
THE \$10 BILLION QUESTION: AIPAC AND LOAN GUARANTEES TO ISRAEL

—MATTHEW FRANKEL—

Israel's Ally on the Hill

Israel was established on 14 May 1948 through a U.N. partition of Palestine in order to create a homeland for world Jewry. Since then, the United States has been Israel's staunchest ally and has provided it with enormous amounts of money and military aid. Due both to an influential American Jewish presence and to Israel's strategic position in the Middle East, Israel has almost always received exactly the resources it has requested from the United States. September 1991 marked a turning point in this relationship between the United States and Israel. At this time, due to a massive influx of Jewish refugees from the collapsing Soviet Union, who sought asylum inside Israeli borders, Yitzhak Shamir's Likud Government requested \$10 billion in loan guarantees from the United States to be made available over a period of five years. Rather than continuing to "support Israel under any circumstance" the Bush administration deferred action on the loan guarantees. It ultimately took thirteen months and a new government in Israel before the guarantees were authorized by Congress.

The pro-Israel lobby has long been a major player in U.S.-Israeli relations and one of the most powerful political forces in Washington. Under the leadership of the American Israel Public Affairs Committee (AIPAC), the pro-Israel lobby was able to secure support for the Israeli cause consistently throughout the 1970s and 1980s. The delay AIPAC experienced securing loan guarantees in 1991 represented its first substantial defeat. The causes of this startling turnaround can be traced to the following factors: the end of the Cold War, a deteriorating relationship between the Bush and Shamir governments, a reduction in the level of public support for aid to Israel in America, changing views within the American Jewish community, and Congressional reluctance to challenge the President.

Before exploring these factors and their relationship to AIPAC's first major defeat, it is important to note the difference between loans and loan guarantees. While loans involve U.S. appropriation of funds to another country with the understanding that these funds will ultimately be paid back, loan guarantees

Matthew Frankel is a joint bachelor's and master's degree candidate at Tufts University and the Fletcher School of Law and Diplomacy.

are a promise by the United States to ensure a country's ability to repay loans borrowed on the world market. In the case of granting U.S. loan guarantees to Israel, the United States would not give Israel \$10 billion over five years, but rather would allow Israel to borrow that money on the world market at interest rates which reflect the reduced risk of non-payment to the lender. Hence loan guarantees to Israel would only involve an outlay of U.S. money if Israel defaulted on these loans.

Despite the fact that the United States was not to supply direct aid to Israel, new budgetary rules under the Budgetary Enforcement Act of 1990 required Congress to approve the subsidy cost of the loan guarantees.¹ Although before FY 1992 such loan guarantees did not require the appropriation of funds, the timing of Israel's 1991 request dictated that the loan guarantees be approved as part of the 1992 Foreign Aid Appropriations Bill.²

Since 1967, Israel has been the top recipient of U.S. foreign aid, bringing in a total of approximately \$48 billion.³ Throughout the 1980s Israel received \$3 billion of an approximately \$12 billion annual foreign aid budget: \$1.8 billion in military grants and \$1.2 billion in economic grants. During the same time period, Egypt received \$2.3 billion per year, Turkey received \$560 million and Pakistan received \$500 million. Viewed alternatively, in FY 1990 Israel received \$677.47 per capita, Panama received \$169.97, and Nicaragua's aid came to \$82.42 per capita.⁴

Aid to Israel in 1989 also included other benefits, such as a U.S. commitment to stockpile \$100 million of military supplies in Israel for rapid use by the United States in an emergency, and \$179.6 million for U.S. development and purchase of Israeli military equipment.⁵ While large amounts of aid were beneficial to Israeli security in obvious ways, such aid also had less obvious negative consequences: it fostered complacency and a belief that U.S. money would continue to flow regardless of Israeli domestic policy. September 1991 was to be a dramatic epiphany.

A number of reasons explain why the United States so willingly contributed to such a small and distant state. Of course Israel's strategic value is the first of these. In a region suffused by political turmoil, Israel was an unbending ally, not only against changing Arab political alignments, but also against possible infiltration by the Soviet Union. While Israel's strategic value in the Middle East and its ideological affinity with the United States provide well-worn explanations of U.S. support for Israel, not to be overlooked is the role of the pro-Israel lobby's influence in fomenting U.S. support.

1. Congressional Research Service, "Israel's Request for U.S. Loan Guarantees," prepared by Larry O. Nowels and Clyde Mark, *CRS Report # 91-103*, 14 December 1993, 10.

2. Congressional Research Service, "Foreign Assistance and Congressional Debate: International Challenges, Domestic Concerns, Decisions Deferred," *CRS Report # 92-371*, 17 April, 1992, 34.

3. Eric Black, "The Politics of Partnership," *Star Tribune*, 5 January 1992, 13A.

4. U.S. Congress, House Subcommittee on Foreign Operations, Export Financing, and Related Programs, Appropriations Committee, *Hearing on Appropriations for FY 1993*, 102 Congress, Second Session, 21 February 1992.

5. Martin Seiff, "Congress Stands Firm in its Support," *The Washington Times*, 16 March 1990, 1A.

The success of the pro-Israel lobby is a direct result of the efforts of AIPAC and a series of similar political action committees (PACs). AIPAC was established in 1954 by the American Jewish community to increase U.S. aid to Israel, and it slowly expanded its role to include lobbying against weapons sales to Arab nations. Since the late 1970s, AIPAC has acted through a group of PACs to support members of Congress.⁶ By providing generous funding for politicians throughout the 1980s, AIPAC confirmed the power of the Jewish lobbies. The \$7.6 million AIPAC donated for the 1990 Congressional elections comprised the largest sum contributed by any lobby.⁷ The National Association of Realtors PAC contributed the next highest sum, \$3 million.⁸ In contrast to this, AIPAC's rival, the Arab-American Lobby, mustered only \$85,000 for the 1986, 1988, and 1990 election campaigns combined.⁹

As important as AIPAC's financial contributions have been to its successes, money was never the singular source of AIPAC's strength. An even more important source of AIPAC's strength has been the methodology it applies in directing its funding to achieve its political goals. The most notable cases occurred when AIPAC prevented the reelection of its Congressional adversaries. In 1981, AIPAC suffered its first lobbying setback when by a vote of 52 to 48 the Senate approved the \$8.5 billion sale of military equipment (including five Airborne Warning and Control System planes) to Saudi Arabia. Senator Roger Jepsen (R-Iowa) cast the swing vote after he had originally pledged his support to AIPAC. In the 1984 election, the pro-Israel lobby provided his opponent, Democrat Tom Harkin, with over \$100,000. Whether or not this contribution can be definitively and causally linked, Harkin stormed to victory.

