

New Orleans flooded, the residents of Sandy Springs were approached by the construction and consulting giant CH2M Hill with a unique pitch: let us do it for you. For the starting price of \$27 million a year, the contractor pledged to build a complete city from the ground up.³⁹

A few months later, Sandy Springs became the first “contract city.” Only four people worked directly for the new municipality—everyone else was a contractor. Rick Hirsekorn, heading up the project for CH2M Hill, described Sandy Springs as “a clean sheet of paper with no governmental processes in place.” He told another journalist that “no one in our industry has done a complete city of this size before.”⁴⁰

The Atlanta Journal-Constitution reported that “when Sandy Springs hired corporate workers to run the new city, it was considered a bold experiment.” Within a year, however, contract-city mania was tearing through Atlanta’s wealthy suburbs, and it had become “standard procedure in north Fulton [County].” Neighboring communities took their cue from Sandy Springs and also voted to become stand-alone cities and contract out their government. One new city, Milton, immediately hired CH2M Hill for the job—after all, it had the experience. Soon, a campaign began for the new corporate cities to join together to form their own county, which would mean that none of their tax dollars would go to the poor neighborhoods nearby. The plan has encountered fierce opposition outside the proposed enclave, where politicians say that without those tax dollars, they will no longer be able to afford their large public hospital and public transit system; that partitioning the county would create a failed state on the one hand and a hyperserviced one on the other. What they were describing sounded a lot like New Orleans and a little like Baghdad.⁴¹

In these wealthy Atlanta suburbs, the three-decade corporatist crusade to strip-mine the state was complete: it wasn’t just every government service that had been outsourced but also the very function of government, which is to govern. It was particularly fitting that the new ground was broken by CH2M Hill. The corporation was a multimillion-dollar contractor in Iraq, paid to perform the core government function of overseeing other contractors. In Sri Lanka after the tsunami, it had not only built ports and bridges but was “responsible for the overall management of the infrastructure program.”⁴² In post-Katrina New Orleans, it was awarded \$500 million to build FEMA-villes and put on standby to be ready to do the same for the next disaster. A master of privatizing the state during extraordinary circumstances, it was now doing the same under ordinary ones. If Iraq was a laboratory of extreme privatization, the testing phase was clearly over.

LOSING THE PEACE INCENTIVE

ISRAEL AS WARNING

Big border fences belong not to the world of the gulag but to the world of noise barriers along highways, luxury boxes in sports stadiums, no-smoking areas, security zones in airports and “gated communities.” . . . They make explicit the privileges of the haves and the envy of the have-nots in a way that is embarrassing for both. That is not the same as saying they do not work.

—Christopher Caldwell, senior editor, *The Weekly Standard*, November 2006¹

For decades, the conventional wisdom was that generalized mayhem was a drain on the global economy. Individual shocks and crises could be harnessed as leverage to force open new markets, of course, but after the initial shock had done its work, relative peace and stability were required for sustained economic growth. That was the accepted explanation for why the nineties had been such prosperous years: with the Cold War over, economies were liberated to concentrate on trade and investment, and as countries became more enmeshed and interdependent, they were far less likely to bomb each other.

At the 2007 World Economic Forum in Davos, Switzerland, however, political and corporate leaders were scratching their heads over a state of affairs that seemed to flout this conventional wisdom. It was being called the “Davos Dilemma,” which the *Financial Times* columnist Martin Wolf described as “the contrast between the world’s favourable economics and troublesome politics.” As he put it, the economy had faced “a series of shocks: the stock

market crash after 2000; the terrorist outrages of September 11, 2001; wars in Afghanistan and Iraq; friction over US policies; a jump in real oil prices to levels not seen since the 1970s; the cessation of negotiations in the Doha round [of WTO talks]; and the confrontation over Iran's nuclear ambitions"—and yet it found itself in “a golden period of broadly shared growth.” Put bluntly, the world was going to hell, there was no stability in sight and the global economy was roaring its approval. Soon after, former U.S. Treasury Secretary Lawrence Summers described the “near complete disconnect” between politics and markets as “something out of Dickens, you talk to international relations experts and it's the worst of all times. Then you talk to potential investors and it's one of the best of all times.”²

This puzzling trend has also been observed through an economic indicator called “the guns-to-caviar index.” The index tracks the sales of fighter jets (guns) and executive jets (caviar). For seventeen years, it consistently found that when fighter jets were selling briskly, sales of luxury executive jets went down and vice versa: when executive jet sales were on the rise, fighter jet sales dipped. Of course, a handful of war profiteers always managed to get rich from selling guns, but they were economically insignificant. It was a truism of the contemporary market that you couldn't have booming economic growth in the midst of violence and instability.

