

## Turning Abbas's logic on its head

Daniel Pipes , THE JERUSALEM POST

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Western financial aid to the Palestinians has, I showed last week, the perverse and counterintuitive effect of increasing their rate of homicides, including terrorist ones. This week, I offer two pieces of perhaps even stranger news about the many billions of dollars and record-shattering per-capita donations from the West: First, these have rendered the Palestinians poorer. Second, Palestinian impoverishment is a long-term positive development.

To begin, some basic facts about the Palestinian economy, drawing on a fine survey by Ziv Hellman, "Terminal Situation," in the Dec. 24 issue of *Jerusalem Report*:

- Palestinian per year per-capita income has contracted by about 40 percent since its \$2,000 peak in 1992 (before the Oslo process began) to less than \$1,200 now.
- Per-capita Israeli income, 10 times greater than the Palestinians' in 1967 is now 23 times greater.
- Deep poverty has increased in Gaza from 22 percent of the population in 1998 to nearly 35 percent in 2006; it would be about 67 percent if not for remittances and food aid.
- Direct foreign investment barely exists, while local capital mostly gets sent abroad or is invested in real estate or short-term trading.
- The Palestinian Authority economy, Hellman writes, "is largely based on monopolies in various industries granted by PA officials in exchange for kickbacks."
- The PA's payroll is so bloated that the cost of wages alone exceeds all revenues.
- A dysfunctional judicial system in the PA means armed gangs usually decide commercial disputes.

UNSURPRISINGLY, Hellman characterizes the Palestinian economy as "in shambles." Such shambles should come as no surprise, for as the late Lord Bauer and others have noted, foreign aid does not work. It corrupts and distorts an economy; and the greater the amounts involved, the greater the damage. One telling detail: at times during Yasser Arafat's reign, a third of the Palestinian Authority's budget went for "expenses of the President's office," without further explanation, auditing, or accounting. The World Bank objected, but the Israeli government and the European Union endorsed this corrupt arrangement, so it remained in place.

The Paris conference for the "Palestinian state" raised \$7.4 billion in pledges on Dec. 17, 2007. Indeed, the Palestinian Authority offers a textbook example of how to ruin an economy by

smothering it under well-intentioned but misguided donations. The \$7.4 billion recently pledged to it for the 2008-10 period will further exacerbate the damage.

Paradoxically, this error might help resolve the Arab-Israeli conflict. To see why, consider the two models, hardship v. exhilaration, that explain Palestinian extremism and violence.

The hardship model, subscribed to by all Western states, attributes Palestinian actions to poverty, isolation, Israeli roadblocks, the lack of a state, etc. Mahmoud Abbas, the PA leader, summed up this viewpoint at the Annapolis conference in November: "the absence of hope and overwhelming despair ... feed extremism." Eliminate those hardships and Palestinians, supposedly, would turn their attention to such constructive concerns as economic development and democracy. Trouble is, that change never comes.

The exhilaration model turns the Abbas logic on its head: the absence of despair and overwhelming hope, in fact, feed extremism. For Palestinians, hope derives from a perception of Israeli weakness, implying an optimism and excitement that the Jewish state can be eliminated. Conversely, when Palestinians cannot see a way forward against Israel, they devote themselves to the more mundane tasks of earning a living and educating their children. Note that the Palestinian economy peaked in 1992, just as, post-Soviet Union and post-Kuwait war, hopes bottomed out to eliminate Israel.

Exhilaration, not hardship, accounts for bellicose Palestinian behavior. Accordingly, whatever reduces Palestinian confidence is a good thing. A failed economy depresses the Palestinians' mood, not to speak of their military and other capabilities, and so brings resolution closer.

Palestinians must experience the bitter crucible of defeat before they will drop their foul goal of eliminating their Israeli neighbor and begin to build their own economy, polity, society, and culture. No short-cut to this happy outcome exists. Who truly cares for Palestinians must want their despair to come quickly, so that a skilled and dignified people can move beyond its current barbarism and build something decent.

The huge and wasted outpouring of Western financial aid, ironically, brings on that despair in two ways: by encouraging terrorism and by distorting the economy, both of which imply economic decline. Rarely has the law of unintended consequences worked so imaginatively.

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