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THE OUTLOOK FOR ISRAEL

Submitted by the
DIRECTOR OF CENTRAL INTELLIGENCE

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THE OUTLOOK FOR ISRAEL

THE PROBLEM

To assess the outlook for Israel over the next two or three years.

CONCLUSIONS

1. The recent elections in Israel did not produce any significant change in the political situation. While the socialist Mapai party, dominated by Ben Gurion, lost a few seats in the parliament, it will remain the key political element over the next few years. We foresee no change in the pattern of its forming coalitions with lesser parties to govern the country. Nor do we foresee any significant diminution of Ben Gurion's power so long as he remains active. His death would precipitate a contest for power in the Mapai party, but we believe the main lines of Israeli domestic and foreign policy would remain essentially unchanged. (*Paras. 9-13*)
2. Israel's economy continues to grow at an impressive rate, but its substantial adverse trade balance will continue to keep Israel heavily dependent on private and governmental aid from abroad. The sharp diminution of West Germany's reparations and restitution payments over the next few years will probably cause some cutback in investment and development, in spite of Israeli efforts to increase the contributions of world Jewry and to attract foreign industrial investment. (*Paras. 15-17*)
3. There has been no improvement in Arab-Israeli relations. Sporadic border incidents are likely. Israel's plans to divert substantial amounts of Jordan waters to the Negev and the Israeli nuclear program will continue to cause much apprehension among Arab leaders, and could lead to forceful action. If the breakup of the UAR following the 28 September revolution in Syria does not lead to turmoil on Israel's borders, we foresee no significant immediate impact on Israel. We believe, however, that Israel will be able to maintain its military superiority over its Arab neighbors—a superiority which the Arabs recognize and which inhibits deliberate attack on Israel. Moreover, reluctance to provoke great power reactions inhibits Israel's undertaking preventive war. Primarily for these reasons, we consider the chances of a third round of major hostilities to be less than even. (*Paras. 27, 33-35*)

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4. Israel may have decided to undertake a nuclear weapons program. At a minimum, we believe it has decided to develop its nuclear facilities in such a way as to put it into a position to develop nuclear weapons promptly should it decide to do so. With an increase in the present small plutonium separation facilities and with a continuation of the estimated present level of French technical aid, we believe Israel could have a very few crude weapons deliverable by aircraft in about five years. (*Paras. 28, 30-32*)

5. Israel's foreign policy will remain based principally on its need for strong support from the West, particularly the US and France. With two and a half million Jews in the USSR, Israel will endeavor to keep its relations with the USSR at least correct. It will attempt to preserve good relations with non-Arab Middle Eastern countries, e.g., Turkey and Iran. Israel will pursue an active program of aid to certain African and Asian countries and will seek US cooperation in this field. (*Paras. 38-41, 43-44*)

DISCUSSION

I. INTRODUCTION

6. In its 13 years of independence Israel has accomplished much. It has maintained a stable democratic system of government; it has made tremendous strides in economic development; it has absorbed a net inflow of some 850,000 persons, more than doubling its Jewish population. On the other hand the surrounding Arab states continue hostile. Israel remains heavily dependent economically on contributions from world Jewry as well as on foreign investment and governmental aid. Diversity of background among its citizens is increasingly giving rise to internal political and social problems, although the Jewish majority remains firmly united against the Arab states.

7. Perhaps foremost among these is the question of the dominant political and social philosophy in the state. Jewish settlement in Palestine through the early 1930's was primarily undertaken by East European Zionists who believed that Jewish regeneration could come about only when Jews were settled as an agricultural society in Palestine. Later immigrants, uprooted from Europe by World War II or from the Arab States after 1948, mostly came to Palestine for lack of any other place to go and did not share the Zionist ideal. The earlier group has provided virtually all the state's leaders and its socialist

ideals have set the tone for Israel. Increasingly these ideals are being successfully challenged by the newer elements. The modest success of the Liberal Party in the 1961 elections probably reflects this trend. It is likely that agriculture-oriented socialism will continue to decline in favor of more free enterprise and industrialization. Sweeping changes in the country's leadership, however, will probably not occur during the period of this estimate.