But that truism is no longer true. Since 2003, the year of the Iraq invasion, the index found that spending has been going up on both fighter jets and executive jets rapidly and simultaneously, which means that the world is becoming less peaceful while accumulating significantly more profit.³ The galloping economic growth in China and India played a part in the increased demand for luxury items, but so did the expansion of the narrow military-industrial complex into the sprawling disaster capitalism complex. Today, global instability does not just benefit a small group of arms dealers; it generates huge profits for the high-tech security sector, for heavy construction, for private health care companies treating wounded soldiers, for the oil and gas sectors—and of course for defense contractors.

The scale of the revenues at stake is certainly enough to fuel an economic boom. Lockheed Martin, whose former vice president chaired the committee loudly agitating for war in Iraq, received \$25 billion of U.S. taxpayer dollars in 2005 alone. The Democratic congressman Henry Waxman noted that the sum “exceeded the gross domestic product of 103 countries, including Iceland, Jordan, and Costa Rica . . . [and] was also larger than the combined budgets of the Department of Commerce, the Department of the

Interior, the Small Business Administration, and the entire legislative branch of government.” Lockheed itself was an “emerging market.” Companies like Lockheed (whose stock price tripled between 2000 and 2005) are a large part of the reason why the U.S. stock markets were saved from a prolonged crash following September 11. While conventional stock prices have underperformed, the Spade Defense Index, “a benchmark for defense, homeland security and aerospace stocks,” went up every year from 2001 to 2006 by an average of 15 percent—seven and a half times the Standard & Poor's 500 average increase in that same period.⁴

The Davos Dilemma is being further fueled by the intensely profitable model of privatized reconstruction that was forged in Iraq. Heavy-construction stocks, which include the big engineering firms that land juicy no-bid contracts after wars and natural disasters, went up 250 percent between 2001 and April 2007. Reconstruction is now such big business that every new destruction is greeted with the excitement of hot initial public stock offerings: \$30 billion for Iraq reconstruction, \$13 billion for tsunami reconstruction, \$100 billion for New Orleans and the Gulf Coast, \$7.6 billion for Lebanon.⁵

Terrorist attacks, which used to send the stock market spiraling downward, now receive a similarly upbeat market reception. After September 11, 2001, the Dow Jones plummeted 685 points as soon as markets reopened. In sharp contrast, on July 7, 2005, the day four bombs ripped through London's public transport system, killing dozens and injuring hundreds, the U.S. stock market closed higher than it did the day before, with the Nasdaq up 7 points. The following August, on the day British law enforcement agencies arrested twenty-four suspects allegedly planning to blow up jetliners headed to the U.S., the Nasdaq closed 11.4 points higher, largely thanks to soaring homeland security stocks.

Then there are the outrageous fortunes of the oil sector—a \$40 billion profit in 2006 for ExxonMobil alone, the largest profit ever recorded, and its colleagues at rival companies like Chevron were not far behind.⁶ Like those corporations linked to defense, heavy construction and homeland security, the oil sector's fortunes improve with every war, terrorist attack and Category 5 hurricane. In addition to reaping the short-term benefits of high prices linked to uncertainty in key oil-producing regions, the oil industry has consistently managed to turn disasters to its long-term advantage, whether by ensuring that a large portion of the reconstruction funds in Afghanistan went into the expensive road infrastructure for a new pipeline

(while most other major reconstruction projects stalled), by pushing through Iraq's oil law while the country burned, or by piggybacking on Hurricane Katrina to plan the first new refineries in the United States since the seventies. The oil and gas industry is so intimately entwined with the economy of disaster—both as root cause behind many disasters and as a beneficiary from them—that it deserves to be treated as an honorary adjunct of the disaster capitalism complex.