A similar example occurred in the 1992 Congressional elections. The third largest recipient of contributions on the House side was Mel Reynolds, who defeated incumbent Gus Savage in Illinois. By proposing an amendment which would have eliminated funds for the resettlement of Soviet Jews in Israel, Savage raised the ire of AIPAC. In response, Savage accused AIPAC of being "un-American" by pouring money into his opponent's election campaign.¹⁰ In the end, AIPAC was successful; Reynolds defeated Savage.¹¹

A more notable example of AIPAC influence on an election involved Senator Charles Percy (R-Illinois). Like Jepsen, Percy had supported the AWACS sale,

6. For example, in the 1988 elections, three pro-Israeli PACs ranked among the top ten in campaign contributions by single issue PACs. National PAC headed the list with \$1.13 million in contributions, Washington PAC was eighth at \$308,000, and Hudson Valley PAC, tenth at \$289,615. There are also numerous smaller PAC's, including MOPAC (Troy, MI), St. Louisianans for Better Government, and the Garden State PAC.

7. Charles R. Babcock, "Israel's Backers Maximize Political Clout," *The Washington Post*, 26 September 1991, A21.

8. Michael K. Frisby, "Taking Out Territory; Pro-Israeli Lobby Groups Viewed as a Force in D.C.," *The Boston Globe*, 20 September 1991, 1.

9. George D. Moffett III, "Israeli Lobby Virtually Unmatched," *Christian Science Monitor*, 28 June 1991, 3.

10. Bud Newman, "Congressman Calls Pro-Israel Lobby 'Un-American'," *UPI International*, 28 March 1990.

11. William J. Eaton, "Rep. Savage Plan To Cut Israeli Aid Loses, 418-2," *Los Angeles Times*, 4 April 1990, A17.

but additionally he had advocated that Palestinian 'rights' be considered in any peace settlement. As a result, pro-Israeli groups gave over \$300,000 to challenger Paul Simon, who defeated Percy in a close race. Simon's victory established AIPAC as a power on Capitol Hill. AIPAC executive director Tom Dine commented, "All the Jews in America, from coast to coast, gathered to oust Percy, and American politicians got the message."¹²

AIPAC could influence major policy decisions; Senators and Representatives feared crossing this lobbying group. In 1985, AIPAC lined up seventy-four Senators to block a \$1.5 billion arms package to Jordan, and unlike in 1981, AIPAC was strong enough to prevent the President from gathering a sufficient number of votes.¹³ By 1986 the pro-Israel lobby stopped Ronald Reagan from selling jet-fighters to the Saudis, and in 1987 it blocked the sale of 1,600 Maverick missiles.¹⁴

AIPAC's success on the Hill derived not only from direct contributions to Congressmen, but also — and perhaps more importantly — from its large-scale grassroots mobilization. Since 1980, the organization has expanded rapidly, quadrupling its staff to over 100 members and quintupling its membership to 55,000 households. Through strong fundraising activities, AIPAC has increased its annual budget from \$1.4 million in 1980 to over \$12 million in 1991. In addition, trips to Israel for members of Congress have provided a view of the necessity for ensuring Israel's security. According to AIPAC, "There is no better lobbyist than a trip to Israel."¹⁵

Thus as the 1990s began, despite a pull away from unconditional support of Israel by the Bush administration, AIPAC remained a successful player in Washington. Congress voted to allocate \$400 million in loan guarantees to Israel for housing to accommodate the influx of Soviet Jewish refugees in March 1990. A year later, the Jewish lobby was instrumental in ensuring that the Senate Desert Storm "dire emergency" appropriations package included \$650 million in extra aid to Israel. AIPAC deployed a battalion of 1,500 "citizen lobbyists" to Capitol Hill, and the measure passed by a vote of 92 to 8.¹⁶

Then in June 1991, by a vote of 378 to 44 the House of Representatives rejected a proposal to cut Israeli aid because of its policy of establishing housing settlements in the occupied territories of the West Bank and the Gaza Strip. The amendment proposed cutting U.S. aid to Israel by \$825 million, or the amount of money that Israel spent on housing settlements in the occupied territories. According to the amendment's sponsor, Congressman John Bryant (D-Texas), its defeat was correlated to the fact that AIPAC representatives had "been in the hall all day lobbying members."¹⁷

12. Lloyd Grove, "On the March for Israel," *The Washington Post*, 13 June 1991, D1.

13. Hedrick Smith, *The Power Game* (New York: Ballantine Books, 1988), 221.

14. *Ibid.*, 216.

15. Presentation by Arne Christenson, AIPAC, Washington DC, 16 March 1994.

16. "On the March for Israel," D1.

17. "Congress Refuses To Cut Israel Aid Because of Settlements," *Reuters*, 19 June 1991.

To the casual observer, these consistent assurances of support for Israel demonstrated that AIPAC was as strong as ever. However, global events were to change the influence of the pro-Israel lobby. Namely, with the end of the Cold War, U.S. strategic interest in Israel dissipated. On many issues the Bush and Shamir governments no longer saw eye to eye, and in the coming months AIPAC's remarkable run of success abruptly ceased.

