



# THE BALANCE OF NATIONAL STRENGTH AND SECURITY

## POLICY DIRECTIONS

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Institute of Policy and Strategy  
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The Interdisciplinary Center Herzliya

## **Foreword**

During Hanukah of 5761 (December 2000), the Institute of Policy and Strategy at the Interdisciplinary Center Herzliya staged a conference titled “The Balance of National Strength and Security.” The “Herzliya Conference” was the first of a series of planned annual conferences dealing with the national strength and security of the State of Israel.

The “Herzliya Conference” on the Balance of National Strength and Security arose from the belief that the State of Israel is confronted by a number of problems and disturbing processes. The initial conference planning documents from earlier that year pointed out that there is considerable concern in various circles in Israel about current trends and developments in the country and in the region, and that there are those who even doubt Israel’s ability to cope over the long haul. We are familiar, however, with such spirits and on most occasions they have quenched themselves by giving birth to remobilization and revitalization. At the same time, one should not overlook the possibility that seeds of self-fulfillment are embedded in these concerns.

In the course of the Conference we attempted to assess the nature and extent of the hazards, and we also made an effort to delineate the steps required to strengthen Israel’s capabilities. For, against these threats - some of them apparent, others remote or elusive – Israel certainly has resources at its disposal - its military strength and its defensive and deterrence capabilities; its economy and technological ability; its social unity and the strategic depth provided by the Jewish people around the world. Should Israel identify and mobilize these resources, there is no doubt that it will be able to cope successfully.

The balance presented at the conference was not a mere audit or stocktaking, or a comparative assessment over time. The purpose was to assess the balance between the challenges confronting us and the resources that are within our ability to mobilize. It was the British historian Arnold Toynbee, of Oxford, who stated that the vitality of a civilization is measured by its ability to offer suitable responses to challenges. In his view, cultures and societies flourished as long as they manifested the ability to respond to challenges; and the moment that this ability diminished marked the beginning of a society or culture’s decline. How does Israel measure up to this standard? Toynbee himself expressed the view that the Jewish people had already degenerated and ossified. Jacob Herzog refuted this claim in the famous polemic; indeed, the Jewish people and the revival of the state of Israel have proven the great vitality within them.

The question is: does this vitality still exist and to what extent does Israel and its leadership have the capacity to mobilize it. Paul Kennedy, another British historian, noted that the capability to deal with challenges and adversaries depends primarily on economic strength as it emanates from the country’s creativity and competitiveness. As a result, the conference placed an emphasis on the technological and economic responses and on the human resource that sustains them both. Finally, in recognition of the superiority of the spiritual over the physical, the conference debated topics such as the Zionist ethos and the sense of destiny and righteousness, which constitute building blocks of national strength and security.

In preparation for the conference, the Institute established special task forces, which submitted papers on the topics of education, economy and society, technology, security and strategy. The main points of the papers were presented at the Conference and fifty speakers, among them national leaders and senior officials, addressed the gathering. More than 300 participants, representing Israel's elite in the areas of the military, economy, society, technology and education, together with representatives of the Jewish world and intellectuals, took part. The participants came from the government network, from academia, business and the media. Jewish leaders, experts and guests from abroad were also present.

The conference deliberations reinforced the sense that Israel is at a crossroads. The decisions it takes will determine whether it is heading towards prosperity or decline, as one of the participants noted, that Israel's fate rests in its own hands. It is only natural, therefore, that a conference whose topic is so fundamental for its participants, would evoke penetrating observations and proffer political recommendations. The following document is a summary that excerpts some of the statements and ideas emerging from the conference, without obligating the participants to its content. Dr. Uzi Arad wrote the document with the assistance of Brig. General (Res.) Amos Gilboa, Maj. General (Res.) Aviezer Ya'ari and Dr. Ilan Amit. The document contains the following sections:

- Main Points
- The Geo-demographic Aspect
- The Political Aspect
- The Military Aspect
- The Economic Aspect
- The Technological Aspect
- The Educational Aspect
- The Social Aspect

## **Main Points**

1. Israel is the country of the Jewish people. The security problems of the State and its need for national strength result from the Jewish-Arab conflict, which has accompanied the Zionist movement since its inception. The concepts “national strength”, “unity of purpose”, “collective memory”, and “mutual responsibility” refer to the members of the Jewish majority in Israel and not necessarily to the State in general. From the perspective of enhancing national security and strength, Zionist values and the Jewish Zionist collective memory must be promoted and embedded through the state education organs and manifested in national symbols.
2. From the socio-economic perspective, two separate populations exist in Israel: Four million people who mostly reside in a Western technological society, and two million Arabs, ultra-Orthodox Jews and foreign workers who mostly reside in a society with Third World socio-economic characteristics. One difference between these two populations is demographic: The birthrate among Israeli Arabs and ultra-Orthodox Jews is among the highest in the world. The birthrate of non-ultra-Orthodox Jews is only slightly higher than the average among Western countries. The high birthrate brings into question the future of Israel as a Jewish state. It also entrenches poverty and delays socio-economic development among these groups and exerts pressure on infrastructure and resources.
3. The present demographic trends, should they continue, challenge the future of Israel as a Jewish state. Israel has two alternative strategies: adaptation or containment. The latter requires a long-term energetic Zionist demographic policy whose political, economic and educational effects would guarantee the Jewish character of Israel. Similarly, there would be a need to work towards the institutionalization, enhancement and intensification of the relationship with the Jewish people worldwide, who constitute a vital home front and provide strategic depth for Israel.
4. Three potentially mutually amplifying circles of conflict confront Israel: The innermost circle consists of low-intensity conflict with the Palestinians (including within Israel itself) and the Lebanese, i.e., terrorism, guerrilla warfare and civil unrest. The second circle is made up of Syria, with possible support from Egypt, Iraq and maybe even Jordan, engaging in a high-intensity land, sea and air war. The third circle comprises the farthest parts of Syrian territory, and Iraq and Iran, conducting a war of attrition against the home front using ground-to-ground missiles, with the possibility of escalation to the use of non-conventional weapons. The IDF is seeking to achieve defensive and deterrence capability in the second circle, and defensive, deterrence and retaliation capability in the third circle as well. Today, as in the past, Israel is in the midst of a conflict in the internal circle, implementing a combination of military, economic and political means to achieve calm and to promote a political settlement. The ability to cope in a conflict of this sort demands patience and durability from the entire public.
5. The IDF is a large army, even in comparison with the armies of the European powers – Great Britain, Germany and France – but is

significantly inferior in terms of its operational budget. Its durability is facilitated despite this, through several means, including the maintenance of low equipment inventories, based on the assumption that high-intensity wars in the region will be brief. Over the last generation, the primary task of military Research and Development (R&D) was enhancing the accuracy and range of the firepower factor in the battlefield, using precise guided armaments. In order to facilitate the acquisition of these R&D products despite the reality of defense budget cuts, obsolete fighting units have been cut from the alignment of forces. In addition, the process of constructing a fighting force encounters persistent problems due to the lack of guaranteed budgetary planning over the course of the requisite time for development.

6. The regional peace process, which began a decade ago in Madrid, appears to have run its course. A new plan for future negotiations must now be drawn up. Israel cannot shape the contour of the future on its own but it can determine whether it prefers to attempt, in conjunction with the United States and Europe, to construct a new multilateral framework for negotiations, or to focus on a bilateral channel. In any case, priority must be given to agreement frameworks that are controlled, verifiable and gradual.
7. Nevertheless, there is a significant likelihood that in this generation, and apparently in the next one as well, the Jewish-Arab conflict will swing between war and peace, with violent confrontations and diplomatic negotiations intermingled. Israel will need, on the one hand, to demonstrate its commitment to agreements and normalization with the Arab world and, on the other hand, to prepare for wars of varying levels of intensity. This pendulum-like movement between violence and calm requires Israel to preserve its deterrence capability over the long term, by fostering the Israeli qualitative advantage in personnel, technology, economy and societal strength.
8. Over the last decade, the hi-tech industry has driven Israeli economic growth and prosperity, but the current slowdown in the world information economy and regional uncertainty may interfere with the continuation of this trend. The hi-tech industry and the economy in general require an improved business climate through the enactment of liberal legislation, an easing of the tax burden, the development of transportation and communications infrastructure, and the enhancement of law enforcement. These matters are the responsibility of the government and it is within its ability to advance them if it is prepared to recognize them as economic and security priorities. The hi-tech industry is liable to have certain problems in fostering national strength: significant international mobility of personnel and companies; sensitivity of foreign investors to the security situation in Israel; and competition with the defense establishment for personnel.
9. The Israeli economy faces two primary problems in the employment market in comparison with other industrialized countries, a low rate of workforce participation and low labor productivity. One reason for this weakness is the socio-economic position of Arabs and ultra-Orthodox Jews relative to the general population. An increase in the rate of workforce participation from 50 to 60 per cent, and in labor productivity

by a few percentage points, would be likely to accelerate growth and significantly increase the GNP over the next decade.

10. The Israeli society is complex and pluralistic, and it is difficult to mobilize it and control it through a directive from "above". A growing and prosperous economy is a central component of national strength, but there is no agreement regarding the means to achieve that end and to what degree they can be controlled or directed. In the 1960s and 1970s, military R&D, subject to government control and direction, was at the fore of advanced technological activity in the country and civilian R&D benefited from its successes – in terms of personnel, technology and management. Today, the tide has turned and military R&D relies on the abilities and resources of civilian R&D. The primary source of Israel's strength - from which the economy, the hi-tech industry and the IDF draw their advantages – is the human resource, which is fundamentally qualitative. Improving the education system, at all levels and frameworks, is indispensable for cultivating qualitative human resource.

11. In the foreseeable future, Israel must confront directly developments that manifest existential dangers. Failure in this confrontation or an attempt to avert it are liable to lead to the demise of the Zionist enterprise. Therefore, Israel is compelled to reinforce its strength and to adopt a strategy of augmenting all of its power components. This strategy also necessitates the stabilization and reinforcement of the socio-political order, the improvement of the government and the regime, the consolidation of the rule of law, and the dissemination of a spirit of service and national mobilization.

## The Geo-demographic Aspect

### General

Assuming that present demographic trends continue, two significant changes will transpire in our generation: One, for the first time since its establishment, more than half of the Jewish people will live in the State of Israel, with the majority continuing to grow with time. Second, the Palestinians will become the majority of population west of the Jordan River and the Arab minority will reach one-quarter of the Israeli population and will continue to grow.

### Jews and Palestinians

- ❖ The demographic trends in Israel and its surroundings and their ramifications pose a severe threat to Israel in terms of its character and identity as a Jewish State belonging to the Jewish people. The demographic threat to the continued existence of the State of Israel is the most immediate and most likely to materialize. The threat is developing rapidly, while the pace of designing a national policy dealing with the threat is slow.
- ❖ The birthrate among Moslems in Israel (4.6 children per woman) is almost twice that of Jews in Israel (2.6 children per woman). Consequently, today, approximately one of every five Israeli citizens is Arab-Moslem. Within twenty years, the ratio will be 1:3. These processes have significant ramifications:
  - ◀ The increase in the demographic share of the Arab minority in Israel tests directly Israel's future as a Jewish-Zionist-democratic state.
  - ◀ The security and social challenges connected with Israel's Arab minority will probably worsen as long as the Arab-Israeli conflict is still simmering.
  - ◀ The sense of discrimination extant in the Arab population is a fertile ground for increasing tensions and inquietude. In conjunction with political estrangement and sustained frequently by incitement, it is liable to manifest itself in a series of dangerous and hostile actions in terms of law enforcement and public safety.
- ❖ As for the Palestinian population in the Palestinian Authority, the total population on the West Bank and Gaza is 2.8 million.
  - ◀ The birthrate in this population is even greater than among Israeli Arabs; in fact, the rate of increase among the Palestinians is the highest of all Arab countries (twice that of Egypt). The Palestinian population doubles every twenty years.
  - ◀ United Nations agencies have granted unlimited special status to Palestinian refugees, including all descendants of the 1948 refugees. According to these agencies, the number of refugees today stands at 4 million, and the natural annual increase of this

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population is 3.5%. Half of the Arab population in Judea, Samaria and Gaza is considered to be refugees.

◀ About half of the Palestinian population in the West Bank consists of children below the age of 15. Participation of women in the work force is minimal. The rate of unemployment is 25 per cent in Gaza and 15 per cent in Judea and Samaria. During periods when there are no restrictions on their movements, more than one quarter of those employed work in Israel.