8. There are other sharp cleavages in Israeli society. The politically organized orthodox minority has, through its participation in coalition governments, succeeded in enforcing sabbath and dietary laws which the majority of Israelis regard as archaic. There is also considerable communal friction between European and oriental Jews. The latter, mostly from Arab states, have less developed cultural and educational backgrounds and constitute the lowest stratum of Israeli Jewish society. There is little intermarriage between European and oriental Jews, and the latter, like the Arabs remaining in Israel, feel they are discriminated against economically, politically, and socially. European Jews are continuing to receive material and moral support from the West which will further contribute to their domination over the oriental element.

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II. POLITICAL

9. Since the achievement of independence in 1948, Israel has been dominated politically by Mapai (the Israel Labor Party), heading a series of coalition governments. Over five elections, the principal parties have held roughly the same percentages of the vote, despite a growth in population from 900,000 to over two million. No party has approached a clear majority.¹ All these parties have developed from groups active in Mandate days and most of them have roots in longstanding political and cultural movements in the Jewish past. Israelis play the political game with vigor and zest and are remarkably tenacious in holding to political ideologies.

10. The coalition governments headed by Mapai have, at one time or another, included all other major parties except the extremist right-wing Herut and the Communists. However, Mapai has always held the Prime Ministership and the Ministries of Foreign Affairs, Defense, and Finance. Mapai's strength derives in large measure from its control of Histadrut (the Israeli labor federation), from the proportionately large share of Jewish Agency funds at its disposal, and from its identification in the public mind as defender of the security of the state. While a coalition government excluding Mapai is theoretically possible, the diversity of the other parties is so great as to make it highly unlikely.

¹ REPRESENTATION OF PARTIES IN ISRAELI KNESSET (120 Seats)

	1949	1951	1955	1959	1961
Mapai	46	45	40	47	42
Arab affiliates of Mapai	2	5	5	5	4
Herut	14	8	15	17	17
Nat'l. Relig. Pty.	16 ^a	10	11	12	12
Agudat Yisra'el		5	6	6	6
Progressives	5	4	5	6	} Liberal Gen'l. Zionists
Gen'l. Zionists	7	20	13	8	
Mapam	19	15	9	9	9
Achdut Ha'avoda			10 ^b	7	8
Communists	4	5	6	3	5
Others	7	3

^a All religious parties in 1949.

^b Achdut Ha'avoda split from Mapam in 1954.

^c Progressives and General Zionists joined to form Liberal Party in 1961.

We believe that no significant shift in party strengths is likely in the next several years and that Mapai will continue to be the principal partner in multiparty coalition governments.

11. Mapai's perennial Prime Minister, Ben Gurion, combines a personal charisma with a tough and skillful wielding of political power. His highly autocratic manner of running the state has brought him into numerous conflicts within and without the party. His refusal to accept the judgment of his ministerial colleagues in the "Lavon Affair"² precipitated this year's elections and dissatisfaction with his stand on it contributed to Mapai's loss of five seats.

12. We believe that Ben Gurion will exercise decisive influence on Israeli Government policies as long as he remains mentally alert. He will probably remain Prime Minister, although he might find it expedient to engage in a temporary tactical retirement as he did in 1954. When the 75-year old Ben Gurion dies, important governmental changes are virtually inevitable. The rivalry between young leaders whom Ben Gurion has made his proteges and the old timers in Mapai is likely to be sharpened. We believe, however, that the old guard will maintain its ascendancy over the next few years. Any Prime Minister probably would be recruited from less domineering Mapai stalwarts such as Levi Eshkol, Pinhas Sapir, or Moshe Sharett.

13. The Israeli system of democratically elected responsible government is sufficiently well established for us to estimate with con-

² Pinhas Lavon, Minister of Defense, was forced to resign in February 1955 after a sabotage operation directed by Israeli military intelligence and aimed at exacerbating US-Egyptian relations was exposed by the Cairo authorities. In 1960, new evidence indicated that Lavon's alleged authorization of the operation was a forgery and he asked for an investigation. A committee of seven cabinet members cleared him of responsibility amid a torrent of charges between Lavon and Ben Gurion and the latter's supporters in the Ministry of Defense. Ben Gurion, irked at Lavon's correct implication that Ben Gurion's proteges were responsible for the forgery, refused to accept the committee decision and resigned, thus forcing new elections.