No Conspiracies Required

The recent spate of disasters has translated into such spectacular profits that many people around the world have come to the same conclusion: the rich and powerful must be deliberately causing the catastrophes so that they can exploit them. In July 2006, a national poll of U.S. residents found that more than a third of respondents believed that the government had a hand in the 9/11 attacks or took no action to stop them “because they wanted the United States to go to war in the Middle East.” Similar suspicions dog most of the catastrophes of recent years. In Louisiana in the aftermath of Katrina, the shelters were alive with rumors that the levees hadn't broken but had been covertly blown up in order “to destroy the black part of town and keep the white part dry,” as the Nation of Islam's leader, Louis Farrakhan, suggested.⁷ In Sri Lanka I often heard that the tsunami had been caused by underwater explosions detonated by the United States so that it could send troops into Southeast Asia and take full control over the region's economies.

The truth is at once less sinister and more dangerous. An economic system that requires constant growth, while bucking almost all serious attempts at environmental regulation, generates a steady stream of disasters all on its own, whether military, ecological or financial. The appetite for easy, short-term profits offered by purely speculative investment has turned the stock, currency and real estate markets into crisis-creation machines, as the Asian financial crisis, the Mexican peso crisis and the dot-com collapse all demonstrate. Our common addiction to dirty, nonrenewable energy sources keeps other kinds of emergencies coming: natural disasters (up 430 percent since 1975) and wars waged for control over scarce resources (not just Iraq and Afghanistan but lower-intensity conflicts such as those that rage in Nigeria, Colombia and Sudan), which in turn create terrorist blowback (a 2007 study calculated that the number of terrorist attacks since the start of the Iraq war had increased sevenfold).⁸

Given the boiling temperatures, both climatic and political, future disasters need not be cooked up in dark conspiracies. All indications are that simply by staying the current course, they will keep coming with ever more ferocious intensity. Disaster generation can therefore be left to the market's invisible hand. This is one area in which it actually delivers.

While the disaster capitalism complex does not deliberately scheme to create the cataclysms on which it feeds (though Iraq may be a notable exception), there is plenty of evidence that its component industries work very hard indeed to make sure that current disastrous trends continue unchallenged. Large oil companies have bankrolled the climate-change-denial movement for years; ExxonMobil has spent an estimated \$16 million on the crusade over the past decade. While this phenomenon is well known, the interplay between disaster contractors and elite opinion-makers is far less understood. Several influential Washington think tanks—including the National Institute for Public Policy and the Center for Security Policy—are heavily funded by weapons and homeland security contractors, which profit directly from these institutes' ceaseless portrayal of the world as a dark and menacing place, its troubles responsive only to force. The homeland security sector is also becoming increasingly integrated with media corporations, a development with Orwellian implications. In 2004, the digital communications giant LexisNexis paid \$775 million for Seisint, a data-mining company that works closely on surveillance with federal and state agencies. That same year, General Electric, which owns NBC, purchased InVision, the major producer of controversial high-tech bomb-detection devices used in airports and other public spaces. InVision received a staggering \$15 billion in Homeland Security contracts between 2001 and 2006, more of such contracts than any other company.⁹

The creeping expansion of the disaster capitalism complex into media may prove to be a new kind of corporate synergy, one building on the vertical integration so popular in the nineties. It certainly makes sound business sense. The more panicked our societies become, convinced that there are terrorists lurking in every mosque, the higher the news ratings soar, the more biometric IDs and liquid-explosive-detection devices the complex sells, and the more high-tech fences it builds. If the dream of the open, borderless “small planet” was the ticket to profits in the nineties, the nightmare of the menacing, fortified Western continents, under siege from jihadists and illegal immigrants, plays the same role in the new millennium. The only prospect that threatens the booming disaster economy on which so much wealth depends—from weapons to oil to engineering to surveillance to

patented drugs—is the possibility of achieving some measure of climatic stability and geopolitical peace.

Israel and the Standing Disaster Apartheid State

As analysts struggle to understand the Davos Dilemma, a new consensus is emerging. It is not that the market has become immune to instability, at least not exactly. It is that a steady flow of disasters is now so expected that the ever-adaptable market has changed to fit this new status quo—instability is the new stability. In discussions of this post-9/11 economic phenomenon, Israel is often held up as a sort of Exhibit A. For much of the past decade, Israel has been experiencing its own miniaturized Davos Dilemma: wars and terrorist attacks have been increasing, but the Tel Aviv Stock Exchange has been rising to record levels right alongside this violence. As one stock analyst noted on Fox News after the July 7 London bombings, “In Israel they deal with the threat of terror daily, and that market is up for the year.”¹⁰ Like the global economy in general, Israel’s political situation is, most agree, disastrous, but its economy has never been stronger, with 2007 growth rates rivaling those of China and India.