◀ Since the signing of the Oslo Accords, the per capita GNP in Judea, Samaria and Gaza has decreased by 20 per cent. The economic predicament in Gaza is more severe than in Judea and Samaria. The GNP in Gaza is half the GNP in Judea and Samaria and the salary level in Gaza is one quarter less than that in Judea and Samaria. Most sources of livelihood in Gaza are external: work in Israel, direct aid from UNRWA and salaries to employees of the Palestinian Authority (most of whose budget comes from external sources). Assuming that no change takes place in these sources or with the high rate of population growth, the GNP per capita can be expected to drop further. There are no natural resources in Gaza, the population density depletes the environment, and circumstances there do not attract foreign investment. The Palestinian Authority ignores the problem of natural population growth, and in contrast to Egypt, has not adopted any policy directed at limiting the birthrate, precluding the possibility of receiving foreign aid to cope with resultant problems.

◀ The Gaza Strip refugees are in the most problematic situation. They constitute half of the Gaza Strip population so that the totality of the difficult economic and social conditions in Gaza is tied to the refugee problem. A political agreement between Israel and the Palestinian Authority will not substantively change the condition of these refugees even if the Palestinian State will "host" them, so to speak.

◀ The harsh reality in the Authority territories creates a steady and significant flow of illegal Palestinian emigration into Israel. Since 1967, 100,000 Arabs have entered Israel legally. The illegal emigration from the Authority territories is gradually increasing and can be expected to intensify both due to demographic trends there and due to the socio-economic gaps between Israel and the Palestinian Authority.

#### Alternative Strategies

❖ The fundamental dilemma that Israel faces as a result of demographic statistics and trends among the Palestinians is between a policy of adaptation, political or otherwise, and a policy of containment. The choice between the options depends on the perception of Israel's future political identity and image. The adaptation policy is the one propounded by those who view Israel as a country of all its citizens - adapting its national character, its symbols and institutions to the changing demo-political balance.

***The Palestinian birthrate, which doubles the population every twenty years, is the highest of all Arab countries.***

***The demographic trends within Israel and its neighborhood, and their impact upon the Jewish identity, are the nearest and most likely threats to the future existence of the State of Israel.***

***The Palestinian Authority ignores the problem of natural population growth, precluding the possibility of receiving foreign aid to cope with resultant problems.***



❖ Conversely, those who support the preservation of Israel's character as it was when it was founded – a Jewish State for the Jewish nation – and they still constitute a majority among the Jewish population in Israel, are forced to proffer a counter-strategy that will provide an effective response to the aforementioned trends, while recognizing that in a democratic country, the Jewish character of Israel can only be preserved if the Jewish majority does not dip below approximately three-quarters of the total population.

❖ The attraction of the adaptation option is in that it is primarily passive, does not call for conflicts or any real action other than gradual concessions concerning Israel's Jewish identity. Alternatively, the containment option calls for, as mentioned, an active, comprehensive strategy that combines within it steps in different areas, with most, if not all of them, involving overcoming difficulties and opposition, and, to one degree or another, internal and perhaps even international discord.

❖ The following are possible components of a containment option:

◀ A birthrate and development policy.

◀ An accelerated policy of encouraging and absorbing immigration.

◀ A policy of demarcating the future borders of the country that will take into consideration the preservation of the Jewish majority.

◀ A position on the issue of refugees enabling, maximally, their return to Palestinian Authority territories.

◀ Adopting a policy of distribution of the Jewish population in Israel in a manner that will guarantee a Jewish majority in the various regions of the country.

❖ As to the birthrate and family planning policy in Israel proper: It is feasible to move towards the implementation of a family-planning policy that will encourage 3-4 children per family, while canceling subsidy payments to families with many children. Of course, the outlawing of polygamy should be enforced. One can expect international organizations to support a policy of birth control in Judea, Samaria and Gaza, like they do in Jordan, by, among other methods, making aid contingent upon limiting the birthrate - as was accomplished in Egypt. This would be in line with the explicit goal of contributing to Palestinian prosperity and easing the economic-political pressure stemming from high birthrates.

❖ Regarding immigration: The general demographic strategy and, in part, the demand for workers in the advanced technology sector both warrant the intensification of promoting immigration from the Diaspora to Israel. It is important to remember that Diaspora Jewry has always

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constituted a traditional human reserve in the preventing the creation of a Palestinian majority in Israel.

❖ Regarding the demarcation of the country's borders: The history of the Jewish-Arab conflict is abundant with partition plans, usually based on demographic-settlement criteria. Presumably, the same criteria will apply to any future agreement. The apparent direction seems to be towards separation, which preferably would be implemented in a controlled manner and based upon mutual agreement. In any case, the effectiveness of separation depends on different means of enforcement, including prevention of illegal migration. The high rates of Palestinian natural increase will in the future require multilateral regional cooperation to resolve the issue of Palestinian refugees, perhaps in the context of an agreed international regime. In the framework of a future agreement in which permanent borders will be agreed upon and drawn, it may be possible to include within the State of Israel Jewish population blocs east of, and adjacent to, the Green Line, and to include Arab population blocs west of, and adjacent to, the Green Line in a sovereign Arab state. Thus, the territorial exchanges might include parts of the "small triangle" and East Jerusalem. These exchanges will be feasible through agreement in the context of a comprehensive and final settlement between the Palestinian Authority and Israel. In the absence of an agreement, it will be possible to implement some of the above mentioned steps as part of a unilateral redeployment. Clearly, such action will have to be undertaken with broad public support and the provision of specific solutions to the problems encountered by those persons directly impacted by an exchange of territory.

❖ Regarding the issue of Arab refugees: Consenting to the return of refugees to the Palestinian State territories would constitute an appropriate realization of the right of return, but would worsen the economic situation there. Similar to the plight of the refugees already living in those territories, their return would create a situation of perpetual refugee status for them. At the same time, permitting the return of the refugees to the State of Israel would be an extreme interpretation of the right of return and destructive in terms of Israel's Jewish identity. Limiting the scope of the returnees to Israel to 100-150,000, even if calibrated, would add to the negative demographic trends in Israel itself and would be liable to serve as a precedent, arousing expectations. The provision of international aid for the purpose of rehabilitating Palestinian refugees is a worthy and warranted cause. Nevertheless, the current geo-demographic trends and features impede substantially upon the efficiency of such aid and its ability to attain its stated objective.

❖ As to the distribution of the Jewish population in Israel: The encouragement of Jewish settlement in demographically problematic regions, especially in the Galilee, the Jezreel Valley, and the Negev, among others, is necessary in order to prevent a contiguous Arab majority that would bisect Israel.

❖ Regarding the rights and obligations of Israel's citizens: Consideration should be given to granting Israeli Arabs a choice between full citizenship in the State of Israel and citizenship in the

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Palestinian State, with the rights of permanent residents in Israel, contingent upon the agreement of the Palestinian state. At the same time, Israelis who permanently reside abroad should be allowed to participate in Israeli elections by absentee ballot (by mail or at a diplomatic mission), as is the case with citizens of other countries (for example, the United States).

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### The World Jewry

❖ Today 13.3 million Jews live in the world, about 5 million of them in Israel (37 per cent). About 47 per cent of the Jews in the world between the ages of 0-14 live in Israel; by the year 2005, a majority of the Jews in that age group will live in Israel. In 2010, Israeli Jews will constitute about half of the number of Jews in the world and thereafter, the majority of the Jewish people will reside in Israel.

❖ The accumulated contribution of world Jewry to Israel's strength and security is significant to the extent that it serves as Israel's strategic 'home front'. The partnership between world Jewry and Israel contributes to the national strength of Israel in a number of ways:

◀ The political and international arena: American and other Diaspora Jews influence their countries in a manner beneficial to Israel; the gates of the USSR opened, enabling Soviet Jews to immigrate to Israel, thanks to American Jews. By the same token, the State of Israel, when making policy decisions, factors in the potential benefit or harm to world Jewry. Thus, for example, Israeli military actions are considered, at times, in light of their potential effect on Jewish communities around the world;

◀ The economic realm: In the past, the impact of Jewish contributions to Israel was enormous. Today, it totals a billion dollars a year. More important than the money is the principle that guides the donors – identification with the State of Israel.

◀ The immigration issue: Without immigration, there would not be a Jewish majority in the State of Israel. In 1948, there were 600,000 Jews in the State of Israel. Without Jewish immigration, the number of Jews in Israel would today have reached just 1.2 million, and it is doubtful whether the State of Israel would exist. Had it not been for the large wave of immigration from the former Soviet Union, the Jewish majority in Israel would have already significantly eroded.

❖ At the same time, events in Israel and Israel's standing in the international arena have an impact on the status, the image and even the security of Jewish communities around the world.

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❖ Demographic trends (low birthrates) and assimilation are the factors that create the primary erosion in the size of Jewish communities the world over. This trend is especially conspicuous in the Jewish community in America, a community whose importance from Israel's perspective is distinctive, both because it is the largest Jewish community in the world and because of the United States' position as a superpower. American support of

Israel, due to Jewish influence and other reasons, is still very significant, relative to support for the Arab countries and positions, both in Congress and public opinion. The organized nucleus of American Jewry has enormous power. This is a nucleus of two million active, influential Jews who identify with Israel more than in the past, and can be found in all important elite groups in the United States.

- ❖ Nevertheless, there are a number of reasons for concern:
  - ◀ The demographic weakness that affects the political influence of American Jews.
  - ◀ Decline in American interest in foreign policy.
  - ◀ Growing reservations in the United States regarding foreign aid.
  - ◀ The tendency in Congress towards a domestic agenda due to the growing influence of ethnic groups.
  - ◀ The increasing strength of Moslems and Arabs in the United States. Their numbers are estimated at approximately 6 million and their lobby strives to lessen the aid to Israel, reduce Israel's strategic importance to the United States, and end sanctions on Iraq.
- ❖ The issue of Jewish people in the Diaspora - the most important resource for the existence of Israel other than the people living in Israel - is not on Israel's security agenda. To date, the Israeli government has not conducted even one serious debate about the future and security of the Jewish people. A joint national policy is necessary for the State of Israel and world Jewish institutions (central among them the Jewish Agency and the WZO) to guarantee the future of the Jewish people, their security and their ties to Israel. This topic must be placed on the agenda and in that context, actions must be taken to achieve the following central goals:
  - ◀ Increasing immigration to Israel, as stated, as part of a comprehensive demographic policy.
  - ◀ Intensifying the Jewish-Zionist identity, to draw the young generation closer to the Jewish people and Israel.
- ❖ Possible examples of concrete initiatives to achieve these goals:
  - ◀ Doubling the number of students enrolled in Jewish educational frameworks in the Diaspora from 25 per cent to 50 per cent.
  - ◀ Tripling the number of Jewish educators (today 150 are trained every year and we should aim for more than 400).
  - ◀ Tripling the number of Jewish youth who visit Israel.

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- ❖ The State of Israel should become far more involved in the life of the Jewish people in the Diaspora and it should strengthen its ties to them. Israel should consider to gradually grant a more significant role to the Jewish people, for example, in making decisions with significance for the Jewish people and Judaism. A "Seat of Government of the Jewish people" common to all the institutions and organizations in Israel and the Diaspora should be established in order to create a rich fabric of links and encourage familiarity between Jews in Israel and Jews in the Diaspora, leading to the development of a shared sense of mutual identification, joint fate and destiny.

## **The Political Aspect**

- ❖ Over the course of the past year, it has become clear that:
  - ◀ Israel's efforts to reach an agreement that would put a practical and declarative end to all mutual demands and to the conflict with the Palestinians have not been successful. It has become clear that the Palestinian leadership does not view the agreement in terms of a genuine compromise, but rather as decolonization (according to outdated United Nations resolutions 181 and 194, though not necessarily according to Security Council resolution 242).
  - ◀ Along with the continued negotiations, the Palestinians have recently escalated their struggle against Israel; to a large extent, in order to improve their negotiating position. In the military realm, the Palestinians have resorted openly to violence, and in the diplomatic realm they have focused their efforts on attempts to internationalize the conflict.
  - ◀ The trend towards normalization of Israel's status and position in the region was interrupted precisely during the period in which Israel moderated its positions. Those Arab countries that conducted diplomatic relations with Israel have curtailed them (three countries severed relations and two recalled their ambassadors). This negative reversal manifested the fragility of regional normalization, which Israel strove to achieve, and the fact that the entire process is reversible.
- ❖ This reality demonstrated to Israel that its notions regarding the essence of peaceful relations are not compatible with the ideas of its Arab neighbors. Its perception of the character and essence of a final settlement with the Palestinians as a declarative and practical end to all mutual demands and to the conflict seem to be incompatible with Palestinian intentions. The recent events show that the Arab parties lack the political 'ripeness' for conciliation and complete peace. While Israel aspires to bring the conflict to an end in a manner that would preserve its status as a Jewish State, the Palestinians aspire to regain their rights in a manner that, for all intents and purposes, might put an end to the Jewish essence of Israel.