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fidence that it will remain so. Although the military establishment, under Ben Gurion's aegis, is accustomed to autonomy in the security field, it generally accepts the principle of civilian control. The military leaders would be likely to attempt to seize power only if they thought it necessary to cope with a critical threat to the existence of the state.

14. The quarter-million Arabs in Israel continue to be treated as second-class citizens. They do not consider themselves, nor are they considered by the Jewish population, to be really part of the nation. Most of them live under military administration in designated areas with limited trade and work opportunities and restrictions on their political activities. Much of the electoral support for the Israel Communist Party is an Arab protest vote against this situation. The Arab minority will continue to be an unassimilated and unassimilable element in Israel for the indefinite future, but it scarcely presents a threat to the security of the state.

III. ECONOMIC

15. The Israeli economy is developing and expanding rapidly. Gross national product (GNP) doubled between 1955 and 1960. The current annual increase in GNP is on the order of eight percent. The causes behind this progress are the character and competence of the people, effective planning, strong incentives for foreign investment, and massive aid from abroad. Israel can count upon substantial private contributions from world Jewry (averaging \$70 million yearly since 1948), plus the proceeds of State bond sales, chiefly from the US. In recent years it has also received an average of \$65 million in aid from the US Government. Finally, the West German Government pays reparations to the State as well as restitution to individuals. These averaged \$125 million annually in 1955-1960. These resources have given Israel the wherewithal to accomplish the economic miracle in Palestine.

16. The inflow of foreign funds has enabled Israel to compensate for a persistent adverse trade balance of approximately \$300 million annually. Israel has made strenuous efforts

to reduce this trade imbalance. It has succeeded in increasing exports to a point where they cover over 40 percent of commercial imports, although inflation has made this difficult. However, it has not found it possible to reduce its imports because of the need for bringing in substantial quantities of capital goods and industrial raw materials. Additionally there has been sizable military procurement abroad (\$53 million yearly from 1958-1960). Nevertheless, in the past three years, external aid and foreign investment have been more than adequate to cover the trade deficit and the government's foreign exchange holdings have risen sharply.

17. West German reparations payments will virtually cease in 1963. Private restitution payments, which amounted to \$97.8 million in 1960, will drop off sharply and it is estimated that the total of reparations and restitution payments will have fallen to about \$40 million in 1964. Israel will be faced with the necessity of compensating for the loss of these funds. Its requirements for imports of military equipment and capital goods will remain high. Public opinion is liable to react strongly to sweeping restrictions on imports of consumer goods. Israel will have to rely on a variety of methods to cover the trade gap. These will include efforts to increase foreign private investment. Israel has created a generally favorable climate for foreign investment and has had considerable success in attracting US firms. There will also be some restrictions on imports of consumer goods, expanded drives for more exports, and greatly increased pressure through the Zionist organizations for larger contributions from world Jewry. While these measures will have some success, Israel will probably be forced to cut back on imports of capital goods, thus slowing the rate of investment and of economic development.

18. The Arab boycott has been a source of harassment to Israel in its efforts to find markets abroad. The boycott and the denial of the Suez Canal to Israeli goods and shipping have forced Israel to make investments in transportation facilities, particularly for oil. On balance, however, Israeli foreign trade has not been seriously affected.

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19. The Israeli economy is characterized by an increasing emphasis on industrialization. Industrial enterprises include production of building materials and phosphates, diamond cutting, and other light manufacturing. Even the Kibbutzim (the Zionist agricultural collectives) are turning to industry to increase income. This trend is perhaps typified by the plans for the large-scale settlement and development of the Negev, Israel's arid, desolate southern portion. These plans hinge on the completion of the diversion of a portion of the Jordan River waters to the Negev. While about half the water will be used for irrigating new farmland, only 3,000 of a projected 105,000 population will be employed on the land. The vast majority will work in industry, mining, and services.

20. The Kibbutz-oriented socialism of earlier years is giving way to a greater emphasis on private enterprise in many fields. The harsh realities of trade deficits and the need for foreign capital are taking precedence in the minds of Israel's leaders over theories of socialist egalitarianism. Old kibbutznik though he is, Ben Gurion is pushing for more private investment, local and foreign, to stimulate production for export. In the past, the system has provided virtually equal wages to all workers, regardless of occupation. Pressures for wage incentives and higher pay for the skilled and professional classes are now steadily increasing.