What makes Israel interesting as a guns-and-caviar model is not only that its economy is resilient in the face of major political shocks such as the 2006 war with Lebanon or Hamas’s 2007 takeover of Gaza, but also that Israel has crafted an economy that expands markedly in direct response to escalating violence. The reasons for Israeli industry’s comfort level with disaster are not mysterious. Years before U.S. and European companies grasped the potential of the global security boom, Israeli technology firms were busily pioneering the homeland security industry, and they continue to dominate the sector today. The Israeli Export Institute estimates that Israel has 350 corporations dedicated to selling homeland security products, and 30 new ones entered the market in 2007. From a corporate perspective, this development has made Israel a model to be emulated in the post-9/11 market. From a social and political perspective, however, Israel should serve as something else—a stark warning. The fact that Israel continues to enjoy booming prosperity, even as it wages war against its neighbors and escalates the brutality in the occupied territories, demonstrates just how perilous it is to build an economy based on the premise of continual war and deepening disasters.

Israel’s current ability to combine guns and caviar is the culmination of a dramatic shift in the nature of its economy over the past fifteen years, one

that has had a profound and little-examined impact on the parallel disintegration of prospects for peace. The last time there was a credible prospect of peace breaking out in the Middle East was the early nineties, a time when a powerful constituency of Israelis believed that continued conflict was no longer an option. Communism had collapsed, the information revolution was beginning, and there was a widespread conviction inside Israel’s business community that the bloody occupation of Gaza and the West Bank, compounded by the boycott of Israel by Arab states, was putting Israel’s economic future in peril. Seeing the explosion of “emerging markets” around the world, Israeli corporations were tired of being held back by war; they wanted to be part of the high-profit borderless world, not penned in by regional strife. If the Israeli government could negotiate some sort of peace agreement with the Palestinians, Israel’s neighbors would have to lift their boycotts, and the country would be perfectly positioned to be the Middle East’s free-trade hub.

In 1993, Dan Gillerman, then president of the Federation of Israeli Chambers of Commerce, was a vocal proponent of this position. “Israel could become just another state . . . or, it could become the strategic, logistic and marketing center of the whole region like a Middle Eastern Singapore or Hong Kong where multinational companies base their head offices. . . . We are talking about an utterly different economy. . . . Israel must act and fast to adjust or this once in a lifetime economic opportunity will be missed only for us to say: ‘we could have.’”¹¹

That same year, Shimon Peres, then foreign minister, explained to a group of Israeli journalists that peace was now inevitable. It was a very particular kind of peace, however. “We are not seeking a peace of flags,” Peres said, “we are interested in a peace of markets.”¹² A few months later, the Israeli prime minister, Yitzhak Rabin, and the Palestinian Liberation Organization chairman, Yasser Arafat, shook hands on the White House lawn to mark the inauguration of the Oslo Accords. The world cheered, the three men shared the 1994 Nobel Peace Prize—and then it all went horribly wrong.

Oslo may have been the most optimistic period in Israeli-Palestinian relations, but the famous handshake did not mark the sealing of a deal. It was merely an agreement to start a process, with all the most contentious questions left unresolved. Arafat was in a terrible bargaining position, having to negotiate his own return to the occupied territories, and he secured no agreement on the fate of Jerusalem, on Palestinian refugees, on Jewish settlers or even on the right to Palestinian self-determination. The Oslo strategy, the negotiators

claimed, was to push ahead with the “peace of markets” based on the idea that the rest would fall into place: by flinging open borders and joining the globalization juggernaut, both Israelis and Palestinians were supposed to experience such concrete improvements in daily life that a more hospitable context would be created for a “peace of flags” in the negotiations to come. That, at least, was the Oslo promise.

Many factors contributed to the subsequent breakdown. Israelis tend to blame suicide bombings and Rabin’s assassination. Palestinians point to Israel’s frenetic expansion of illegal settlements during the Oslo period as proof that the peace process was founded, in the words of Shlomo Ben-Ami, Israel’s foreign minister in the Labor government of Ehud Barak, “on a neo-colonialist basis,” designed so that “when there will finally be peace between us and the Palestinians, there will be a situation of dependence, of a structured lack of equality between the two entities.”¹³ The debates about who derailed the peace process, or whether peace was ever the real goal of the process, are well known and have been exhaustively explored. However, two factors that contributed to Israel’s retreat into unilateralism are little understood and rarely discussed, both related to the unique ways that the Chicago School free-market crusade played out in Israel. One was the influx of Soviet Jews, which was a direct result of Russia’s shock therapy experiment. The other was the flipping of Israel’s export economy from one based on traditional goods and high technology to one disproportionately dependent on selling expertise and devices relating to counterterrorism. Both factors were greatly disruptive to the Oslo process: the arrival of Russians reduced Israel’s reliance on Palestinian labor and allowed it to seal in the occupied territories, while the rapid expansion of the high-tech security economy created a powerful appetite inside Israel’s wealthy and most powerful sectors for abandoning peace in favor of fighting a continual, and continuously expanding, War on Terror.