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❖ As long as these phenomena do not change (and it is very doubtful that a substantive change can take place unless, perhaps, far-reaching political changes in the Arab world leading to openness and democracy can be effected by the forces of globalization) Israel must take them into consideration and prepare itself accordingly. Among possible approaches and policies:

◀ The "peace process" must not be treated as irreversible and as a done deal. It is true that the very existence of the process serves as a stabilizing factor, which has positive international consequences for Israel.

◀ In the absence, at present, of a viable possibility of reaching a comprehensive regional peace agreement without a final settlement with the Palestinians, two basic policy alternatives are open to Israel:

- Returning the negotiating process to a partial, controlled, bilateral outline striving towards phased arrangements; different configurations are possible, including different levels of American involvement.

- Steps of unilateral disengagement without negotiations, to lines and conditions beneficial to Israel with the possibility of unilateral Palestinian counter-measures taken into consideration.

❖ Be that as it may, in any negotiations entered into by Israel within the context of the current process or in any other feasible framework, Israel should assert that the following two principles constitute necessary preconditions:

◀ Any negotiations will take place exclusively under circumstances of non-belligerence and calm conditions on the street; it is Israel's right to demand this, as a result of obligations that the Palestinians took upon themselves in the context of previous agreements. Such a setting is essential for Israel in order to improve its basic bargaining position (for the same reason that it can be expected that the Palestinians will do everything in their power to maintain a belligerent option).

◀ Before entering into negotiations on new agreements and certainly before their conclusion, Israel must insist upon adherence to previous commitments and agreements. This principle is essential in a framework of interlocked, phased agreements. Non-compliance with previous agreements undermines the basis of the process as a whole. This principle is also crucial for the long-term validity of the process and for the validity of mutual commitments.

❖ As to the Syrian option: The expectations and benefits of this option are unclear due to the circumstantial changes since the previous rounds of negotiations, including the incumbencies of the new Syrian regime and of the new American administration. In any case, the tactical maneuverability between the Syrian and Palestinian channels

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***In the absence of a possibility for reaching a final settlement with the Palestinians, Israel faces two alternatives: returning the negotiation process to a partial, controlled, and phased framework or unilateral disengagement.***

has constricted, and it is doubtful that it will be possible to make progress in the Syrian channel alone.

## **The Military Aspect**

### General

Three potentially mutually amplifying circles of conflict confront Israel: The innermost circle consists of low-intensity conflicts with the Palestinians (including within Israel itself) and the Lebanese, i.e., terrorism, guerrilla warfare, and civil unrest. The second circle is made up of Syria, with possible support from Egypt, Iraq and maybe even Jordan, engaging in a high-intensity land, sea and air war. The third circle comprises the farthest parts of Syrian territory, Iraq, and Iran, conducting a war of attrition against the home front using ground-to-ground missiles, with the possibility of escalation to the use of non-conventional weapons. The IDF is seeking to achieve defensive and deterrence capability in the second circle, and defensive, deterrence and retaliation capability in the third circle.

❖ Among the trends influencing regional stability, one discerns:

◀ In the Israeli-Palestinian conflict, two fundamental, integrated courses are becoming apparent: The first, the course leading to an opportunity to end the conflict in the internal circle and to reduce the probability of a regional conflict; the other, in the absence of an agreement, the path leading to a chain reaction liable to be characterized by an increase in acts of terrorism, a violent conflagration throughout Israel, the internationalization of the conflict, the inducement of the Arab/Islamic world to intervene, and the like.

◀ The trend of conventional military development among the Arab countries: Even in the current absence of a Pan-Arab effort to achieve military equality with, or superiority over, Israel, there is a conspicuous Egyptian effort at systematic expansion and a Syrian effort to upgrade relative advantages vis-a-vis Israeli weaknesses. A significant unresolved question is whether it is possible to reach a political agreement with Syria that does not include its being equipped with state-of-the-art Western weapon systems, particularly from the United States.

◀ The trend of non-conventional weapons development: Acquisition of military nuclear capability by an Arab/Islamic country will constitute a regional strategic turning point with numerous ramifications. Of all of the processes taking place now, the development of nuclear missile capability in Iraq and/or Iran is the most threatening.

❖ In the face of these phenomena of instability and dangers of war, the IDF has worked over the years to cultivate the ability to win wars decisively, in tandem with deterrence and early-warning capability in the second circle and reprisal and defensive deterrence vis-a-vis the

***Three circles of conflict confront Israel. The innermost circle, Palestinian and South Lebanese ... the second circle including Syria and possibly Egypt, Iraq and maybe even Jordan ... and the third circle takes in the farthest parts of Syrian territory, Iraq, and Iran.***

***Of all processes taking place now, the development of nuclear missile capability in Iraq and/or Iran is the most threatening.***

third circle. Today, as in the past, Israel is in the midst of a conflict in the internal circle in which it implements a combination of military, economic and political measures in order to achieve calm. Israeli resilience in a conflict of this sort is now put to test.

❖ The overall Israeli policy in the region is designed to enhance stability by preventing aggression and threats against Israel. In doing so, Israel has joined the United States, since both share a more comprehensive interest in regional stability. The primary steps taken by the two include:

◀ A series of agreements – the "peace process" – which was for the most part, though not exclusively, conducted in a coordinated fashion, and whose very existence and furtherance is supposed to contribute to regional stability.

◀ Containment of Iran and Iraq. The primary effort here is in the delay and prevention of their stockpiling ground-to-ground missiles and non-conventional weapons. The United States has assumed the primary brunt of these efforts.

❖ Among the basic factors that have contributed to the stability that has existed to this point:

◀ Israel's strength and ability to win wars decisively, which deter a comprehensive war against it (especially in the absence of a united coalition aligning against it).

◀ The political and military presence of the United States in the Middle East arena, its assertiveness and its superpower status, with no rival neutralizing its influence.

◀ The Egyptian, and even Syrian, interest in the present stability, and their alignment, to this point, against unsettling and growing factors like terrorism-sponsoring Iran and an Iraq emerging from the constraints of the blockade against it.

❖ Nevertheless, it seems that the present balance is not stable. First, as was stated, this is due to the power of the forces undermining stability in the region, and second, because the stabilizing actions – the series of agreements and the containment efforts in the Gulf – are subject to erosion, fluctuations, and regression.

❖ Therefore, it is most likely that in the present generation and apparently in the next generation as well, the Israeli-Arab conflict will continue to fluctuate between agreements and fighting, with intermingled and/or alternating violent conflicts and political negotiations. This must be taken into consideration. It is unclear if any real military options – American or Israeli – exist to prevent Iran and Iraq from deploying nuclear weapons. All that can be done is to delay, frustrate and disrupt the process. It is doubtful whether a comprehensive, lasting peace between Israel and its neighbors will be attained before one or another of the Gulf states acquires operational nuclear capability.

***By definition, deterrence is designed to prevent rivals from embarking upon a hostile action, by impressing upon them that it is very clearly not worth their while.***



❖ Since Israel's interest is to avoid conflagration in all circles of conflict, it goes without saying that this goal can be achieved through reliance on deterrence. This, by definition, is designed to prevent rivals from embarking upon hostile action, by impressing upon them that it is very clearly not worth their while. An outstanding way in which to encourage a rival to arrive at that conclusion is to place a credible threat before him, relevant to his course of action and his priorities, with a retributive aspect so profound that it would render him the loser even if his hostile action was successful. This package of deterrence policy and ability appears to require greater augmentation than any other area.

#### The Distant Circle – Strategic Deterrence

❖ Effective deterrence capability is the clear and essential strategic response to the non-conventional threat against Israel from the distant circle of conflict. Below, in this context, the events of recent times are listed:

◀ Over the last two years, the international sanctions and supervision regime in Iraq has been collapsing.

◀ Iran is persisting in its missile development and is progressing towards deploying nuclear weapons.

◀ India and Pakistan have crossed a threshold by performing nuclear tests.

❖ These processes have consequences for Israel's actual and self-proclaimed nuclear policy. Regarding its self-proclaimed policy – it is based on the principle of ambiguity, which has proven effective over the years. Israel's nuclear arms control policy – including its approach to the NPT (Non-Proliferation Treaty) and to the CTBT (Comprehensive Test-Ban Treaty) – is internationally acceptable and suits regional circumstances. Arab countries led by Egypt – and of course the United States and other Western countries – prefer that Israel continue with its policy of ambiguity and at the same time be more flexible in terms of its arms control policy. It does not seem that this change is necessary from Israel's perspective. In fact, the primary test of Israel's nuclear and defense policy will take place when a hostile country in the region declares its attainment of military nuclear capability and/or reveals it by conducting a test.

❖ It is possible that at some stage it will be appropriate to change the phrase that Israel has long used in its declarations about its nuclear policy, that “it will not be the first to **introduce** nuclear weapons into the region,” to a formula according to which, “it will not be the first to **declare** that it has introduced nuclear weapons into the region.” It is reasonable to assume that additional changes are possible in Israel's self-proclaimed policy, but this is not the forum in which to discuss them or their practical implications.

❖ In the context of the distant circle of conflict, Israel is obligated to develop a battle configuration that produces new and exclusive missions for the air and sea forces as well. The Home Command and

*Since deterrence is especially essential in its non-conventional context, the significance of deterrence capacities needed by Israel is increasing.*

*The primary test of Israel's nuclear and defense policy will take place when a hostile country in the region will declare its attainment of military nuclear capability and/or will reveal it by conducting a test.*

the governmental establishment also have new confrontation arenas. On the basis of the data that there is a supply of 3,000 missiles of all sorts in the arsenals of the Arab countries and Iran, there are a number of implications:

- ◀ The Israeli home front becomes a target and therefore a front.
  - ◀ The principles of deterrence change.
  - ◀ The participation of the distant circle countries in combat would begin with the outbreak of war. The enemy no longer needs to dispatch an expeditionary force, at least not at the early stages of the war.
- ❖ Due to the long distances that characterize this configuration, a substantial change is required in the operational concept and the deployment of the air force, both vis-a-vis the second circle and vis-a-vis longer distances. Change is required in the types and number of planes, in communication systems, in the intelligence operation, in forming an aerial picture, and more.
- ❖ In the face of the non-conventional weapons threat against Israel, it will be incumbent upon Israel to act consistently and in a timely fashion, to put a number of response components in place, such as:

◀ Deterrence: Its great urgency is understood, but, as stated, this is not the place to elaborate. Suffice it to say that it must be dynamic and must provide an appropriate response in terms of essential operational ability. As long as Israel requires deterrence capability, and the strategic understanding arrived at in 1998 with the United States is still valid, the international arms control regimes will not affect Israel's deterrence capability. It is possible that the United States interest in preserving regional stability is likely to encourage it to enhance Israel's deterrence standing, independent of its interest in Israel's security, in the context of an upgrade of their strategic relations.

◀ Active defense: The enhancement of missile interception capabilities and the development and deployment of the sophisticated "Arrow" and "Patriot" systems are especially warranted. Completing the development, production, and deployment cycles of these weaponry systems is a necessary requirement, to be supported by the further allocation of financial resources. The ability to attack enemy missile sites in the launch areas – whether by attacking launchers or by intercepting missiles at the launch and acceleration stages or by striking headquarters and bases – is an integral component of the active defense possibilities that ought to be developed and adopted. The cost of these necessary technological mechanisms is considerable and includes the acquisition of planes, missiles, pilotless drones and space platforms. This is an investment in which Israel must not lag behind. It is possible to ease the burden and attain more significant achievements by promoting the security understandings with the United States. The expansion of

***In the face of the non-conventional threat, Israel will have to utilize deterrence, active defense and passive defense.***

***As long as Israel needs deterrence capability, and the strategic understanding arrived at in 1998 with the United States is still valid, the international arms control regimes will not affect Israel's deterrence capability.***

cooperation possibilities, in the framework of a coalition with international parties - with members of NATO or with NATO itself, as well as with friendly countries in the region - could be important. Noteworthy, the significance of these possibilities is not merely defensive, as there are deterrence ramifications latent within them.

