

New Study by the Jerusalem Institute for Market Studies:

Every Dollar of US Aid Costs Israel Up to 1.4 Dollars

The conditioning of three billion dollars of annual American aid to Israel on similar aid to Egypt, Jordan, Saudi Arabia and the Palestinians forces Israel to spend more than three billion dollars on defense, according to a new position paper published on January 12, 2011, by the Jerusalem Institute for Market Studies (JIMS).

Yarden Gazit, a JIMS analyst who authored the paper, claims that "US aid is a net loss for Israel and Israel would be better off without it."

According to JIMS, **the lion's share of US aid ends up being spent on maintaining a qualitative edge over other countries who receive such aid.** US aid comes in a bundle with aid to Egypt, Jordan and other countries. Egypt receives from the US two thirds of the sum granted to Israel. But according to JIMS, **every dollar granted to Egypt requires Israel to spend between 1.6 and 2.1 dollars to maintain the balance of power.** As a result, every dollar granted to Israel costs Israel between 1.06 and 1.39 dollars.

JIMS notes another problem is that the actual value of the US aid is much less than 3 billion dollars. The US requires that 75% of the grant be spent in the US. "When someone receives vouchers worth 300 dollars valid only in a specific store, it is obvious that the vouchers are worth less than 300 dollars to him," says Gazit. "With part of the amount, the person will purchase goods he could have bought elsewhere for a lower cost, and with another part he will buy goods he had not intended to buy. Similarly, **the 'buy US' requirement causes Israel to buy defense products at a high price, sometimes even products Israel may not need.**"

"Israeli industry loses up to \$750 million because of US Aid"

The Israeli defense sector is hurt in 4 ways by US aid:

1. According to JIMS, **the Defense Ministry purchases US products even though Israeli industry is capable of producing cheaper products, which better fit the IDF's demands. JIMS estimates the direct loss faced by Israeli industry at \$600-750 million per year.**
2. The Defense Ministry often requires Israeli companies to purchase expensive raw materials in the US in order to use up available grant money. This raises the cost of the final products sold by Israeli industry and hurts its competitiveness in Israel and on the world market.
3. Since the Israeli army purchases so much in the US, some locally produced defense products are not used by Israel's own army. This hurts Israeli industry's reputation on the international market and may cause a loss of sales.
4. The industry loses valuable potential contracts because of US-imposed restrictions on Israeli defense exports.

JIMS also points out that the billions of dollars guaranteed to the defense establishment every year reduce its incentive to reform and economize. "Why should a politician or the head of a government ministry invest political capital in promoting

efficiency and pro-growth reforms, when he can always turn to the Americans and ask for more aid, guarantees or more favorable conditions?" asks Gazit.

JIMS forecasts that as a result of the economic crisis in the US and its ever-increasing budget deficits, along with the rise of new powers such as India and China, which are interested in Israeli products, the economic and strategic damage of US aid will increase in the coming years. JIMS recommends that the Israeli government initiate an end to US government grants.

The full position paper can be found in Hebrew on the JIMS website: www.jims-israel.org