A Cry for Help

The Gulf War began in January 1991, and within the first week of fighting, Iraq launched thirty-nine Scud missiles at Israel. Fearing that an Israeli response would escalate the conflict and destroy coalition support, the United States asked the Israeli government not to respond. Shamir acceded, and Israel was rewarded in March with \$650 million in emergency aid from the United States. However, Israel was contending with costs totaling nearly \$2 billion. In part, the sources of these costs lay in the Gulf War, and its resulting business shutdowns, decline in tourism, increase in oil prices, and property damage.¹⁸

However, an additional and more important source of Israel's costs was the influx of immigrants from Ethiopia and the Soviet Union. The Israeli Declaration of Independence states that "the Jewish state in the land of Israel . . . will open wide the gates of the homeland to every Jew." Concurrently, the United States also pressed for free Jewish emigration from the Soviet Union, albeit perhaps for more political reasons. For example, the Jackson-Vanik Amendment to the 1974 Trade Act imposed trade barriers on Soviet bloc nations that restricted free emigration.

Although emigration from the U.S.S.R. was limited during the early 1980s, with the advent of *glasnost* and *perestroika* the number of Jews fleeing the Soviet Union rapidly increased. By February 1992, 400,000 Soviet Jews had left and 1.2 million more had prepared to emigrate.¹⁹ Because the United States limited the total number of Soviet refugees it accepts to 50,000 a year, a majority of them were forced to turn toward Israel.²⁰

During the early 1980s, Israel was able to feed, house, process, educate, and train the limited number of immigrants.²¹ However, the rapid increase in immigrants during the late 1980s placed a much heavier burden on the Israeli economy. Unemployment among Soviet immigrants in 1991 reached 42 percent as the economy failed to create new jobs fast enough to absorb the influx. Israel needed loans to create both 620,000 new jobs, and language and occupational training.

18. U.S. Congress, House Subcommittee on Europe and the Middle East, Foreign Affairs Committee, *Hearing on Appropriations for FY 1992*, 102nd Cong., 1st sess., 9 April 1991, 34.

19. U.S. Congress, Senate Subcommittee on Immigration and Refugee Affairs, Judiciary Committee, *Soviet Jews Arriving in Israel: The Humanitarian Needs*, 102nd Cong., 2nd sess., February 1992, 5.

20. *Ibid.*, 3.

21. "Israel's Request for U.S. Loan Guarantees," 6.

The Israeli Government provided immigrants with a first-year subsidy averaging about \$11,000 for a family of three.²² This covered basic living expenses, such as rent, utilities and food. Of that total amount, the Israeli government and the Jewish Agency each paid between \$5,000 and \$5,500 per family.²³ The Israeli government also established absorption centers for the elderly and those requiring special care. These measures, however, were insufficient.

A 1990 study by the Israeli Finance Ministry estimated that total expenditures from 1992 to 1996 would cost the government \$60 billion. Of that \$60 billion, \$10 billion was needed for absorption centers, \$26.5 billion for job development, \$10 billion for infrastructure and investment, and \$13.5 billion for housing and mortgages.²⁴ Israel would be able to bear \$40 billion of the burden itself, but needed significant external borrowing to make up the remaining \$20 billion. Loan guarantees would enable Israel to obtain needed funds through long-term loans at reasonable interest rates.²⁵

The Israeli Government believed that borrowing \$10 billion through guarantees from the United States was necessary to prevent economic stagnation. Emmanuel Sharon, the former director of the Israeli Ministry of Finance, stated that, "if the guarantees are not provided, Israel's position in the financial markets would worsen, and [they] would not be able to raise the funds required to absorb this great wave of immigration. Without the guarantees, I don't believe that Israel would even try to go to the market."²⁶ Most likely, Israel could have obtained the needed money without U.S. guarantees, but the increased interest rates would have placed an undue burden on an already strained economy.

For AIPAC and others supporting the loan guarantees, the issue was of utmost humanitarian importance. The humanitarian necessity of the loan guarantees was also the most compelling argument for Congressional support. The Senate Report on the needs of Soviet Jews emigrating to Israel claimed that, "Having invested so much diplomatic effort and economic resources into the rescue of Soviet Jews, the United States cannot now abandon this long-term humanitarian task just as the benefits are materializing."²⁷

Knowing this, AIPAC and the other pro-Israel lobbies redoubled their efforts to secure support for the loan guarantees. AIPAC argued that the importance of continued American efforts to provide free emigration for Soviet Jews, and the dedication of the Jewish community which had raised close to \$5 billion solely for refugee resettlement, should be reason enough for passage of the guarantees. Additionally, AIPAC reminded policymakers that loan guarantees should cost the U.S. taxpayers nothing. In fact, they argued, providing loan guarantees

22. "Soviet Jews Arriving in Israel," 11.

23. "Soviet Jewish Emigration," 4.

24. "Soviet Jews Arriving in Israel," 17.

25. U.S. Congress, Senate Subcommittee on Foreign Operations, *Export Financing and Related Programs*, Appropriations Committee, 102nd Cong., 2nd sess., 23 September 1992, 163.

26. *Hearing on Appropriations for FY 1993*, 15.

27. "Soviet Jews Arriving in Israel," 3.

would lead to successful absorption of refugees and a consequent increase in Israeli imports of U.S. goods. U.S. exports to Israel were projected to swell to \$30 billion over the period between 1992 and 1996²⁸ as compared to \$16.5 billion from 1988 to 1992.

AIPAC's lobbying during the spring and summer of 1991 was directed through a task force on loan guarantees which focused on grassroots action, including op-ed pieces and continuous contacts with members of Congress. By August, more than 50,000 messages had been sent to members of the House and Senate.²⁹ This was one of the most extensive and fine-tuned efforts ever organized by the Jewish community.

After the Gulf War, Israel prepared to make the formal request for the loan guarantees. However, at an informal level, President Bush and Secretary of State Baker made it clear that they wanted to delay any loan guarantees to Israel. They were in the process of initiating a Middle East peace negotiation, and believed that granting a \$10 billion loan guarantee to Israel would scare the Arab nations from the negotiating table. Just before the Israelis submitted their request in September, Bush offered his plan for a 120-day delay. In exchange for the delay, Bush promised that there would be no further delays after January 1992 and that the subsidy rate for the loan guarantees would be low.³⁰ Despite these appeals by the Executive Branch, Israel issued its formal request to Baker, hoping that they would get the \$10 billion through the FY 1992 Foreign Aid Bill.