◀ Passive Defense: The organization of the home front is required, training and preparing it to defend itself against the missile threat. This was brought home during the Gulf War and during subsequent crises between the United States and Iraq. The organization of the home front should be developed both in the realm of personal and public supply, with methods of defense and shelter and in the realm of aid, extrication and rescue activities. In order to protect the population from non-conventional warfare, extraordinary means are required. Preparing the home front for a time of crisis requires the full cooperation of the public. The public must be familiar with that which is expected of it and must be drilled in proper behavior, both for the sake of the best possible defense for them and for the good of the general war effort. The primary mission is, in fact, that of the Home Command and the emergency civilian authorities. However, the training of a skilled and authoritative leadership both on the national and the local levels is a necessity as well.

#### The Second Circle - Defense, Deterrence and Decisive Victory

❖ The second circle of conflict, characterized by the conventional confrontation profile, is typical of past Israeli wars and is the type of war against which Israel's security doctrine (the principle of preemptive strike, destruction of the enemy's primary combat components, quick transfer of the war to enemy territory, air superiority, integrated military operations, the army division between regular and reserve units, etc.) was consolidated. In the past, this outline did not require the types of deterrence and defense required in the non-conventional configuration. While deterrence has been maintained vis-a-vis the countries in the second circle, its effectiveness resulted not from the threat to take revenge against the enemy, but rather from negating its accomplishments through the use of active defense and the ability to win decisively. It goes without saying that the deterrence value of merely negating the accomplishment without exacting a significant additional price is limited. It is no wonder, therefore, that at times in the past it was insufficient to discourage an attack against Israel, and it is doubtful that it will be sufficient in the future. As a result, the weight of the preparation rests on early warning, defense and decisive military capability.

❖ It is reasonable to assume that the nuclear image of Israel is what prevented the enemy from creating situations that would have endangered the very existence of Israel, even by conventional means. One can anticipate that this impediment will exist in the future as well. Nevertheless, Israel must prepare itself for the possibility of a conventional confrontation in the second circle, one that becomes more and more sophisticated and constantly changes its pattern and its

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methods of operation. The primary change is in the transition to laser-guided weapons, with high-killing capacity, through the use of sensors and intelligence. Thus, the potential to destroy targets, especially those which travel on the battlefield (tanks/vehicles), has caused headquarters and command and control mechanisms to undergo a commensurate transformation. A special effort is required to develop methods that will constitute the missing link in the identification, fire and destruction cycle. Ground war theory must be updated and the components of the infantry must be reorganized. This change is already underway and is a manifestation of a new and improved understanding of an integrated military operation. This form of battle, which demands the ability to fight continuously until victory, requires great skills from each soldier at every level of training. There will be a need in the future to structure the IDF on the basis of a greater reliance upon regular units that will bear the primary burden of battle, with the reserves assisting in maintaining the continuity of battle.

***The primary deterrent threat in the low intensity conflict is to withdraw from the peace process.***

#### The Internal Circle – Attraction, Deterrence and Defense

❖ Different forms of violence characterize the third configuration, that of low intensity conflict: terrorism, violence, and attacks against routine life in Israel and abroad; guerrilla warfare; mass uprisings; violent demonstrations, etc. The challenge latent within this configuration is both operational and strategic; it can undermine the basic security of society; it is liable to undermine the confidence in the ability of security forces to provide the citizens of the country with effective defense and is liable to have an influence on the willingness of the public to support policies and actions that the country undertakes. In this way, the enemy can influence the decision-making process of the leaders in a variety of methods, especially within the context of political negotiations.

***The primary deterrent threat in the low intensity conflict is to withdraw from the peace process.***

❖ Low-intensity combat has been conducted against Israel over the years, from the infiltration of the "fedayeen", through Palestinian terrorist activity worldwide, and including Iranian-inspired terrorist attacks and guerrilla warfare by the "Hizbullah". Low-intensity warfare is the primary form of combat extant in Israel's internal circle. Presumably, this type of combat will continue.

***The struggle against low-intensity warfare should incorporate measures of improved defense to whatever extent possible and a policy that endeavors to create a situation in which the very use of violence will lessen, rather than increase, the enemy's chances to gain the political profit in whose pursuit it initiated the violence.***

❖ The enemy's preference for low-intensity warfare is caused either by its lack of ability to wage conventional warfare or by its desire to avoid conventional warfare, where Israel can muster a more consolidated response. The characteristics of low-intensity warfare create an intrinsic difficulty in its deterrence. Low-intensity offense forces low-intensity response – reprisal. Even if there was room for punishment, it does not always have an "address". The appropriate conclusion is that the probability of deterring this sort of combat by threats of retribution is very limited. A degree of deterrence can be maintained by threatening and striking operational levels of command and, periodically, decision-making levels of command. However, this type of "decapitation" deterrence is politically and legally problematic. Back in the days of the "fedayeen" in the '50s, Israel attempted to implement a policy of deterrence through retaliatory punishment. What remains, therefore, is only deterrence by negating the political achievement for which the enemy fought. Therefore, the primary deterrent threat is to withdraw from the peace process. The credibility of a threat of this sort is mixed and its plausibility

partial. Nevertheless, it should be employed. The struggle against low-intensity warfare should incorporate measures of improved defense to whatever extent possible and a policy that endeavors to create a situation in which the very use of violence will lessen, rather than increase, the enemy's chances to gain the political profit in whose pursuit it initiated the violence.

❖ Dealing with a low-intensity conflict, therefore, necessitates a combination of measures of deterrence, defensive-offensive combat, and defensive measures. This points to a combination of approaches that, due to their complexity and mutual dependence, require effective and finely coordinated implementation. The required methods of warfare are varied, constantly changing and developing in terms of expertise and sophistication. Beyond the basic capabilities all ground units, special warfare is also indispensable utilizing power components capable of "surgical" penetration and neutralization of the enemy's command centers. These, together with other pinpoint operations designed to punish those responsible for the terrorist acts - the planners of the attack - call for, among other things:

◀ Development of weapons systems to strike, halt and neutralize targets, including non-lethal weapons and their adaptation to deal with civil unrest, violent disturbances and the use of knives, stones and the like. These methods are designed to neutralize gunfire from disparate directions, ambushes and terrorism of all sorts.

◀ The deployment of special units trained for this sort of combat, along with the training of regular and reserve forces for complementary forms of confrontation. Methods of command, management and control that will provide uninterrupted response should characterize the day-to-day effort. Constant coordination between the military operations at the level of the IDF General Staff and regional commands on the one hand, and between the management of the military, political and public effort by the governmental establishment on the other, is imperative.

❖ Low-intensity combat is, first and foremost, by definition a war of attrition, because no option of tilting the balance exists, neither for the initiator nor for the defender. In a confrontation of this sort, the advantageous side in terms of determination and stamina will emerge operationally victorious. As there is no tangible manifestation of a prevalence in the military arena, success in combat of this sort is reflected primarily on the political plane.

#### Force Construction

❖ The need for preparedness for confrontation in all three circles, with their particular configurations of combat, impacts on the construction of the IDF force in the following manners:

◀ A quality-based policy of force construction is a necessity, as opposed to a responsive policy of closing the quantitative gaps with the enemy's armed forces. This would be accomplished by:

***Dealing with low-intensity conflict requires the deployment of special units designed to strike command centers and various non-lethal weapons to deal with mass civil unrest.***

***IDF force construction should be based upon quality personnel, high technology, precise firepower and advanced command, control and intelligence systems.***

- Quality personnel: Combat commanders and the technological personnel.
  - State-of-the-art technology designed to facilitate decisive victory or results at the lowest possible cost.
  - Precise firepower for the purpose of quickly destroying targets in order to ease the maneuvering stage, crucial for attaining decisive victory on the battlefield.
  - Command and control system: Conveying intelligence information and other types of data.
- ◀ A comprehensive, multi-year program, annually updated should be the basis for force construction. As long as there is no multi-year budget, the program must allocate budgetary margins that will be able to withstand budgetary shock waves. The program should incorporate thematic and fundamental guidelines through 2020 and precise details through 2005. Nevertheless, it is imperative to make the change to long-term budgeting; the lack thereof exacts a significant price from the IDF, the security establishment and industry.
- ◀ The naval force must be updated to acquire additional platforms and to assume strategic missions beyond present missions. At the same time, the aerial force must assume priority. The Air Force is the strategic component in the IDF capability - at the front and deep in enemy territory - to deal with ground-to-ground missiles and to transfer means of combat from front to front.
- ◀ Due to the parameters and long distances of a regional war, the Air Force must be equipped not only with the appropriate planes, but also with means of supporting combat from space and from airborne command and control platforms. A regional war in the distant circle is liable to draw additional participants into combat, such as the United States, and the IDF must be prepared to operate in coordination, and even in tandem, with these forces. Preparedness in this context requires joint weapons systems and exercises.
- ❖ Intelligence must be capable of identifying changes in a timely fashion, to provide strategic and tactical warning and identify targets for the precise firepower alignment.
  - ❖ The precision firepower alignment must be strengthened.
  - ❖ The force construction of the ground forces should be operation-oriented. The objective is to organize all of the force components - including the infantry - under one structural roof (at the level of the division) in order to facilitate their coordinated role in operational missions.
  - ❖ Finally, and considering the growing centrality of deterrence, it must be remembered that:

***The strategic capacities of the naval force should be strengthened, while giving priority to the force construction of the Air Force.***

***The objective is to organize all the ground force components - including the infantry - under one structural roof (at the level of the division) in order to facilitate their coordinated role in operational missions.***

- ◀ Credible deterrence is based upon existing and proven intentions and upon the ability to fight.
- ◀ Even if there is no immediate linkage between deterrence in the distant circle and deterrence in the second or the internal circles, there is a linkage between them resulting from the common denominator necessary for each. The leadership must be very careful not to raise the population's anxiety level. At the same time, it must outwardly project an image of determination, consistency, and even of daring.

***The leadership must be very careful not to raise the population's anxiety level. At the same time, it must outwardly project an image of determination, consistency, and even of daring.***

## **The Economic Aspect**

### The Economy

The strategic concept underlying the economic policies of successive Israeli governments since 1985 has been the integration of the Israeli economy into the global economy by increasing export-oriented production. The primary goal of this policy was to increase the GNP through continued growth in order to ensure that the resources necessary to satisfy Israel's security and civilian needs would be at its disposal. The method to attain these goals in a country with a small domestic market required openness to global markets. Further and improved integration into the global economy requires reforms in existing local systems and centers of economic activity – financial and money markets, the labor market, physical infrastructures and real estate and business regulation, taxation and legislation.

***The strategic concept underlying the economic policies of successive Israeli governments since 1985 has been the integration of the Israeli economy into the global economy by increasing export-oriented production.***

- ❖ The connection between economic-market strength and political-security strength is not a one-way street in its ramifications and is not lacking in problems, such as:
  - ◀ The ability of the Israeli economy to make the most of its potential is contingent, as was stated, on exposure to the world economy; its extreme dependency on exports on the one hand, and on the increasing import of capital and manpower on the other, expose the Israeli economy to external shockwaves.
  - ◀ The assumption that "economic growth depends on peace" is not necessarily true or appropriate. According to that assumption, the fate of the economy is dependent on Israel's regional position and on regional stability.
- ❖ The unanswered fundamental questions are:
  - ◀ Does the strength of the Israeli economy and its diversified structure enhance national strength or is it rather its exposure and dependency that are growing?
  - ◀ Does the Israel's economic strength model (emphasis on services, imported personnel, capital intensive fields requiring trained personnel, decline of traditional industries, an unequal

***The unanswered fundamental question is: Does the strength of the Israeli economy and its diversified structure enhance national strength or is it rather its exposure and dependency that are growing?***

distribution of income, import of basic products) contribute to the general national strength?

◀ Is it possible to objectively examine the planned utilization of the IDF? The point of departure in the allocation of funds to the IDF is, first and foremost, the demands of the IDF. Does this pattern require a re-analysis?

❖ A fundamental agreement exists among experts regarding the general outline of the required economic reforms. Their implementation is delayed or ineffective due to:

◀ The weakness of the economic leadership in the country. There is no group dealing with the linkage between national strength and security and the economy in a systematic and profound way.

◀ Inadequate performance by the political establishment, which produces laws and regulations which run categorically counter to planned reforms and to the constitutional framework.

◀ Privatization – which comes and goes - contributes to the intensification of competitiveness. It is true that public properties have been sold to private concerns but there are sectors in which the centralization and lack of competition have even increased.

❖ One of the important topics on Israel's economic agenda is the relationship between the human resource, productivity and the labor market. It is customary to claim that the primary resource of the Israeli economy – in the absence of any real natural resources – is the human resource. The Israeli labor market, which is supposed to take full advantage of this resource, is lacking in two primary areas: the low rate of participation in the work force and the low level of labor productivity in comparison with other developed countries. It would be enough to increase the rate of participation and labor productivity by just a few percentage points in order to accelerate growth and significantly increase the GNP. To illustrate the point: Due to the lack of continued growth in productivity and low participation in the work force, Israel has lost, in the last decade alone, a sum about fifty times the size of the annual American aid.