By unfortunate historical coincidence, the start of the Oslo period coincided precisely with the most painful phase of the Chicago School experiment in Russia. The handshake on the White House lawn was on September 13, 1993; exactly three weeks later, Yeltsin sent in the tanks to set fire to the parliament building, paving the way for his most brutal dose of economic shock.

Over the course of the 1990s, roughly 1 million Jews left the former Soviet Union and moved to Israel. Immigrants who came from the former Soviet Union in this period now make up more than 18 percent of Israel’s

total Jewish population.¹⁴ It’s hard to overstate the impact of such a large and rapid population transfer to a country as small as Israel. Proportionally, it would be the equivalent of every person in Angola, Cambodia and Peru packing their bags and moving to the United States all at once. In Europe, it would be equivalent to all of Greece moving to France.

When the first wave of Soviet Jews headed for Israel, many were choosing to live in a Jewish state after a lifetime of religious persecution. Following that initial wave, however, the number of Russian immigrants to Israel increased dramatically and in direct relation to the amount of pain being inflicted on the Russian people by their economic shock doctors. These later waves of Soviet immigrants were not idealistic Zionists (many had quite tenuous claims to being Jewish); they were desperate economic refugees. “It is not where we are going that is most important, but from where we are coming,” an emigrant waiting outside the Israeli embassy in Moscow told *The Washington Times* in 1992. A spokesperson for the Soviet Jewry Zionist Forum confessed of the exodus that “they are not drawn to Israel, they feel expelled from the USSR by the political instability and economic deterioration there.” By far the largest wave came in the wake of Yeltsin’s coup in 1993—just as the peace process was beginning in Israel. After that, an additional 600,000 people moved from former Soviet states to Israel.¹⁵

This demographic transformation upended the agreement’s already precarious dynamic. Before the arrival of the Soviet refugees, Israel could not have severed itself for any length of time from the Palestinian populations in Gaza and the West Bank; its economy could no more survive without Palestinian labor than California could run without Mexicans. Roughly 150,000 Palestinians left their homes in Gaza and the West Bank every day and traveled to Israel to clean streets and build roads, while Palestinian farmers and tradespeople filled trucks with goods and sold them in Israel and in other parts of the territories.¹⁶ Each side depended on the other economically, and Israel took aggressive measures to prevent the Palestinian territories from developing autonomous trade relationships with Arab states.

Then, just as Oslo came into effect, that deeply interdependent relationship was abruptly severed. Unlike Palestinian workers, whose presence in Israel challenged the Zionist project by making demands on the Israeli state for restitution of stolen land and for equal citizenship rights, the hundreds of thousands of Russians who came to Israel at this juncture had the opposite effect. They bolstered Zionist goals by markedly increasing the ratio of Jews

to Arabs, while simultaneously providing a new pool of cheap labor. Suddenly, Tel Aviv had the power to launch a new era in Palestinian relations. On March 30, 1993, Israel began its policy of “closure,” sealing off the border between Israel and the occupied territories, often for days or weeks at a time, preventing Palestinians from getting to their jobs and selling their goods. Closure began as a temporary measure, ostensibly as an emergency response to the threat of terrorism. It quickly became the new status quo, with territories sealed off not just from Israel but from each other, policed through an ever more elaborate and demeaning system of checkpoints.

Nineteen ninety-three had been held up as the dawn of a new hopeful era; instead, it was the year that the occupied territories were transformed from run-down dormitories housing the underclass of the Israeli state into suffocating prisons. In this same period, between 1993 and 2000, the Israeli settlers living in the occupied territories doubled their numbers.¹⁷ What had been in many places rough-hewn settler outposts were transformed into lush, fortified suburbs with their own restricted-access roads, clearly designed to be an addition to the Israeli state. During the Oslo years, Israel also continued to claim key water reserves in the West Bank, feeding the settlements and diverting scarce water back to Israel.