This bill was to be voted on at the end of September. At the time of the request, the pro-Israeli lobby was confident that quiet opposition from Bush and Baker would not hinder Congressional passage of the bill. As the finale to its full summer of lobbying, AIPAC planned the "Washington Action Day in Support of U.S. Loan Guarantees." On 12 September, activists numbering 1,200 descended upon the Hill, and visited lawmakers from over thirty-five states. Sixty Senators signed on in support of the loan guarantees, and AIPAC believed that number could climb as high as eighty. Victory seemed imminent.

Then, on the same day as the massive lobbying effort, President Bush publicly denounced the entire process. In a speech given on national television, Bush openly called for a 120-day delay of the loan guarantees, and announced his intention to veto the foreign aid bill if any loan guarantee language was included. Even more notable however, was his attack on the pro-Israel lobbying effort. "I'm just one lonely guy down here," said the President, "and I'm up against some powerful political forces . . . something like a thousand lobbyists on the Hill [are] working on the other side." President Bush's statement was a turning point; his decisive response and stalwart opposition proved to be a major factor in AIPAC's inability to obtain the loan guarantees.

28. *Ibid.*, 18.

29. Winston Pickett, "The Day Bush Shocked the Jewish Lobby," *Baltimore Jewish Times*, 25 September 1992, 52.

30. "Israel's Request for U.S. Loan Guarantees," 4.

Settlements and Linkage

During the debate over loan guarantees, the following joke made the rounds in Washington: If George Bush, James Baker, and Pat Buchanan were in a sinking lifeboat, who would be saved? Israel. While this bit of humor is a slight overstatement, at this time U.S.-Israeli relations had reached their nadir. One of the most important causes of the widening rift between the United States and Israel was the attitude of the ruling Likud government in Israel, and Prime Minister Yitzhak Shamir's continued intransigence in both the formation and implementation of his policies. A critical element of Shamir's strategy concerned control over the occupied territories of the West Bank and Gaza Strip. Shamir's government strongly believed that those territories were part of Israel and thus he strove to tighten Israel's hold on these lands by increasing Israeli settlements within them. In June 1990 Shamir said, "I think it must be understood that ensuring the safety of the Jewish residents of Judea and Samaria is one of the most important aims of Israeli defense policy."³¹

These settlements started in 1967, began to boom during Ariel Sharon's tenure as Shamir's Housing Minister, and quickly became a major point of contention between the Bush and Shamir governments. By early 1991, the total number of Israeli settlements in the occupied territories had reached 250, housing approximately 245,000 settlers, or 13 percent of the total population of the territories.³² There were no signs that Shamir and Sharon planned to slow down, as 160,000 new housing units were planned for 1990-1993, and during 1992 alone Israel spent \$2 billion on settlement-related activities.³³

More importantly, not only did the government advocate the building of new settlements, it simultaneously encouraged Israeli citizens to move to these settlements. Shamir's government promoted settlement in the occupied territories by providing housing subsidies from \$9,750 to \$21,600, interest-free mortgages, and land at five percent of the assessed value. According to Jerome Segal of the Jewish Peace Lobby, Shamir's goal was to make it impossible for the Palestinians to establish an independent state in the occupied territories.³⁴

While the U.S. Government had opposed settlements, it had never taken a stand on the issue, other than specifying that U.S. aid could only be spent within Israel's pre-1967 borders. Yet even this proved to be a worthless stipulation given the fungibility of aid.

The dispute over settlements came to the fore after the Levy letter episode of early 1991. This incident began after the Bush administration had approved the request for \$400 million in loan guarantees to assist in housing Soviet immi-

31. Jonathan Kap, "Shamir Hardens Israeli Stance on Palestinian Peace Talks," *Reuters*, 13 June 1990.

32. U.S. Department of State, *Israeli Settlement in the Occupied Territories*, 102nd Cong., 2nd sess., 1 May 1992, 1.

33. *Hearing on Appropriations for FY 1993*, 189.

34. U.S. Congress, House Subcommittee on Foreign Operations, Export Financing and Related Programs, Appropriations Committee, *Hearing on Appropriations for FY 1992*, 102nd Cong., 1st sess., 17 April 1991, 236.

grants in October 1990. In return, Israeli Foreign Minister David Levy promised not to use the money to settle Soviet Jews in the occupied territories. Bush assumed that this letter meant there would be an immediate freeze on the building of new settlements. The complete opposite occurred.³⁵

Shamir believed the agreement meant that though the \$400 million could not be spent in the occupied territories, settlement could continue. Despite American opposition, Shamir pushed forward with his expansionist plans, declaring that "no power on earth" could stop Israel.³⁶ In 1991, Sharon openly talked of increasing the number of settlers 50 percent before 1995. Shamir's rigid and unbending stance made it very difficult to successfully lobby the U.S. Congress.³⁷

The fact that Israel continued to build and fund settlements was a thorn in the side of the Bush administration. An aide to Baker told a pro-Israeli Congressman that "The Secretary of State was humiliated by the treatment of the agreement by the Israeli government."³⁸ A senior administration official added, "Bush and Baker feel they were taken advantage of in the Levy letter and they don't want it to ever happen again."³⁹

Although the administration's response did not come immediately, its anger with the Shamir government lingered. In the summer of 1991, the administration began to discuss guarantees to the cessation of settlement activity. In February 1992 Baker transformed this idea into policy when he told Congress that the Bush administration would grant the loan guarantees only if Israel halted all settlement activity.⁴⁰

Believing that Israel still had the upper hand due to its strong support in Congress, Shamir refused to back down regarding the building of settlements. The Israeli Government was so confident that it had already included the \$2 billion in its budget for the following year, a move that did not aid Israel's cause in Washington.⁴¹ Despite U.S. opposition the Israeli Finance Committee approved \$6.5 million in supplementary funding for settlements in September 1991.