❖ Regarding the rate of participation in the work force: The actual labor supply in Israel, as opposed to the potential supply of work-aged people, is relatively lower than most industrialized economies. On the one hand, the unemployment rate is high and is characterized by a tendency for significant long-term growth. Thus, the unemployment rate in a situation of full labor supply is 6 to 6.5 per cent. On the other hand, a severe lack of skilled personnel exists in many sectors, conspicuous among them the hi-tech sector. This situation has ramifications for security, for example in a case when the army loses out to the private sector in competition for skilled personnel.

❖ The major incentive to work is salary. This factor influences both the willingness to enter the job market (rate of participation) and

***The labor market is lacking in two primary areas: the low rate of participation in the work force and the low level of labor productivity. It would be enough to increase these rates by just a few percentage points in order to accelerate growth and significantly increase the GNP.***

***The major incentive to work is salary. As a general rule, it seems desirable that two-thirds of a citizen's income remain in his or her possession.***



the desire to look for work (rate of unemployment). In this context, the implementation of a comprehensive tax reform is relevant, including the raising of the threshold of the lowest tax bracket, the broadening of the tax brackets and the reduction of the highest effective tax bracket. As a general rule, it seems desirable that two-thirds of a citizen's income remain in his or her possession. Increasing the national revenue sources by expanding the tax base and by making the tax collection system more effective (by mandating filing income tax returns and implementing administrative fines though not necessarily criminal ones) could facilitate the realization of that rule.

❖ Regarding the personnel shortage: Inclusion of those populations whose rate of participation in the labor market is low – ultra-Orthodox and Arabs (with special emphasis on women) should be encouraged; the willingness of these sectors to cooperate depends on a fundamental and practical understanding with them, concerning the improvement of the general level of education among them, with an emphasis on technological training. In addition:

◀ As mentioned above, the immigration of Jews and the return of Israelis from abroad should be encouraged, with emphasis placed on the hi-tech sector; this effort should be led by a private agency which will be reimbursed in conjunction with its attainment of set goals.

◀ Certain sectors in need of non-Israeli personnel should be permitted to temporarily employ foreign workers as needed, with supervision and effective enforcement of labor laws, and with the employing companies even paying an indemnity.

❖ Unemployment can be reduced by:

◀ Increasing flexibility of work conditions (broadening the changeover to personal contracts, delinking the salary levels of different sectors in the market, transfer of pension rights between workplaces, etc.).

◀ Encouraging the establishment of enterprises, especially hi-tech ones, in the periphery and in regions with high unemployment rates.

◀ Limiting eligibility for unemployment payments.

◀ Encouraging vocational training in accordance with employment demand as it develops in the marketplace and encouraging retraining within the workplace.

◀ Removal of obstacles to geographic mobility of workers by improving transportation and infrastructure systems and easing the process of purchasing or changing residences.

❖ Regarding productivity: Productivity did not grow even during the period of high growth in the 1990s. The rate of productivity is low relative to other developed economies. As a general rule, increased productivity is a central factor in a process of long-term growth. The

***Inclusion of those populations whose rate of participation in the labor market is low should be encouraged as well as the immigration of Jews and the return of Israelis from abroad.***

***Productivity did not grow even during the period of high growth in the 1990s. The rate of productivity is low relative to other developed economies.***

reasons for low productivity are dependent on the following factors: A financial market which suffers from an antiquated tax system; a deficient legislative system and legal bureaucracy; a labor market overflowing with the aforementioned problems, such as a low rate of participation, an ever-increasing unemployment rate, and negative incentives for workers; the establishment factor, or in other words, deficiencies in the administration, in the educational system, and in the judicial system. The effort to increase productivity is, therefore, a key challenge for the economy. Among other things, the following can be done:

- ◀ Generate a change in the management culture of companies in the business sector, placing an emphasis on maximal increased value for shareholders. This management culture is prevalent in Israel especially among hi-tech companies and those with foreign ownership. Its expansion to all companies in the marketplace should be accelerated.
- ◀ Make employment laws more flexible so that the connection between compensation and productivity is reinforced; this has yet to be part-and-parcel of the traditional industry.

#### The Defense Budget

- ❖ The Boaz Commission, tasked to examine the defense budgetary about two years ago, discovered, among other things, that:
  - ◀ There is a significant gap between the resources at the disposal of the defense establishment and the total planned utilization of those resources by the defense establishment. There is an annual gap of 4.5 billion shekels. On the planning horizon through 2010, the gap reaches 58 billion shekels. This is a troublesome shortfall.
  - ◀ As mentioned above, the defense establishment does not have a multi-year budget.
  - ◀ The defense establishment does not have an up-to-date security concept approved by the government.
- ❖ The fact that, in budgetary terms, the IDF is a relatively cheap army is instructive. The IDF is a large army, but much smaller than the Arab armies. In comparison to the German, French and British armies, it is almost three times the size of each, and the quantity of major weaponry (not including the Navy) in its arsenal is greater than the three of them combined. Nevertheless, the British military budget is five times, and the French budget four times, that of the IDF.
- ❖ The budgetary uniqueness of the IDF is possible due to its lack of investment in infrastructure and inventory. The IDF is designed for a very short war; it is not a balanced army, and it certainly cannot be characterized as an army prepared for a "worst case scenario". In order to maintain its balance against all of the threats with suitable inventory, Israel would need a defense budget identical to that of Britain and

***There is a significant gap between the resources at the disposal of the defense establishment and the total planned utilization of those resources by the defense establishment. There is an annual gap of 4.5 billion shekels. By 2010, the gap may reach 58 billion shekels.***

***The defense establishment does not have a multi-year budget, nor does it have an up-to-date security concept approved by the government.***

France. It goes without saying that it would be very difficult for Israel's economy to bear a budgetary burden of that magnitude.

❖ In the past, the defense burden was more than 30 per cent of the GNP, while currently it is only 8 per cent (and 16 per cent of the budget). In absolute terms, the per capita expenditure for defense (\$1,100) is even lower than that of the United States (\$1,300). (As to the quantification of the burden, it should be noted that investment in the defense establishment's R&D has a positive impact on the economy and the practical implication is reduction of the burden. The salary not paid to conscript soldiers, however, is an aspect of the burden that is not measured at all.)

❖ Narrowing the defense burden will not necessarily increase economic strength, as in Israel any cutback is immediately designated for transfer payments rather than investment in education, infrastructure, etc. Therefore, limiting the defense burden does not necessarily contribute to economic growth.

❖ Below are a number of conclusions:

◀ The cumulative gap between the planned utilization by the defense establishment and the resources at its disposal requires examination. Arguably, the planned utilization was, and is, exaggerated, though the possibility cannot be discounted that dangerous military and security deficiencies have accumulated that will only be realized when put to the test. The possibility exists that the prioritizing of utilization will not be optimal in terms of national security. Thus, a careful examination of goals vis-a-vis utilities in budgetary terms is warranted.

◀ The framework of the budget should be set as multi-year. It is vital to find a legal/organizational way to establish coordination between the IDF multi-year program and the framework of the multi-year budget accompanying it. The defense establishment, which deals with the multi-year development of weaponry systems and long-term personnel training, cannot function properly without a multi-year budget.

◀ The defense establishment is in need of a body, whose members will possess economic and security knowledge and experience, that will consolidate a comprehensive resource policy from a broad perspective. The matter is, of course, problematic, as a body of that sort is liable to be perceived as a challenge to the Treasury and its budgetary policy. However, the issue of consolidating the budget is too important to continue in its present form.

◀ There is room to increase the share of the budget designated for personnel. Today, about 47 per cent of the defense budget is earmarked for personnel (including allocations for personnel rehabilitation, which in most countries in the world are not included in the defense budget). In Western armies, the allotment for personnel is between 50 and 60 per cent of the budget. In the hi-tech sector, it reaches about 90 percent. The percentage

***The defense burden is currently only 8 per cent of the GNP. In absolute terms, the per capita expenditure for defense is even lower than that of the US.***

***Defense budgeting requires change. A new body should be established in order to consolidate a comprehensive resource policy; the framework of the budget should be multi-year; the budget share designated for personnel should be increased; and a realistic salary should be paid conscript soldiers.***

earmarked for personnel can be raised to 50 per cent, due to the importance of this component.

- ◀ A realistic salary should be paid to conscript soldiers. This will serve both social justice and budgetary order.

#### American Aid

- ❖ Regarding American military aid: In 2000, the American military aid was 1.92 billion dollars; this aid will gradually increase each year until 2008 when it will reach 2.4 billion dollars annually. 26.6 per cent of the aid is converted into shekels, for domestic defense procurement. In 2000, that sum was 505 million dollars; in 2008, it will reach 631 million dollars.

- ❖ In this context, the following problems should be enumerated:

- ◀ Parallel to the increase in the scope of the aid, the allocation of Israeli resources for defense expenditure is diminishing. This leads the Americans to wonder: We are increasing the aid for you because you claim that your needs have increased. Why then are you reducing your own share in the defense budget?

- ◀ As a result, Israeli defense procurement in the domestic market is diverted to the American market, even when economic considerations would dictate the opposite.

- ◀ With the American "gift", Israel purchases weapons systems, which at times are more expensive and are of lower quality than Israeli equivalents, at the expense of Israeli defense industries. The American "gift" impedes Israel's national capacity to provide the IDF with a qualitative-technological advantage; some of the weapons systems require further purchases in the United States. With a sum of a billion dollars of the aid it would be possible and preferable to purchase domestic products, at times superior to the American ones, while reaping some of the economic benefits included therein (reducing unemployment, etc.).

- ◀ American aid enables an American veto on Israeli export of military items; this veto power is liable to badly damage Israeli defense industries.

- ❖ Therefore, it is pertinent to consider the negative strategic consequences of the aid. First, damage to local centers of knowledge and technology; second, damage to the structure of the economy as a result of purchasing products in dollars from a foreign civilian sector. It is advisable in this context to consider:

- ◀ Diverting American aid to other channels. It is important to remember that the aid will not continue forever. At the same time, it would be worthwhile to consider how to benefit most from the sincere willingness of the United States to support Israel's security by diverting resources to channels which will strengthen the local industry's defense sector.

***It is worthwhile to consider how to benefit most from the sincere willingness of the United States to support Israel's security by diverting resources to channels that will strengthen the local industry's defense sector.***

***The consequences of increasing the convertible aid warrant careful consideration. On one hand, increasing the aid in local currency would strengthen the Israeli market and industry. On the other hand, the refurbishment of the Israeli Airforce, the major strategic warfare component, requires American currency.***

◀ Increasing the share of the aid that could be converted and directed to the Israeli market, , in exchange for an overall decrease in the amount of aid. However:

▪ On the one hand, it would be most preferable had it been possible to convert all the aid into shekels for domestic expenditure (and by doing so, the military aid to Egypt would also cease). Israel could consider to launch a campaign in the Congress, in which it will express its willingness to reduce the aid (from 2 billion to say 1.5 billion), in exchange for increasing the convertible share. The requisite conversion sum would be, for instance, 1 billion dollars instead of a half billion.

▪ On the other hand, American aid is necessary for building the IDF's force power. The foreign currency aid is earmarked, first and foremost, for refurbishing, at the required pace, the Air Force - the strategic component of Israeli military power. The implication is a billion or a billion and a half dollars for planes plus another 700 million dollars to maintain the existing level of armament. The IDF force construction cannot rely solely upon a shekel budget. A fundamental study should be undertaken to determine whether a high shekel apportionment is worthwhile from a security and economic perspective.

◀ To invest a greater effort in the sphere of security exports to the United States. In this sphere there is a better chance to convince Congress to increase the convertible share of aid beyond the present percentage.

❖ Regarding the defense industries: The defense industry has provided, and continues to provide, the IDF with power multipliers and strategic independence. As such, the industry is a vital component of national strength. Over 500 million dollars coming from the American aid are invested annually in the industry. Nevertheless, insufficient resources are allocated to the industry and the portion allocated is incidental and unplanned. No representative of the defense industries is a member of the body responsible for allocating national resources.

❖ The defense industry is currently at a crossroads and there is a real danger that its development will discontinue. The industry is moving along a path liable to liquidate it within a few years. Among the factors involved are:

◀ Over-reliance on exports; security exports constitute a significant percentage of total production (as opposed to 5-10 per cent among Americans and other large weapons producers). This is an aberrant and extremely dangerous proportion.