21. The General Federation of Labor, Histadrut, is at once the trade union organization for most Israeli workers, and through its industrial enterprises, the largest single employer of labor in the country. It is also a major source of Mapai's political strength. This multiple role creates dilemmas both internally and externally. Histadrut as employer finds itself opposing demands of its trade union sector. It is a strong source of inflationary wage pressures, although Mapai's government leaders are trying to maintain wage stability. Mapai leaders recognize these contradictions but, for the next few years at least, Mapai will be able to reconcile them on an *ad hoc* basis.

IV. MILITARY

22. The Israel Defense Force (IDF) occupies a special position in the country. In addition to its defense role, the IDF serves, through compulsory military training, as the means of teaching Hebrew and the social ideals of the state to thousands of immigrants from dozens of cultural and linguistic backgrounds. Finally, it is the agency through which a number of scientific and technological programs—particularly nuclear energy and rocketry—are developed.

23. The Israeli defense establishment is officially responsible to the Cabinet as a whole. In practice, however, Ben Gurion, as Prime Minister and Defense Minister, exercises personal control over the IDF. In matters which he considers seriously affect the national security, the Defense Ministry commonly takes action on his authority and justifies itself to the Cabinet afterward. (The military collaboration with France in 1956 was effected between the respective defense ministries without the participation of the Foreign Minister.) Even if he leaves public office, Ben Gurion will continue to exercise effective influence in the IDF through his proteges in the armed forces and in the Defense Ministry itself.

24. Israel relies on a relatively small cadre of professional officers and noncoms backed by a ready reserve system able to expand the current ground forces strength of approximately 30,000 to 250,000, organized in units, in 48 hours. A similar system is used for the air force and the navy, although these services maintain proportionally larger numbers of personnel on active duty than does the army.

25. In order to be self-sufficient as far as possible, Israel manufactures virtually all infantry weapons, ammunition, and spare parts domestically. It relies on foreign sources, principally France, for artillery, armored vehicles, aircraft, and electronic equipment. The UK has supplied Israel with destroyers and submarines. France has furnished Israel with successive types of jet aircraft—Mystere and Super-Mystere—and has committed itself to supply Mirage IIIs. These

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aircraft have been supplied in quantities sufficient to match UAR acquisitions of comparable Soviet models.

26. Israeli military doctrine emphasizes seizing and holding strategical and tactical initiative, and destroying enemy forces before they can penetrate Israel. The main emphasis is on mobile, hard-hitting striking forces—armor, mechanized infantry, paratroops, and strong air support. Israeli intentions are to maintain military superiority over any and all Arab forces which may be brought against the state. In meaningful terms, this has meant maintaining superiority over the UAR. Israeli plans call for a program of re-equipment in the period 1961-1964, which would involve an average yearly foreign exchange expenditure of about \$100 million.

27. We estimate that Israel is presently capable of defeating the military forces of any combination of its Arab neighbors should they attack. The Israeli forces are capable of seizing the Gaza strip and Sinai, or the western half of Jordan or the southwest corner of Syria including Damascus, while defending all other fronts. We believe that Israel will retain this capability for the period of this estimate. The principal danger to Israel would be an Egyptian surprise attack by jet bombers. Because of the short distances involved, tactical warning of an attack would be of little value. However, Israeli intelligence would be likely to supply some early warning. Egyptian advantages of numerical superiority are offset by Israeli defensive capabilities, including superior air combat ability, to such a degree that a surprise air attack would almost certainly not be decisive.

V. NUCLEAR ENERGY

28. Israel's technical abilities in the nuclear field are of a high order. Israel is engaged in the construction of a 26 MW heavy water reactor and supporting facilities in the Negev near Dimona. The official Israeli position is that this installation is a necessary forerunner to the future construction of nuclear power stations. However, the Dimona site will also provide the necessary experience to

develop a plutonium production capability beginning with the processing of ore and proceeding through the separation of plutonium. There is also extensive evidence that France has supplied plans, materials, equipment, and technical assistance to the Israelis, and is training personnel. Israel has also attempted to purchase ore from sources not requiring limitations on the use and disposition of the fissionable material produced.