In part, Bush's insistence on linking aid to a cessation of settlement can be attributed to this breakdown in communication. However, there was also speculation that Bush pushed for the delay of loan guarantees so that Israeli voters would perceive Shamir as having failed, and respond accordingly during the

35. Thomas Friedman, "Failing to Communicate; Dispute Over Settlements and Loan Deal is Symptom of a Deeper U.S.-Israeli Strain," *The New York Times*, 25 September 1991, A1.

36. David Makovsky and Allison Kaplan, "What Went Wrong With U.S. Aliya Loan Guarantees?" *The Jerusalem Post*, 20 March 1992, features.

37. Interview with Marc Pelavin, Legislative Director, American Jewish Congress, Washington D.C., 17 March 1994.

38. "What Went Wrong with U.S. Loan Guarantees?"

39. *Ibid.*

40. Russell Watson, "Bush Bashes Israel," *Newsweek*, 9 March 1992, 42.

41. The \$2 billion figure is the annual loan guarantee that Israel would receive from the United States as the \$10 billion total would be paid out over a five-year period.

next elections. Such a strategy would have been effective, given that at this time Washington believed that Shamir was using the loan guarantees as a political tool to boost his own support as he headed into an election.⁴²

Throughout 1991, the pro-Israel lobbies worked to ensure that loan guarantees remained a purely humanitarian issue. Reminding members of Congress of the longstanding government policy of aiding Soviet Jews, they focused Congressional attention on the fact that less than one percent of the Soviet immigrants chose to live in the occupied territories.⁴³ That figure however, does exclude Arab East Jerusalem and considers only the West Bank and the Gaza Strip.⁴⁴ Lobbying efforts succeeded in preventing linkage from appearing on the agenda for most of the summer. In fact, as late as June 1991 Bush said that he would not support any type of quid pro quo. But since the lobbies at this time did not focus their efforts on the Executive, they could not prevent Bush from making it an issue. Lobbyists were confident that they could generate sufficient Congressional support to nip linkage in the bud; they underestimated Bush's dedication to gain concessions for any loan guarantees.

One Lonely Guy

Throughout the 1980s, Israel enjoyed broad-based support in the United States from both the Executive and Legislative branches. President Ronald Reagan and Secretary of State George Schultz recognized the strategic importance of Israel and constantly acted to protect Israel's security. In 1989, however, two events occurred that changed the relationship between Israel and the United States: the end of the Cold War and the inauguration of George Bush.

With the end of the Cold War and the breakdown of the bipolar international system, Israel's geostrategic importance slowly faded. Once a major anti-Soviet bastion in the Middle East, Israel lost its prominence as the Soviet threat dissipated. Therefore, it became difficult for the government to justify sending \$3 billion in aid to Israel. However, Israel did not adapt to changing times; Shamir still believed Israel would receive everything it wanted.

The beginning of the Bush administration marked a new attitude towards the U.S. relationship with Israel. Dave Gillette, a legislative assistant at AIPAC during this time, pointed out that Bush did not have the same relationship to Israel that Ronald Reagan had during his two terms as President. According to Gillette, Bush "held a total lack of understanding of the importance of Israel."⁴⁵ In addition, the rest of Bush's inner team, including Baker, National Security

42. Interview with Ed Long, Staff Director, Senate Subcommittee on Labor, Health and Human Services, Appropriations Committee, Washington, D.C., 28 March 1994.

43. Natan Shransky, "Loan Guarantees Vital," *Near East Report*, 19 August 1991, 141.

44. Stan Grossfeld, "When the Door is Open, You Go by," *The Boston Globe*, 22 September 1991, 14.

45. Interview with Dave Gillette, Office of the House Deputy Majority Whip, Washington, D.C., 17 February 1994.

Adviser Brent Scowcroft and White House Chief of Staff John Sununu, an Arab-American, were all considered to be coldly pragmatic towards Israel.⁴⁶

The administration's attitude toward Israel was not improved by Shamir's stubbornness or the miscommunication over settlements. Although Bush allowed the \$400 million in loan guarantees to be approved, relations had cooled considerably since then. More importantly, the new loan guarantee request increased the amount involved by 2,500 percent. As a senior U.S. official in the State Department pointed out, "if Sharon [was] building this many settlements after a \$400 million loan guarantee, just think what he will do if he gets \$10 billion."⁴⁷

Bush tried at the last minute to convince AIPAC to retreat on the loan guarantee request, but AIPAC, riding the strength of previous successes, and sensing that it had strong support on the Hill, refused to back down. In fact, it maintained its strong lobbying effort all across Congress, culminating in the 12 September "Washington Action Day." On that very same day, however, Bush took action, partly in response to the success that the lobbies had been having in influencing Congressional opinion.

The President realized that the pro-Israel lobby would be able to garner enough Congressional support to override any planned action on his part. In fact, he saw the AIPAC-backed, potential veto-breaking bloc of votes in the Senate as a threat to his presidential authority and ability to make foreign policy.⁴⁸ Not desiring to be held hostage to AIPAC, Bush took the debate to the American public. After his "one lonely guy versus a thousand lobbyists" speech, the situation changed. Unlike members of Congress, Bush did not have to worry about the aftershock of alienating the Jewish population. According to one White House poll, having the Jewish population remain solidly in the Democratic camp would cost him less than one percentage point of the total vote.⁴⁹

Bush's speech made the issue public and reduced the ability of the lobbies to successfully defeat him. Dave Gillette claims that Bush would not have been able to derail the loan guarantees issue had he handled it by covertly lobbying Congress.⁵⁰ "The power of the Israeli lobby has always been based on keeping a low profile publicly, and a high profile privately and financially."⁵¹ A public battle that might portray Israel as demanding the \$10 billion unconditionally would clearly not be in AIPAC's interests.⁵²

Bush's gambit paid off because the attitudes of the American public ran

46. Xan Smiley, "Bush Gets Tough With Israel on Peace Talks," *The Sunday Telegraph*, 8 April 1990, 1.

47. "The Day Bush Shocked the Jewish Lobby," 54.

48. *Ibid.*, 56.