◀ Government ownership of the central nucleus of the defense industries: This ownership does not enable the recruitment of personnel suitable for development and production. At the same time, the root of the problem in the defense industry lies in the decision-making process. The governmental system makes

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decisions and does not abide by them; the owners – that is, the State – does not act in a way commensurate with how owners in the private sector act with their properties.

- ◀ Among the steps that warrant consideration:
  - Privatization and consolidation of all defense industries into one powerful company. There is no room for redundancy.
  - Examining the possibility that international and multi-national corporations will purchase part of the defense industries and become partners in them.

***The defense industry is moving along a path liable to liquidate it within a few years. Among the factors involved are over-reliance on exports and government ownership.***

## **The Technological Aspect**

The Israeli economy has undergone a powerful structural transformation over the last few years, characterized by the dissolution of traditional sectors and the shift of sources of production from traditional sectors to advanced sectors, especially advanced technology. This gap in the rates of increase in activity between the two sectors supports the theory that, in analyzing the Israeli economy, one must, for all intents and purposes, relate to two separate economies – one, the hi-tech sector, and the second, the rest of the economy. Advanced technology has many ramifications for the economy, ranging from the rate and sources of growth (which creates serious problems in measuring the GNP), through the impact on the balance of payments (especially by increasing the export of hi-tech products and hi-tech companies), the financial markets (stock issues in the stock markets in Israel and abroad), the foreign currency market (due to the enormous flow of capital from abroad) up to, and including, its sweeping influence on economic policy. In global terms, the hi-tech sector is growing rapidly and attracting extensive capital. The sector serves as an impetus for the growth of the economies of developed countries, including Israel's. Sixty-two per cent of the rate of economic growth stems from the hi-tech market. However, in order to maintain annual growth of 5 per cent, the hi-tech sector must grow by 10 to 14 per cent annually. In the absence of growth in the hi-tech market, Israel is liable to reach a situation of gradually decreasing per capita GNP.

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- ❖ Among the characteristics of the hi-tech industry in Israel:
  - ◀ It is based on knowledge (people are the major resource).
  - ◀ It is typified by a high level of mobility (the supply of, and demand for, professionals is global and not local).
  - ◀ High added value per worker (\$150,000 per annum).
  - ◀ Development of human capital necessitates long periods of time.
  - ◀ High risk levels.

◀ Primary areas: Defense, communications and electronics, software and internet, medical and biotechnology.

❖ In the Israeli hi-tech industry, 120,000 workers are now employed, a third of them engineers and technicians. There are 140 hi-tech engineers in Israel per 10,000 residents (as opposed to 70-80 in the rest of the West). At the same time, only ten per cent of the 85,000 high school graduates each year study mathematics at a high matriculation level. Among them only 6,500 continue on to study hi-tech professions in the universities. The output of the vocational schools is similar. Israel has, for all intents and purposes, reached its maximal potential. The problems facing the hi-tech industry are:

◀ An inadequate and unsuitable educational system;

◀ A long and short-term lack of personnel, estimated at between 2,000-5,000 quality workers.

◀ Flight of companies, workers and risk-capital funds from Israel.

◀ Antiquated and anti-consumer R&D and investment laws.

❖ The crisis that the Israeli economy is experiencing has significant ramifications for the Israeli labor market. Since the economic component of the national strength of Israel will apparently be based on the centrality of the hi-tech sector - as the most effective way to increase productivity in the economy - a necessary precondition to the enhancement of its strength will be the adaptation of the Israeli labor market to the future economy. As it is poor in natural resources, Israel can rely only on its human capital to develop and strengthen the economy.

❖ The structure of the Israeli economic system "encourages" the flight abroad of Israeli companies, especially in the hi-tech sector. The government, the tax system and the business-legal system all fail to encourage Israeli companies to remain. "Emigration" diminishes the national tax revenue and leads to a decrease in the number of Israelis with technological-scientific skills. Current statistics attest to the fact that a significant percentage (approximately half of the companies active in the field) have already transferred the center of their operations abroad. The motive of these companies to transfer their activities was the conditions of global competition, which mandate international economic financing.

❖ An effort to halt this erosion requires the establishment of a supportive shield comprised of: a more agreeable tax environment, involving a decrease of the tax rates on capital gains for companies to 20 per cent of the nominal profit; more agreeable tax arrangements concerning workers' options; delaying the incidence of tax in mergers and buyouts until the money has changed hands; removing the limitations on the maximum sum of contributions of companies and individuals.

***The structure of the Israeli economic system "encourages" the flight abroad of Israeli companies, especially in the hi-tech sector. An effort to halt this erosion requires the establishment of a supportive shield offering, among other measures, a more agreeable tax environment.***

❖ Regarding the laws governing companies and the business environment:

◀ The company law, enacted in February 2000, is especially problematic as it applies to the hi-tech sector. A change in the law is necessary so that it corresponds with the Delaware Laws, focused on limiting the accountability of shareholders, directors, and managers, and removing bureaucratic stipulations on the management of companies.

◀ Easing mergers: The law places many obstacles in the way of acquisitions and lacks a process of streamlined mergers like that in the United States. The removal of the stipulation forbidding the distribution of options to 35 workers without an earnings' forecast is necessary. This stipulation causes great damage to hi-tech companies - especially the large ones. It is advisable to establish troubleshooting committees drawn primarily from the private sector, which will submit quarterly recommendations for regulations and laws. The legal system requires adaptation, including the specialization of judges in the field of international economy, streamlining processes and limiting punitive damages.

❖ Financing: With more than five billion dollars in risk capital funds, additional billions in the hands of advanced technological firms in Israel, and comparable sums invested by foreign investment funds in Israel – the financial market of the advanced technology industry is very efficient. As a result, the governmental role in financing R&D and investing in hi-tech companies can be reduced, as follows:

◀ The Office of the Chief Scientist: Direct subsidies for R&D in hi-tech companies should be halted or significantly curtailed. Instead, the government should support the following research initiatives: Basic research in the universities (such as the policy of the National Science Foundation in the United States); Defense and strategic research initiatives in the universities and industry; the Magnet program of the Office of the Chief Scientist that encourages the coordination of generic, pre-competitive research. The incubator program of the Office of the Chief Scientist necessitate reexamination in light of the above:

◀ The Investment Authority: The Law of Investment Encouragement, in whose context the authority functions, was initially designed to encourage the establishment of factories and places of employment in the development regions in Israel. However, the law, which focuses on granting significant start-up funding, is unsuitable for advanced technology companies, which do not need it.

❖ The reforms in the Office of the Chief Scientist and in the Investment Authority recommended above will free hundreds of millions of dollars. The government should invest those funds in new transportation and education infrastructures and in the existing ones. Investment in suitable transportation and education infrastructures will

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accomplish the goals of revitalizing the periphery and employing labor force more effectively than direct subsidies.

❖ Regarding the relationship between defense and civilian R&D:

◀ The total investment in R&D is too low. This is not only the result of the gap between the societal benefit and the personal benefit. Government support of R&D is supposed to bridge that gap. The major impetus for growth is the expertise resulting from investment in R&D.

◀ The most dominant factor in basic R&D investments is the defense establishment. Over the last 20 years, the defense establishment has invested 100 billion shekels in defense R&D. The utilization of defense plants for civilian uses has generally failed, however. The expertise accrued in the process of defense development is transferred to the private sector by professionals who leave the defense establishment.

❖ The contribution of defense R&D to the Israeli economy indirectly reduces the defense burden. The contribution of defense R&D is conspicuous in the field of digital communication, which contributes greatly to the significant growth of the Israeli GNP in the hi-tech sector. The required directions in the R&D field are:

◀ Basic R&D cannot be privatized and the government should continue to investment in it in an orderly framework, while maintaining national centers of expertise.

◀ The investment in R&D is the investment with the highest capital return, even if its profits mature slowly. Bottom line, the government must increase its investment in R&D (defense and civilian), and thereby strengthen industry and increase employment.

◀ Spillover of knowledge accrued in the course of defense R&D should be directed to civilian industries and, thus, contribute to national strength.

◀ From a national perspective, it would be desirable to direct some of the resources held by the risk capital funds to technological innovations (especially dual innovations – civilian and defense), in order to increase the scope of R&D and broaden the circle of reciprocal feedback between sectors in this manner as well.

◀ A reassessment of priorities to be addressed by the "Innovation, Technology and Industry Policy" and the establishment of an apparatus to oversee its implementation and support it.

◀ There is room for a new approach to exploit and assimilate R&D and its investment returns. Instead of continuing the traditional investments only in R&D (especially at the start-up

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stage), the focus of support should be directed to the later stages of business and technological development as well.

◀ Encouraging the formation of large local corporations, supporting them and, in the course of time, transforming them into global corporations, which will be world leaders in their field. The main problem stems from the small number of large companies with global accessibility, especially in the field of information technology. The existence of companies of this sort has positive derivative influences on employment, the economy, and the marketplace in general. Investors should be convinced to establish production - and not only R&D - centers in Israel.

◀ The establishment of a senior, national hi-tech forum that will regularly monitor the changes in the internal and external environments and their influence on hi-tech, the economy and R&D policy.

***The establishment of a senior, national hi-tech forum that will regularly monitor the changes in the internal and external environments and their influence on hi-tech, the economy, and R&D policy is recommended.***

## **The Educational Aspect**

People, their values and their knowledge are at the foundation of Israel's sources of strength. The relative importance of the human resource emphasizes the centrality of the social issue, including the issue of education.

❖ The State of Israel wants to, and must, maintain its relative advantage and its competitive edge in the fields of economy, science, society and defense. It must place education at the top of the national priority list and view education budgets as investments rather than expenses. An international cross-country analysis shows that impressive national and economic growth depends to a large extent upon the national educational achievement culture. The assumption is that the long-term exposure of individuals to a successful educational experience will increase their chances of achieving social and material reward.

❖ In order to maintain its qualitative advantage and to prepare the requisite foundations for a hi-tech society, enormous investments are required in improving the education system. Indeed, an examination of the situation and the statistics of the education sector reveals that palpable dangers threaten the vision of a strong Israel with an advantage in the fields of science and advanced technology. Among the worrisome data:

◀ Inadequate national scholastic achievements: The system, all too often, makes light of basic skills and does not provide undergraduate students with basic skills such as processing information, creative thinking, problem-solving, self-management and computer usage. In comparative international tests of academic achievement, Israel scores average and below-average results (in a comparative international study of eighth grade achievements from 1999, Israel reached 28<sup>th</sup> place in mathematics and 26<sup>th</sup> place in science, among 36 countries). In national tests to

***One of the critical factors in attaining economic growth is the national educational achievement culture.***

gauge scholastic achievement, the results attained were low. Furthermore, more than half of all 12<sup>th</sup> grade graduates are ineligible for matriculation certificates.

◀ Quality of education that does not prepare for optimal functioning in the digital world: The raw materials required for the digital age – expertise, information, creativity, work processes, cooperation and thinking skills, study habits, and values – are not acquired by all students. The gap between the present educational results and those required in order to prepare today's student for the challenges of tomorrow is gradually widening. An even greater, technological and functional gap exists between the technological and communications culture of the 21<sup>st</sup> century and the current educational system and the learning environment that it offers.

◀ Educational gaps between social groups and erosion of societal unity: A democratic society is obligated to provide equal educational opportunities to all. The educational system does not provide an equal measure of education and does not succeed in providing an equivalent quality of education. The chances of students belonging to different social groups to attain scholastic achievements, to earn a matriculation certificate, and to study in academic institutions are not equal. These gaps reflect a general failure, which leads to the squandering of national-human potential. The educational gaps between population groups and the gaps between the abilities of the students are two problems for which the educational system is responsible. This is in contrast to the latent, though dominant, concept current in the education establishment, which places the responsibility for low achievements and intersectional gaps on the groups themselves, on the students, and their parents.

◀ Erosion of national unity: The current cultural-social reality, in which the interaction between different groups in the population is gradually weakening, threatens the nation's social solidarity. A cultural-intellectual and moral infrastructure common to all and accepted by the public at large is required in order to ensure Israel's future existence and security. There is no common curriculum in Israel today covering all Israeli children studying in State-funded schools. Noteworthy, the issue of societal identity and unity is not a primary responsibility of the education establishment.

❖ A higher percentage of Israel's population is young than in most other developed countries. Israel has a high percentage of academics and a steady increase in those pursuing higher education. The level of scholastic achievements of the entire population is constantly rising and the level of quality attributes of IDF soldiers is maintained and even improving. Thus, for example:

- The rate of educated people in Israel is high relative to that in other developed countries.
- The rate of accomplishments in the educational system is consistently rising among all groups in the population. For

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example, from 1986-1996, the population eligible for matriculation certificates grew by 10 per cent; the gap between groups typified by their sectors of origin narrowed over the years by half.