29. Israel's potential targets for nuclear weapons are close at hand, i.e., the Arab countries, and the defensive capabilities of its enemies are not great. For this reason, its delivery system needs neither great range nor a high degree of sophistication. At present the Israelis have the French Vautour II-B, a subsonic jet light bomber capable of carrying a nuclear weapon weighing up to 5,000 pounds to a radius of 550 n.m. In view of past political and technical cooperation with France, it is probable that Israel expects to acquire more modern French aircraft suitable for delivery of any future Israeli weapons. The firing on 5 July 1961 of a meteorological rocket, Shavit II, of Israeli construction and design, lends credibility to reports of Israeli efforts to develop an independent missile capability. Shavit II appeared to be a multistage, solid-fuel propelled, unguided rocket which reached an altitude of approximately 50 n.m.

30. We estimate that the Dimona reactor operating at maximum power could produce sufficient weapon grade plutonium for one or two crude weapons a year by 1965-1966, provided separation facilities with a capacity larger than that of the pilot plant now under construction are available. By 1968, the Israelis could also have a few 200-300 n.m. missiles, but it would probably take longer to develop compatible nuclear warheads. The costs of both a weapons and missile program would require annual outlays which would considerably increase military expenditures over the current level (\$232 million in 1960). A more serious impediment to the acquisition of an operational nuclear capability is the lack of space in Israel for conducting adequate tests for nuclear weapons or medium-range missiles. Further, the estimated rate of pro-

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duction of weapons grade material is so low that a test program might consume the material as fast as it was produced.

31. Nonetheless, Israel, surrounded as it is by hostile Arab states, has strong incentives to have an operational nuclear capability. While the Israeli program may not now be directed specifically toward such a capability, we believe that the Israelis intend at least to put themselves in the position of being able to produce nuclear weapons fairly soon after a decision to do so. It is unlikely, however, that even a very limited operational capability, using aircraft, could be achieved until two or three years after weapon grade plutonium first became available unless Israel obtained major assistance from France or another source (e.g., weapons designs which would obviate the need for tests).

32. In the absence of major French or other external support, we believe that the Israelis would probably still continue to work toward an operational nuclear capability, setting their sights initially on a very few nuclear weapons deliverable by aircraft, which they could probably achieve by 1967-1968, and work diligently toward an operational missile capability at a later date, probably after 1970. It is possible that Israel might go directly to producing crude fission weapons without any testing. Even in that case, we do not believe Israel could have a weapon before 1966-1967.

VI. FOREIGN AFFAIRS

A. The Arab States

33. The Arabs consider that a state of war still exists between them and Israel. The situation will remain tense indefinitely, with the constant possibility of localized military action. Nonetheless, we believe the chances of a third round of major hostilities in the period of this estimate are less than even. Israel has been concerned by the buildup of Arab, particularly UAR, military strength in recent years and has devoted considerable effort and money to keeping its military superiority. We believe the Israelis are basically confident of their ability to maintain a military superiority for the foreseeable fu-

ture, and that the chances of Israel's launching preventive war are slight in the next few years. Also, Israel will continue to be restrained by the prospects of adverse great-power reaction to any Israeli aggressive action. Disunity among the Arabs will inhibit any combined initiative by them and we believe that they consider that they could not defeat Israel militarily. In these circumstances, the Arabs will probably consider that the Palestine problem will be solved by time and inexorable Arab economic and political pressure rather than by military force.

34. If the breakup of the UAR following the 28 September Revolution in Syria does not lead to turmoil on Israel's borders, we foresee no significant immediate impact on Israel. A realignment of Arab states would not affect their hostility to Israel and might increase border tensions as Arab leaders feel the need to strengthen themselves by making anti-Israel gestures. However, increased disunity among the Arabs, particularly the dissolution of the UAR, decreases the threat to Israel of simultaneous hostilities on two fronts, thus enhancing Israel's security position.