49. Priscilla Painton, "Thou Shalt Not Build," *Time*, 30 September 1991, 24.

50. Gillette interview, 17 February 1994.

51. John Lichfield, "Damaging Reversal for Israeli Lobby in the U.S.," *The Independent*, 28 September 1991, 9.

52. Interview with Terry Peel, Staff Director, House Subcommittee on Foreign Operations, Appropriations Committee, Washington, D.C., 29 March 1994.

strongly against the idea of authorizing loan guarantees to Israel. A 23 September poll conducted by *Time* and CNN showed that only 37 percent of participants favored providing the guarantees to Israel.⁵³ One of the major reasons behind this lack of support was that a majority of Americans had no understanding of what loan guarantees entailed. Most believed that the \$10 billion were loans that would come directly out of the U.S. foreign aid budget. They could not support the idea of directly spending \$2 billion a year in addition to the enormous amount that Israel was already receiving. To them, the \$10 billion of U.S. taxpayer money could be spent on better things than housing Soviet Jews in Israel. A senior Senatorial staffer pointed out that the media's inability, or unwillingness, to make that key distinction helped turn the public against the entire loan guarantee request.

But there were other reasons for waning public support of loan guarantees for Israel. For years, Americans supported Israel because it was "the heroic underdog" that survived despite being surrounded by hostile enemies. That attitude changed with the beginning of the Intifada in December 1987. In 1987 the American public was exposed to another side of Israel; Israel no longer looked like the underdog.⁵⁴ Seeing state-sanctioned brutality began to turn Americans against unconditional support of Israel and made them critical, for the first time, of the policies of the Israeli government. A study by Marttila and Kiley shows that before the Intifada, Americans sympathized with Israelis more than with Palestinians by a ratio of 55 to 22 percent. As of May 1992 the margin had sharply narrowed to 36 to 32 percent.⁵⁵ The Intifada also made the American public challenge the use of taxpayer money to aid Israel for the first time. A September 1991 poll shows that only 44 percent of all Americans thought Israel should receive any U.S. taxpayer money.⁵⁶

However, the primary reason that Bush was able to use public opinion in opposing loan guarantees was the rapidly increasing sentiment against foreign aid in general. Bush and Baker realized that antipathy to foreign aid would prove to be a more powerful election-year force than the usual voter support for Israel.⁵⁷ "America First" ideas were taking hold; domestic matters began to take precedence for a large percentage of the population. With the end of the Cold War the need to keep foreign aid at a high level no longer existed. The recession of early 1991 merely reinforced such public views.

Bush successfully tapped into this growing sentiment with his 12 September statement and pulled the American people solidly behind him. This public opposition to guarantees became critical as Bush confronted his most powerful opponent on the settlement and loan issues: Congress.

53. "Thou Shalt Not Build," 24.

54. Christopher Madison, "Strained Friendship," *The National Journal*, 18 April 1992, 925.

55. David Makovsky, "Remodeling Israel-U.S. ties," *The Jerusalem Post*, 4 January 1993, 4.

56. "Damaging Reversal for Israeli Lobby," 9.

57. Richard Lacayo, "Boldness Without Vision," *Time*, 9 March 1992, 24.

Congress and AIPAC

At this time, the two major pillars of support for loan guarantees were the pro-Israel lobby and the members of Congress. The Legislative branch has long been a consistent supporter of Israel. This support stems largely from the successful lobbying efforts of AIPAC. Because many key districts have Jewish populations as large as 25 percent, the Jewish vote impacts Congress to a greater extent than the Executive branch, where Jewish voters represent only one percent of the voting population. As a result, loan guarantees had support on the Hill, but for all AIPAC's competence and savvy it did not have the numbers to override a popular President.

Throughout the summer, AIPAC worked successfully to reinforce strong Congressional support for the loan guarantees. By early September over two thirds of the House and nearly two thirds of the Senate were in favor of the loan guarantees. In the 10 September Congressional Record, Senators Robert Kasten (R-Wisconsin) and Daniel Inouye (D-Hawaii) inserted a proposition to provide for U.S. loan guarantees for Israel.⁵⁸ But only two days later, after Bush's "one lonely guy" speech, Congress began to divide into deadlocking camps. One camp sided with the President's position, agreeing that the loan guarantees should take a back seat to the Middle East peace process. They believed that discussion of a potential compromise could proceed after the 120-day delay. The other side favored pushing ahead with the loan guarantee provision and dared Bush to veto an entire foreign aid bill over loan guarantees to Israel. This side argued there would be enough votes to override a veto, which would make Bush think twice before challenging Israel and its strong backers again. In the end, Congressional leaders decided to back down and not antagonize the President. On 2 October, seventy Senators cosponsored the Kasten-Inouye compromise, which agreed to the loan guarantees given the 120-day waiting period proposed by Bush.⁵⁹

The major factor that led members of Congress not to push the guarantees through over Bush's opposition, was the flagging political will of the Senators. When push came to shove, it was clear that the Senate would not be able to challenge one of the most popular Presidents of the modern era without significant public support, which they did not have. As a rule, the pro-Israel lobby depends on Presidential support for its success. With Presidential support, the lobby has won 95 percent of the cases it has taken on; with Presidential opposition, it has only been successful 27 percent of the time.⁶⁰ Moreover, Bush had never been overridden on a veto in his three years as President and it would be extremely difficult to do so on as delicate an issue as foreign aid. If the lobby challenged and lost, many supporters believed that not only these loan guarantees would be lost, but future U.S. aid to Israel would be endangered as well.⁶¹

58. "Israel's Request for U.S. Loan Guarantees," 4.

59. Helen Dewar, "70 Senators Back Israeli Loan Plan; White House Request for Delay Approved," *The Washington Post*, 3 October 1991, A30.

60. "Win a battle, lose a war," *The Economist*, 21 September 1991, 26.

61. Long interview, 28 March 1994.

Yet another obstacle to the passage of loan guarantees was a dispute between the Office of Management and Budget and the Congressional Budget Office over the scoring of loan guarantees.⁶² Due to the risk of default, Congress would have to appropriate a small percentage of the guarantees.⁶³ Because the two budgetary organizations could not reach a consensus figure for the scoring, and because Israel was not willing to pay these fees, the loan guarantees could not be authorized.