- IDF statistics indicate that the quality (cognitive ability, education, motivation, etc.) of its soldiers has been maintained and continues to improve over the years.
- In 1995, only 6,000 students (6.5 per cent of the student population) studied computer sciences and electrical engineering; in 2000, 12,000 students (about 11 per cent) studied these subjects.

❖ It is important to move forward in four central avenues:

◀ Steps should be taken to ensure that post-high school education be made available to wider circles while maintaining a high academic level.

◀ The underlying theme of education from kindergarten through the end of high school should be "education geared for the scientific-technological age". Other than science and technology, English, accuracy, precision, other intellectual skills should be taught. This effort, first and foremost, requires the return to the basics of the educational system.

◀ The computerization of the entire educational system is essential. Every student should have a laptop computer and every classroom should be computerized. This can be implemented incrementally over ten years at the cost of a billion shekels annually. It is intolerable that the next generation in Israel should be educated by means of 1970s technology.

◀ Teachers in this day and age and in the future must serve as mediators, guides and "traffic cops" between the students and the infinite amount of information of varying quality. The teachers need an ongoing logistical network of support, advice and refresher courses.

❖ Among the practical goals which should be aimed for:

◀ A significant narrowing of the scholastic achievement gap between students of disparate social groups over the course of four years.

◀ Increasing the number of those eligible for a matriculation certificates by ten per cent over the next three years.

◀ Increasing the number of students eligible for a matriculation certificate and majoring in natural sciences within four years.

◀ Equipping the entire student and teacher population with laptop computers.

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- ❖ Among the organizational system-wide changes:
  - ◀ Decentralization of authority to implement changes and placing the responsibility for educational results - including the responsibility to hire and fire teachers – in the hands of the local authorities and the schools.
  - ◀ Replacing present methods of budgeting with a unified method of budgeting in the entire educational system based on a differential standard determined according to the socio-economic background of the student.
  - ◀ Transfer of the budgets of the educational system through local authorities according to transparent criteria.
- ❖ Among the pedagogic system-wide changes:
  - ◀ Consolidating a "core curriculum" for all Israeli students.
  - ◀ Moving from a uniform time-table and framework for all students to a differential time-table in accordance with the needs of the student within the school framework.
  - ◀ Adapting the learning environment (teaching, studying and evaluation) to the incipient technology-rich reality, including equipping all students and teachers with laptop computers.
  - ◀ Improving the quality of instruction.
- ❖ In addition, there is room to:
  - ◀ Encourage those who work in industry to teach science and technology on a part-time basis.
  - ◀ To incorporate computer-based correspondence courses within the general school system.
  - ◀ To reverse the apparent trend of diminution in the status of vocational schools.

***A “core curriculum” should be consolidated for all Israeli students.***

## **The Social Aspect**

A substantive existential threat faces Israel, not only in the military-strategic realm, but also in the social realm. Israel is a divided society, subject to strong sectarian impulses, and especially deficient in its political culture and behavior. The problem is grave and demands special attention due to the relationship between the erosion of resilience in dealing with outside threats and the erosion of inner strength. In Israel, not much has been done to advance and enhance societal strength. Among the reasons for this is the political schism along with the developing polarization between the Zionist and post-Zionist approaches. Societal strength is an important component in national strength – especially in times of crisis and distress. Among the

components and characteristics of societal strength, the following can be enumerated:

- ❖ Common faith in the righteousness of our existence; unity of purpose; collective memory; willingness to sacrifice; hope/lack of alternative; faith in the conduct of the leadership and lack of alienation from it.
- ❖ Collective memory has special importance in societal strength. The reference is to a collection of historical stories, symbols, beliefs and customs common to a societal group over time, which are passed down from one generation to the next. The most sensitive stage in the formative process of the memory is the maturation stage. The Israeli collective memory, as individuals and as a collective, is still in the maturation stage and is, therefore, subject to confusion and distortions.
- ❖ The reasons for the distortions in the Israeli collective memory are to be found in the anomalies of Israeli society. Among the anomalies are: The waves of immigration with different backgrounds and memories; ultra-Orthodox, religious and secular Jews along with Arabs, all with different backgrounds; extreme media openness; ideological power struggles; a debate over whether Israel is a state of a particular nationality or a state of all its citizens; elite groups with a cosmopolitan tradition and the option to emigrate; absence of fixed borders; uncertainty as to whether or not there is a solution to the conflict with the Palestinians; a balance of nuclear terror that could transpire in the near future; and finally, a sense that perhaps time is working against us.
- ❖ Special importance is attached to the reinforcement of societal strength, both in terms of its significance for the existential struggle and because Israel's enemies direct their efforts at the chinks in it. In practice, to this point, a smaller effort has been invested in the enhancement of societal strength than in military or economic strength. This is, among other reasons, because the ruling elite has greater security and economic awareness than social awareness. Among the ways and means to enhance societal strength:
  - ◀ Incorporation of national-collective values, which have undergone devaluation in recent years, into the core curriculum of the educational system.
  - ◀ National service as a uniting factor between sectors in society. Service-for-all contributes to the principle of equality in the bearing of responsibility, which is a uniting element.
  - ◀ Shapers of public opinion in the fields of culture, journalism, academia and voluntary organizations have the power, as significant influential factors, to contribute to enhancing or undermining strength.
- ❖ The results of a comprehensive opinion poll taken prior to the Herzliya Conference are enlightening. In the context of the survey, five sub-dimensions were examined: Patriotism and identity with the State; credibility of public institutions and the degree of trust placed in

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them; the fears and threats which exist in the public; and the militancy index, that is, the intensity with which the public demands in response to threats, values, subjective opinions, etc. The primary conclusions emerging from analysis of the data are:

◀ The Jewish sector in Israel, regardless of communal origin, years of residency in the country, religious affiliation or place of residence, today finds itself at a high anxiety level regarding national and personal security – apparently as a result of the violent events involving the Palestinians.

◀ That same population, which under normal circumstances is divided and disjointed due to economic gaps, political, social and identity issues, is now united around national values and Israel's security establishment.

◀ Despite the events of recent months, it is still possible to discern a cautious optimism in the public regarding Israel's future in terms of security and the conclusion of agreements.

◀ An additional significant finding in the survey shows that the rift between Jews and Arabs in the State of Israel is very profound and spans both populations from practically every perspective regarding security and strength. Conversely, the broadest common denominator for society in the country is its national affiliation, when in times of trouble all other disagreements and schisms are cast aside.

❖ Among the internal/societal components at the root of Israel's national strength are the Jewish-Zionist affiliation; the values of a mobilized society; societal solidarity and the propriety and quality of the regime and the government.

◀ Regarding the Jewish-Zionist will: The most important internal basis for long-term security is the strength of the desire to maintain and develop a Jewish-Zionist State in the Land of Israel. Not only in terms of the willingness to kill or be killed, which is always required when referring to an existential need, but also in its implementation in the context of the aspiration to maintain Israel as a country unique in its Jewish-Zionist essence, in contrast to the yearning for "normality". There are many indications pointing to the fact that the degree of Jewish-Zionist affiliation is decreasing, perhaps due to the increasing movement, especially on the part of academia and the educational system, to cultivate pluralism and multiculturalism at the expense of uniqueness and emphasis on Judaism in all its diversity. In the absence of any real spiritual leadership in Israel, the role of the political and governmental leaders (together with the leadership of the world Jewry) as educators of the public enhancing its Jewish-Zionist affiliation is important.

◀ The totality of problems faced by the State of Israel requires a "mobilized society" in which the individual participates in activities designed to further the values of the collective. Therefore, a conceptual-moral revolution is required, as the winds

***The results of a comprehensive opinion poll shows that the Jewish sector in Israel finds itself at a high anxiety level; that same population is now united around national values; that it is possible to discern a cautious optimism in the public regarding the future; and that the rift between Jews and Arabs in Israel is deeper than ever.***

***The foundation required as an internal basis for national security is mutual identification as far as withstanding threats and violence and willingness to contribute to collective security.***

of privatization and the prioritization of the individual over the collective have gained currency in Israeli culture. Again, cognitive and emotional awareness of the fact that Israel is a Jewish-Zionist State is extremely important, and ensuring its long-term existence requires a joint effort which will transcend a personal search for the "good life" in one form or another. In contrast to the present zeitgeist, which sanctifies individualism and places the "sovereign individual" at the center, it is crucial to continue to mobilize the individual - as part of his life and self-actualization - to actively and even enthusiastically participate in initiatives which benefit the collective. There is room, for example, to reestablish Zionist youth and student groups and to reinforce the educational significance and the national roles of military and national service, and more.

***Leaders and defense personalities should be prudent and avoid adding to public concern by speaking too much about "dangers" facing Israel.***

◀ There is no doubt that the growing economic gaps in Israeli society reduce the sense of social justice; it is less clear to what degree these gaps have negatively affected national-societal solidarity. It is, of course, proper that Israel work towards socio-economic characteristics similar to those extant in developed, enlightened democratic societies. Nevertheless, societal solidarity does not require agreement on most social issues and there is no contradiction between disagreements and even the existence of "rifts" and societal solidarity. The foundation required as an internal basis for national security is mutual identification as far as withstanding threats and violence and willingness to contribute to collective security. We can estimate that a large degree of solidarity exists in the Jewish sector, even though in light of the disagreements concerning politics and values, a serious problem exists. There is no apparent way to deal with this issue, other than continuing to rely on leaders and intellectuals who will work to educate the public.

❖ The extensive debate regarding the gaps and rifts in Israeli society raises the concern that it might create the impression among Israel's opponents that it has become a soft society whose spirit has fallen.

❖ Sparing the public from being exposed to unnecessary intimidation can preserve a resolute spirit. The Israeli-Jewish society has undergone many traumas. In addition to the Holocaust and its memory, still fresh in our consciousness, there are wars, terrorism and intifadas. Traumatization negatively affects the quality of government decisions, due to deep-seated emotions that affect public opinion. Public anxiety intensifies the intolerance of uncertainty and causes people to adhere to simplistic models and perceptions, to search for unequivocal answers, and to allow current events to cause exaggerated impressions and a tendency to overreaction. A comprehensive policy to deal with the high public anxiety level and to limit extraneous traumas is a necessary step. The tools available for this purpose are:

***Reconstruction of the political system and changing the electoral system leading to enhanced political stability by way of a reduced number of parties is imperative.***

◀ Prudent behavior by leaders and defense personalities, to avoid adding to public concern by speaking too much about "dangers" facing Israel.



◀ Confronting the undertone of alarm and intimidation that has spread to segments of the media (without interfering with freedom of expression).

◀ Improving the role of governmental leaders as "educators of the public", by putting traumatic events in the proper perspective of the history of Zionism and the State of Israel and emphasizing that the success of the Jewish-Zionist-Israeli enterprise has been accompanied by ups and downs and by crises and temporary failures as well.

❖ The government has an additional role, which is extremely important and even decisive in the weaving of Israel's future. In contrast to the situation in many other countries, the Zionist enterprise is indeed a success story. However, it is still in the midst of its evolution. The accomplishments of the past have not yet reached the point of no return - ensuring unequivocal success in the future as well. Decision-makers should remember that circumstances change quickly and that which once worked in Israel's favor is liable to bring about dismal failure in the future. Despite the importance which civilian society - with all its groups and organizations - ascribes to privatization, and the influences of globalization and external force fields - Israel is facing choices and challenges which, democratically, only the central government can and may decide.

❖ Along with the great accomplishment of establishing an effervescent democracy, Israel has apparently - based on results - adopted defective governmental processes in terms of the ability to consolidate national will, to give appropriate weight to long-term needs, to make reasonable decisions, and to implement resolutions. Among the steps now necessary:

◀ Reconstruction of the political system and changing the electoral system leading to enhanced political stability by way of a reduced number of parties is imperative. Legislative changes were introduced to the Basic Law: Government in the early 1990s, in order to contend with developing popular mistrust of political leaders. It was an attempt to institute a "soft" presidential system. However, due to political exigencies, it turned out to be a "special parliamentary" system. This legislative process should be reinforced by means of a constitution, and progress should be made towards the adoption a "soft" presidential system, which will reduce the present political liquidity and instability.

