighbors at 22 deaths per 1,000 live births, compared to 42 in Egypt, 26 in Lebanon, 25 in Jordan, and 24 in Syria. Life expectancy in WBG is 72 years, higher than in Egypt (67), Syria (70), and Lebanon (also 70), while equal to that of Jordan. Of course, Palestinian life expectancy is more than a decade longer than in the poor Arab states, such as Sudan (56), Yemen (also 56), and Somalia (48).

The Lesson: Politics Determines Economics for Palestinians

It is galling to many Palestinians that the occupation years saw better economic performance than since the establishment of the PA. In the occupation years 1968-92, Palestinian per-capita incomes almost quadrupled. Palestinian per-capita income has never recovered to the levels pre-Oslo: it was almost there in 1999, but then came the disastrous decline during the current intensified violence.

Average incomes in WBG rose from 10% of the Israeli average in 1968 to a peak, relative to the Israeli average, of around 23% to 25% sometime before the Oslo Accords (the figures for the decade before Oslo are imprecise, what with Israel's high inflation in the mid-1980s and then the collapse of data-collection in the territories during the first intifada). The disastrous rule under the PA reduced average income to 10% of the Israeli level in 1998. Since the outbreak of intensified violence, Palestinian incomes have fallen even faster than Israeli, such that the Palestinian average in 2002 may be less than 9% that of Israelis a historic low.

The lesson is not that occupation was good, as some Israeli troglodytes maintain; in fact, the occupation saw many severe restrictions that held back Palestinian development. Instead, the lesson of the last few decades is that economic prosperity depends upon political stability. Business cannot prosper during low-level warfare. Nor are things much better when politicians insist on prolonged transitional arrangements, during which the ground rules are constantly shifting. And it would help to have better governance by the Palestinian Authority. Those who want to help alleviate the suffering of the Palestinians would do best at concentrating on ending the violence, arriving as quickly as possible at a lasting set of arrangements, and achieving Palestinian reform probably in that order of importance as regards economic impact.

In the absence of stability, pouring in more aid money will do little to improve the economy and may only provide politicians the resources to keep on muddling through without tackling the fundamental political and economic problems.