In light of these facts, most Congressional members viewed delays in loan guarantees as necessary to avoid a potentially damaging fight over passage of the foreign aid bill. The Kasten-Inouye compromise was a means of enabling Senators to speak out in favor of loan guarantees without taking any significant risk. They were not required to take the Senate floor in open support of a \$10 billion loan guarantee to Israel against the wishes of the President and a public that did not look favorably upon foreign aid. Thus, although there were seventy cosponsors of the Kasten-Inouye compromise it is likely that these signatures were written in disappearing ink.

During these proceedings AIPAC continued to lobby diligently but was neither able to overcome Bush's still forceful opposition nor sway public opinion in favor of paying for humanitarian assistance to Israel. Because the campaign to support the loan guarantees was put together hastily in an effort to get them passed as a part of the FY 1992 Foreign Aid Bill, AIPAC could not achieve the broadly-based support for which it had hoped.⁶⁴ Moreover, AIPAC was unable to prevent the linking of loan guarantees to settlements at a time when settlements were becoming increasingly unpopular. Thus AIPAC suffered on a number of fronts in its effort to bolster support for loan guarantees.

By the end of September, it became clear that although over two thirds of the Senate supported the idea of the loan guarantees, Senators were unwilling to come out against the President in support of increased foreign aid — even if only in the form of loan guarantees. So, AIPAC came to the decision that the delay should be accepted; it did not want to force Congress into a messy confrontation. If AIPAC were to push ahead and lose the confrontation with Bush over the \$10 billion, its chances of receiving any form of assistance the next year would be almost nonexistent. Terry Peel, staff director of the House Subcommittee on Foreign Operations, added that forcing the issue would have served only to make AIPAC look like it was willing to oppose the peace process in order to obtain loan guarantees right away.⁶⁵ Considering that 1992 would be an election year in both the United States and Israel, AIPAC concluded that both sides would be more likely to compromise. There was also the belief that Bush,

62. Congressional budget reforms recognize administrative costs that represent a specific subsidy. New laws require a financial assessment of new guarantees for all federal programs. Scoring is the estimate of what the subsidy total should be; without it the loan guarantees could not be authorized.

63. "Israel's Request for U.S. Loan Guarantees," 10.

64. Gillette interview, 17 February 1994.

65. Peel interview, 29 March 1994.

who had not argued against the idea of humanitarian aid to Israel, would not hold fast to his "Just Say No" approach forever.⁶⁶

The Madrid Conference came and went in October and nothing occurred that would be construed as interfering with the passage of the guarantees. It was assumed by all parties involved that the loan guarantees would be brought up again as promised in mid-January. But Bush and Baker had decided to forgo their previous plan. Discussion of the loan guarantees was delayed again, and at a hearing of the Foreign Operations subcommittee, Baker declared that Israel would not see one cent of the money until all settlement activity ceased. By this time, Jewish leaders chose to back off from the second round of a battle that was increasingly being fought on the government-to-government level.⁶⁷

Members of Congress who continued to support the idea of loan guarantees, but were unable to get past the blockade of the Executive branch, tried to compromise. They attempted to place the loan guarantee language in a continuing resolution on foreign aid to be passed on 1 April 1992. Realizing that Bush was more than happy to let the idea of loan guarantees drift by without being discussed, Senators Kasten and Leahy proposed a compromise bill that would be included in a stopgap Foreign Aid Bill. This bill was necessary because, due to the arguments over loan guarantees in September, no Foreign Aid Bill was passed for FY 1992. Under the Leahy-Kasten recommendation, the first \$1 billion would not be conditioned on settlement activity, but instead would be reduced by \$250 million, the estimated amount that Israel would spend on settlements in 1992. The other \$9 billion would be placed under Presidential discretion. Bush rejected the plan outright. The President stated that the government's policy was strictly to link the entire \$10 billion to the cessation of settlement activity.⁶⁸

Again lacking the strength or the political will to openly challenge the President, Leahy and Kasten did not make the loan guarantee proposal a part of the stopgap Foreign Aid Bill, which passed by a margin of 84 to 16. In order to demonstrate its continuing support for the necessity of the loan guarantees, however, the Senate did pass a non-binding and weakly worded resolution by a margin of 99 to 1. This resolution, offered by Senator Frank Lautenberg (D-New Jersey), expressed the sense of the Senate that the U.S. government should support appropriate loan guarantees to Israel for refugee absorption.⁶⁹

The impasse did not end until 23 June, when Yitzhak Rabin and the Labor party won a majority in the Israeli elections over Shamir's Likud party. It was widely believed that the more moderate Labor party would be willing to cease settlement activity in return for the loan guarantees. Acting upon these beliefs, Rabin announced on 13 July that new settlement activity would cease. Six days later he announced that Israel would stop signing contracts for about 3,000 planned new housing units in the occupied territories.⁷⁰

66. Pelavin interview, 17 March 1994.

67. "The Day Bush Shocked the Jewish Lobby," 56.

68. "Israel's Request for US Loan Guarantees," 5.

69. *Ibid.*

70. *Ibid.*, 6.

Finally, after nine months of delays, Bush was willing to compromise. There are several explanations for this change. Bush was able to establish a rapport with Rabin and his government that he had not been able to maintain with Shamir's. In addition, Bush's popularity had dropped substantially since the previous September; his position of strength was eroding. Trailing in the polls for the upcoming election, Bush could not afford to take such a hard-line on the loan guarantee issue. With the race as close as it was, the Jewish vote *could* make a difference, and consequently Bush's campaign sought to gain every marginal Jewish vote possible.⁷¹

The new loan guarantee request that was proposed for the Foreign Aid Bill for FY 1993 contained language that Leahy had wanted to include all along. It called for the \$10 billion to be spent within Israel's pre-1967 borders, and stipulated that an amount of money equal to that spent on settlements would be deducted from each year's payments.⁷² Also, the scoring issue was resolved by Rabin's agreement to pay all fees associated with the risk of default.