◀ A concentration of democratic strength for the purpose of developing a pan-governmental policy is required, with the help of a strong premiership and its apparatuses, such as the National Security Council, which will ensure the necessary integration and coherence in the field of foreign policy and defense. Similar councils are warranted for economic, educational, and social issues, and whose purpose will be to achieve the integration, coherence and prioritization necessary in these areas as suggested in this document.

***A concentration of democratic strength for the purpose of developing a pan-governmental policy is required, with the help of a strong premiership and its apparatuses - the National Security Council and similar councils for economic, educational and social issues.***

⚡ Public service and the appointments within it should be based on the principles of meritocracy and personal excellence, while de-politicizing government ministries and agencies (including the IDF), inculcating values of rule of law and insistence on the authority of the civilian echelon.

❖ In the context of Israeli society's distancing itself from the values of a "mobilized" society, the consciousness of the "senior elite" has waned as well. One of the symbols of the present era is the devaluation of the concept "elite". Its negative connotations do not do justice to its potential positive contribution, as the virtues attributed to the elite are the ability to rise above personal, class and sectarian interests and to act in a statesman-like manner, with credibility and honesty and a commitment to public service and interest. These virtues should no longer be treated with populist contempt; they should once again be extolled.

❖ "Elitism" and a "leadership that leads" are one and the same, just as populism and a "leadership that follows" go together. To the extent that it can be determined, both objectively and subjectively (the above opinion poll), the resilience and patience of the Jewish population in Israel are relatively solid. A leadership which attributes weakness to its nation and which attempts to frighten it is harming itself and abusing its office. Israel needs a courageous leadership – direct and honest, decisive and credible, sensitive to the surroundings and to the human element, which acts with statesmanship, rises above parochial, political interests and which has vision and a long-term practical plan to ensure Israel's existence as the Jewish State of the Jewish people.

***The Israeli  
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principles of  
meritocracy, de-  
politicization, the  
values of rule of  
law and insistence  
on the authority of  
the civilian  
echelon.***

## Schedule of Herzliya Conference 2000

**Tuesday, December 19, 2000**

### Opening Session: The Essence of National Strength

**Chair: Dr. Uzi Arad**, Director, Institute of Policy and Strategy, Interdisciplinary Center Herzliya, and Conference Chair

“Conference Guidelines and Approaches”

**Prof. Uriel Reichman**, President, Interdisciplinary Center Herzliya  
Greetings

Greetings by the President of Israel, **Moshe Katsav**

**Prof. Yehezkel Dror**, Department of Political Science, Hebrew University  
“Domestic Bases of Israel’s National Security”

**Prof. Gabriel Ben-Dor**, Chairman of the National Security Center, Haifa University, *Task Force Chair*  
“Israeli Attitudes on National Strength”

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### **Dinner**

Greetings: **Maj. Gen. (Res.) Meir Amit**, Chair, Center for Special Studies

**Maj.Gen. Uzi Dayan**, National Security Advisor and Head of the National Security Council, Prime Minister’s Office  
“The Essence of National Security”

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**Wednesday, December 20, 2000**

### Second Session: The Balance and Stability of the Peace Process

**Chair: Dr. Alon Liel**, Director-General, Ministry of Foreign Affairs

**MK Uri Savir**  
“The Balance Sheet of the Peace Process”

**Brig. Gen. Amos Gilead**, Head of Research Section, Intelligence Division, IDF  
“Arab Positions Towards the Peace Process”

**Ambassador Dr. Dore Gold**, President, The Jerusalem Center for Public Affairs  
“An Alternative Policy in the Peace Process”

**Prof. Arnon Soffer**, Vice Chairman of the National Security Center, Haifa University, *Task Force Chair*  
“Geo-demographic Aspects in the Peace Accords”

**Discussion**

**Prof. Sammy Smooha**, Department of Sociology and Anthropology, Haifa University

Coffee Break

**Third Session: United States – New Administration, New Directions**

**Chair: Shula Bahat**, Associate Executive Director, The American Jewish Committee

**Dr. Robert Satloff**, Executive Director, The Washington Institute for Near East Policy  
“The Incoming Administration’s Middle Eastern Policy”

**Ambassador Zalman Shoval**  
“Israeli Expectations of the New Administration”

**David Harris**, Executive Director, The American Jewish Committee  
“The Status of the Jewish Community in America”

**Discussion**

**Dan Halperin**, CEO, Iptich

**Dr. David Wurmser**, Research Fellow, The American Institute for Public Policy Research

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**Lunch**

Greetings: **Prof. Uriel Reichman**, President, The Interdisciplinary Center Herzliya

Former Prime Minister **Binyamin Netanyahu**  
“Strength, Power and Policy”

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**Fourth Session: The Economy and National Strength**

**Chair: Prof. Yaakov Neeman**, Senior Partner, Herzog, Fox, and Neeman

**Daniel Doron**, Director, The Israel Center for Social and Economic Progress  
“Gaining Economic Power – How?”

**Pinchas Landau**, Co-Director, I-Biz – Israel Business Information Services Ltd., *Task Force Chair*  
“Measures Enhancing the Economic Product”

**David Boas**, CEO, Business Promotion and Consultation Ltd.  
“Resource Allocation in the Defense Budget”

**Yaakov Lifshitz**, Chairman of the Board, Israeli Military Industries Ltd.  
“The Defense Industry’s Contribution to National Strength”

### **Discussion**

**Dr. Leora Meridor**

**Prof. Amir Barnea**, Dean, Arison School of Business,  
Interdisciplinary Center Herzliya

Coffee Break

## **Fifth Session: Technological Power and National Strength**

**Chair: Maj. Gen. (Res.) Amos Yaron**, Director-General, Ministry of Defense

**Dr. Shlomo Kalish**, CEO, Jerusalem Global Group, *Task Force Chair*  
“Advanced Technology as a Foundation of National Strength”

**Maj. Gen. Dr. Isaac Ben-Israel**, Director, Defense R&D  
Directorate, Ministry of Defense  
“The Link Between Defense and Civilian Research and  
Development”

**Avi Berger**, Managing Partner, Kesselman & Kesselman PWC  
“A Favorable Environment for Advanced Technology”

**Dan Vilenski**, Chairman, Applied Materials  
“Development of Human Resources”

**MK Moshe Arens**  
“Technological Independence for Israel”

### **Discussion**

**Dr. Orna Berry**, Gemini Capital Fund Management Ltd.

**Yossie Hollander**, Chairman of the Board, Jacada

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### **Dinner**

Greetings: **Prof. Galia Golan**, Lauder school of Government, Interdisciplinary  
Center Herzliya

**MK Shimon Peres**, Minister of Regional Development  
“Grand Strategy for Israel”

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**Thursday, December 21, 2000**

**Sixth Session: The Future Strategic Environment**

**Chair: Maj. Gen. (Res.) Yitzhak Hoffi**

**Maj. Gen. Amos Malka**, Head of Intelligence Division, IDF  
“Strategic Threats - An Assessment”

**Maj. Gen. (Res.) Eitan Ben-Eliahu**, President and CEO, East West  
Ventures Ltd., *Task Force Chair*  
“From Low Intensity Confrontations to Comprehensive Deterrence”

**Col. (Res.) Dr. Shmuel Gordon**  
“Low Intensity Warfare”

**Discussion**

**Prof. Eliot Cohen**, School for Advanced International Studies, Johns  
Hopkins University

Coffee Break

**Seventh Session: The Balance of Defense and Deterrence**

**Chair: Shabtai Shavit**, CEO, Maccabi Health Services

**Lt. Gen. Shaul Mofaz**, Chief of General Staff, IDF  
“Challenges Facing the IDF”

**MK Dan Meridor**, Foreign and Defense Committee Chair  
”Elements in the Deterrence Concept”

**Discussion**

**Brig. Gen. (Res.) Amos Gilboa**

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**Lunch**

Greetings: **Maj. Gen. (Res.) Aviezer Yaari**

**MK Maj. Gen. (Res.) Ariel Sharon**  
“Israel’s Security – Past and Future”

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**Eighth Session: Society, Education and National Strength**

**Chair: Prof. Haim Harari**, President, Weizman Institute

**Prof. Yadin Dudai**, Brain Research Department, Weizman Institute  
“The Social Dimension of National Security”

**Prof. Avishay Braverman**, President, Ben-Gurion University  
“Social Disparities and National Strength”

**Dr. Shimshon Shoshani**, CEO, Birthright Israel, *Task Force Chair*  
“Maximum Utilization of Education Systems”

**Maj. Gen. (Res.) Matan Vilnai**, Minister of Science, Culture and Sports  
“Science and National Security”

### **Discussion**

**MK Yoseph Lapid**, Head of Shinui Party

**Prof. Nechamia Levtzion**, Chair, The Planning and Budget Committee, The Council for Higher Education

Coffee Break

### **Ninth Session: The Zionist Enterprise and the Jewish People**

**Sallai Meridor**, Chair, The Jewish Agency and the World Zionist Organization  
“The Jewish People Component in Israel’s Strength”

**Ephraim Halevy**, Head of the Mossad  
“The Zionist Ethos and the Security of Israel”

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### **Closing Session of the Conference and the Inauguration Ceremony of the Lauder School of Government, Diplomacy and Strategy**

**Ambassador Ronald S. Lauder**, Chairman, The Conference of Presidents of Major American Jewish Organizations

**Prof. Ehud Sprinzak**, Dean, The Lauder School of Government, Diplomacy and Strategy

**Dr. Uzi Arad**, Director, The Institute of Policy and Strategy, Interdisciplinary Center Herzliya, and Conference Chair  
Conference Conclusions

**Prof. Uriel Reichman**, President, The Interdisciplinary Center Herzliya

Prime Minister and Defense Minister **Lt. Gen. (Res.) Ehud Barak\***  
“The Balance of National Strength and Security”

Lighting of the First Candle of Hanuka

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\* Prime Minister Barak canceled his participation due to unexpected developments.

## **Task Forces**

### Security and Strategy Task Force

**Maj. Gen. (Res.) Eitan Ben-Eliahu, Chair**

Col. (Res.) Amir Bar-Or  
Ron Ben-Ishai  
Boaz Ganor  
Brig. Gen. (Res.) Amos Gilboa  
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Dr. Reuven Pedatzur  
Dr. Adir Pridor  
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Uzi Rubin  
Ze'ev Schiff  
Prof. Gerald Steinberg

### Technology and Security Task Force

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Moshe Asher, LLB  
Maj. Gen. Dr. Isaac Ben-Israel  
Avi Berger  
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Daniel Doron  
Yosef Fellus  
Yossie Hollander  
Yonni Kaplan  
Prof. Yaakov Neeman  
Prof. Morris Teubal  
Dan Vilenski  
Elisha Yanay

### Economy Task Force

**Pinchas Landau, Chair**

Daniel Doron  
Yaakov Fisher

### Geo-demographic Team

**Prof. Arnon Soffer, Chair**

Maj. Gen. (Res.) Yitzhak Brik  
Dr. Itzhak Ravid  
Dr. Martin Sherman

### Education Team

**Dr. Shimshon Shoshani, Chair**

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Nahum Blas  
Dr. Amram Malitz  
Ilana Orion-Paran  
Maj. Gen. (Res.) Dr. Elad Peled  
Col. Danny Shtrul  
Prof. Rami (Abraham) Yogev

### Public Attitude Team

**Prof. Gabriel Ben-Dor, Chair**

Badi Hussein  
Daphna Canetti  
Dr. Ami Pedahzur



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## **The Institute of Policy and Strategy**

The Institute of Policy and Strategy was established as part of the Lauder School of Government, Diplomacy and Strategy at the Interdisciplinary Center Herzliya. The Institute will focus on research of subjects of national importance, whose study may be expected to contribute to policy making and implementation. The research shall emphasize topics emerging from the following core-issues: Diplomacy and foreign policy; security and strategy; intelligence and policy formation; natural resources and geopolitics; economics and technology; and regional systems and globalization. Under the Institute's auspices a wide range of ideas and opinions will be nurtured, its contribution being in its interdisciplinary approach, its forward looking orientation, placing issues in their broad contexts, seeking an integrative perspective. The Institute will sponsor meetings and discussions, among them a series of annual conferences on "The Balance of National Strength and Security."

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**Senior Research Fellows: Dr. Reuven Erlich, Dr. Miri Ossin**

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### **Institute of Policy and Strategy**

Lauder School of Government, Diplomacy and Strategy

The Interdisciplinary Center Herzliya

P.O. Box 167

Herzliya 46150

Israel

Tel: 09-952-7328, Fax: 09-952-7310

e-mail: [ips@idc.ac.il](mailto:ips@idc.ac.il) web: [www.idc.ac.il/ips](http://www.idc.ac.il/ips)