35. Nonetheless, there are two emerging situations which give particular promise of raising Arab-Israeli tensions critically—Jordan waters and Israeli nuclear developments. Israel plans to divert a sizable portion of the waters of the Jordan River to the Negev during 1963. The Arabs have expressed an intention to block such a development, e.g., by diverting the waters of Jordan tributaries. In this situation, actions and counteractions could lead to hostilities. With respect to the Israeli nuclear program, if, at any time and irrespective of the true facts, Nasser came to believe that Israel was on the verge of producing a nuclear weapon, he might be tempted to risk a preventive surprise attack. However, this would involve him in hostilities which he would almost certainly lose and we believe he recognizes this.

36. Another point of possible friction is the Arab claim to the right to exclude Israeli traffic from the Gulf of Aqaba on the ground that its waters are within Arab territorial limits. The Egyptian gun positions com-

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manding the straits have been controlled by the UN Emergency Force since the Suez campaign of 1956. Should Egypt regain these positions and threaten Israeli shipping, Israel would almost certainly react vigorously.

37. Perhaps the most intractable problem arising from Israeli-Arab tensions is that of the one million Palestine refugees, now mostly supported by UNRWA. The inability, from a political point of view, of any Arab leader's officially recognizing the existence of Israel even prevents open negotiations for a solution. Furthermore, any solution would almost certainly require the repatriation to Israel of a portion of the refugees and compensation and resettlement for others. The Arabs appear to view the solution largely in terms of repatriation with or without compensation, while the Israelis see it mainly in terms of resettlement with or without compensation. In these circumstances, there is little likelihood of an accommodation that would be a significant improvement on the present situation.

B. Other Powers

38. Israel's principal concern in its foreign policy is to attract and keep outside support necessary to maintain its own existence in the face of intransigent Arab hostility. Over the past several years, Israel has sought to link its conflict with Nasser to the Soviet-Western confrontation—Israel and the West (particularly the US and France) versus Nasser and the Soviet Bloc.

39. Israel's leaders regard their country as essentially Western. They will continue to use every effort to promote existing ties with the West and to develop new ones. Israel is trying to join the Organization for European Cooperation and Development (OECD) and has indicated interest in association with the Common Market, fearing possible damage to its foreign trade if left outside it since 60 percent of Israel exports are to Western Europe. Militarily, Israel has made some efforts to establish informal ties with NATO and would

probably welcome the opportunity for a more formal association. Israel carries out a widespread program of technical aid to underdeveloped countries in Africa and Asia, and it would like Western support in countering Arab attempts to freeze Israel out of the underdeveloped world.

40. Israel's strongest western ties are with the US and France. The Israelis believe they have a special ability to influence US policy. They harbored high hopes of special treatment by the present administration and have shown resentment and annoyance at being considered as an equal among a number of small friendly countries. Israel realizes, as a result of US opposition to the Suez venture in 1956, that it cannot count on US support for or acquiescence in preventive military action against the Arabs.

41. France and Israel have developed what amounts in practice to a military alliance. We believe that relations will continue to remain close as long as both parties feel they are facing a common enemy in the Arabs. Satisfactory settlement of the Algerian question would reduce French incentives for close association with Israel.

42. The UK has sold Israel military equipment and naval ships over the years and British Jewry contributes regularly to Zionist causes. There is also a segment of political life which is sympathetic to Israel, but this has little effect on traditional British policy toward the Arab states, which are commercially and militarily important to the UK.

43. Israel's relations with the Soviet Bloc are coolly correct. Despite the Bloc's massive aid to some Arab states, Israel has taken care not to offend the USSR unnecessarily out of consideration for the fate of the two and one-half million Jews living there. Rumania is permitting its Jewish population to go to Israel at a rate of about 1,000 a month and Israel does not wish the flow to be disrupted. We foresee no change in Soviet-Israeli relations in the next few years, unless it comes on the initiative of the USSR.

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44. Israel has worked diligently to develop close ties with many Asian and African states. It has established diplomatic relations with many of the new states in Africa and has had considerable success in counteracting Nasser's efforts to line up the Afro-Asian states behind the Arabs on the Palestine problem. Israel

has a reservoir of civilian and military expertise for use in the underdeveloped areas. Israel has close but discreet links with Iran, from which it gets oil and with which there is collaboration on intelligence matters. Israel enjoys good relations with Turkey and Ethiopia.

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