The loan guarantee request was presented to Congress on 11 September 1992 and was passed as Title VI of the Foreign Aid Bill for FY 1993 by a vote of 87 to 12 in the Senate on 23 September. Bush signed the entire Foreign Aid Bill, including the loan guarantee provision, into law (PL 102-391) on 6 October, over a year after the request was first submitted by the Israeli government. It had taken almost thirteen months and a new Israeli government, but Israel had finally secured its \$10 billion in loan guarantees.

For Bush and Baker, the loan guarantee issue produced mixed results. In mid-1991, U.S.-Israel relations were at an all-time low, Shamir was expanding settlements at a rapid rate, and the Middle East peace process appeared to be floundering. At the time of the passage of the loan guarantees, however, the situation had drastically improved. There was a new, more moderate Israeli government, brought about partially by the loan guarantee delays. Shamir's expansionist policies had been brought to an end. Settlement activity had been slowed dramatically, and the problem of fungibility had been circumvented altogether. As the loan guarantee issue had finally been rectified in a way that would not support settlements, the peace process could continue unhindered.⁷³ In fact, the historic Rabin-Arafat handshake, although brokered by the Clinton administration, would never have taken place if not for the framework established by Bush and Baker.

Bush also lost several facets of this conundrum; the Israeli Government was not the only one to experience a changing of the guard. Annoyed by Bush's constant opposition to the loan guarantees, American Jews showed their displeasure in the voting booths. After winning around 35 percent of the Jewish vote in 1988,⁷⁴ exit polls showed that Bush received less than 10 percent in 1992.

71. "The new Bush-Rabin alliance," *San Diego Union-Tribune*, 30 June 1992, B6.

72. *Ibid.*, 3.

73. Peel interview, 29 March 1994.

74. David Twersky, "Jews for Bill: A Constituency Coup," *The New Republic*, 12 October 1992, 12.

Lack of Jewish support may not have completely cost Bush the election, but it was without question a contributing factor to his defeat.

Conclusions

After final passage of the loan guarantees in October 1992, the new Israeli Prime Minister Rabin placed blame for the delay on AIPAC. He claimed both that AIPAC's heavy-handed action alienated the Bush administration,⁷⁵ and that it had mistakenly guaranteed Shamir's government the Congressional support necessary to override a potential veto. As Rabin said, AIPAC involved Israel "in a needless and no-win confrontation with the administration."⁷⁶ It is easy, however, for members of the Israeli government to deflect blame for the failure of the passage of loan guarantees. Shamir's determination to proceed with the settlements in the face of U.S. opposition was perhaps a more significant reason than AIPAC's miscalculations for the thirteen-month delay.

Noting that it was unable to line up Congressional support as it had in the past, some critics have cited the confrontation as a major defeat for AIPAC. If AIPAC had not undertaken such a strong lobbying effort on such a tenuous issue, Bush would not have had to make his public statement; a quiet compromise could have been reached in 1991. Other critics of AIPAC have claimed that the power of the pro-Israel lobby was overstated in the 1980's, and that its inability to get the loan guarantees passed without delay merely underscored the inaccuracy of this perception.

When placed in the context of the entire scenario, however, it appears that the delay was due not to AIPAC's failure to deliver, but rather to the fact that it simply was unable to challenge a popular President steadfast in his beliefs. While it was true that AIPAC promised Congressional support to Shamir so that he would push through his request, AIPAC did so before the President's address on 12 September. Bush may have been just "one lonely guy," but in September 1991 he was also arguably the most powerful man in the world. To marshal enough support to defeat Bush after his statement to the American people would have taken a miracle that AIPAC, for a number of reasons, was unable to generate.

Lastly, the delay in loan guarantees was not an unmitigated failure for the pro-Israel lobby in that AIPAC managed to avoid the one course of action which would have ultimately doomed the passage of loan guarantees. Failure, for AIPAC, would have resulted had it pushed relentlessly for a showdown on the Foreign Aid Bill. By avoiding this confrontation over a potential veto, AIPAC was at least able to keep the issue of loan guarantees alive. In addition, it continued to quietly lobby on the Hill to ensure that the loan guarantees did not become a dead issue despite consistent opposition from the administration.⁷⁷ In

75. "America and Israel: For Love of Zion," *The Economist*, 14 November 1992, 27.

76. Allison Kaplan, "Rabin vs. AIPAC: Who Speaks for Israel?" *The Jerusalem Post*, 21 August 1992, 4.

77. Gillette interview, 17 February 1994.

late March of 1992, AIPAC's executive director Tom Dine said, "For our community, the issue of the loan guarantees is not over. We cannot and will not give up until we succeed."⁷⁸ These efforts allowed the issue to resurface after the Israeli elections and helped lead to the eventual passage of the guarantees in October 1992.

AIPAC's problems in securing smooth passage of loan guarantees underscore the intertwining of domestic and international concerns in foreign policymaking. This is a framework which compels the coordination of strategies on multiple levels. In this particular instance, Congress, on the international front, had to deal with a noncooperative Israeli government, as well as the determination of a President who refused to let arguments over loan guarantees stand in the way of a potential Middle East peace accord. At home, the continued rise in public opinion against what was perceived as massive foreign aid to Israel placed sufficient pressures on the Executive branch and enervated Congressional opposition.

Under normal conditions, loan guarantees would have passed with minimal opposition. However, the timing of AIPAC's loan guarantee initiative placed it within the hostile context of an unsupportive public, unfavorable actions by the Israeli government, and the potential of ruining Middle East peace talks. The deal was pushed to the back burner to await a more appropriate time with respect to international developments. Timing was also an issue in dealing with the reluctance of Congress to challenge the President. Buoyed by the success of the Gulf War and increasing public support for his position, Bush was able to take a tougher stance. Lacking strong public support, Congress, which was itself becoming irritated with Shamir's expansionist policies, was forced to back down.⁷⁹ AIPAC was simply unable to overcome the convergence of these obstacles.

78. Richard C. Gross, "Israeli Vote Further Complicates Jewish Lobby's Role," *The Washington Times*, 8 April 1992, A9.

79. Long interview, 28 March 1994.