The new immigrants played a little-examined part here as well. Many residents of the former Soviet Union who arrived in Israel penniless after seeing their life savings disappear in the shock therapy devaluations were easily lured into the occupied territories, where houses and apartments were far cheaper, and special loans and bonuses were on offer. Some of the most ambitious settlements—such as Ariel in the West Bank, which boasts a university, a hotel and a Texas mini golf course—aggressively recruited in the former Soviet Union, sending scouts and launching Russian-language Web sites. Ariel managed to double its population thanks to this approach, and today it stands as a kind of mini-Moscow, with store signs advertising in both Hebrew and Russian. Half its residents are new immigrants from the former Soviet Union. The Israeli group Peace Now estimates that about twenty-five thousand Israeli citizens living in illegal settlements fall into this category, and it also notes that many Russians made the move “without a clear understanding of where they were going.”¹⁸

In Israel, the years after the Oslo Accords delivered on their promise of trading conflict for prosperity in dramatic fashion. In the mid- and late nineties, Israeli companies took the global economy by storm, particularly high-tech firms specializing in telecommunications and Web technology,

with Tel Aviv and Haifa becoming Middle Eastern outposts of Silicon Valley. At the peak of the dot-com bubble, 15 percent of Israel’s gross domestic product came from high tech and about half its exports. That made Israel’s economy “the most tech-dependent in the world,” according to *Business Week*—twice as dependent as the United States.¹⁹

Once again, the new arrivals played a decisive role in the boom. Among the hundreds of thousands of Soviets who came to Israel in the nineties were more highly trained scientists than Israel’s top tech institute had graduated in the eighty years of its existence. These were many of the scientists who had kept up the Soviet side of the Cold War—and as one Israeli economist put it, they became “the rocket fuel for [Israel’s] tech industry.” Shlomo Ben-Ami describes the years after the White House handshake as “one of the most breathtaking eras of economic growth and opening up of markets in [Israel’s] history.”²⁰

That opening of markets had promised to benefit both sides in the conflict, but with the exception of a corrupt elite around Arafat, Palestinians were conspicuously absent from the post-Oslo boom. The biggest obstacle was closure, a policy that was never once lifted in the fourteen years since it was first imposed in 1993. According to the Harvard Middle East specialist Sara Roy, when the borders were abruptly sealed in 1993, the effects on Palestinian economic life were catastrophic. “Closure has been the single most damaging feature to the economy during the Oslo period and since, the one measure that has imposed the greatest damage on an already compromised economy,” she said in an interview.

Workers couldn’t work, traders couldn’t sell their goods, farmers couldn’t reach their fields. In 1993 per capita GNP in the occupied territories plummeted close to 30 percent; by the following year, poverty among Palestinians was up 33 percent. By 1996, says Roy, who has extensively documented the economic impact of closure, “66 per cent of the Palestinian labor force was either unemployed or severely under-employed.”²¹ Far from a “peace of markets,” what Oslo meant for Palestinians was disappearing markets, less work, less freedom—and, crucially, as the settlements expanded, less land. It was this utterly untenable situation that turned the occupied territories into the tinderbox that went up in flames when Ariel Sharon visited the site in Jerusalem called al-Haram al-Sharif by Muslims (by Jews, the Temple Mount) in September 2000, setting off the second intifada.

In Israel and the international press, it is generally argued that the reason the peace process collapsed was that Ehud Barak’s offer at Camp David in July

2000 was the best deal the Palestinians were ever going to get, and Arafat turned his back on Israel's generosity, thus proving that he was never genuine in the quest for peace. After that experience, and the eruption of the second intifada, Israelis lost faith in negotiation, elected Ariel Sharon and started building what they call the security barrier, and Palestinians call the Apartheid Wall—the network of concrete walls and steel fences that protrudes from the 1967 green-line border, reaching hungrily into Palestinian territory and pulling huge settlement blocks into the Israeli state, as well as 30 percent of the water sources in some areas.²²

There is no doubt that Arafat wanted a better deal than the ones produced either at Camp David or Taba in January 2001, but these deals were also not the prizes they have been made out to be. Though consistently presented by Israelis as an offer unparalleled in its generosity, Camp David would have provided almost no redress to Palestinians who had been forced from their homes and land when the Israeli state was created in 1948, and it did not come close to satisfying the minimal rights of Palestinians to self-determination. In 2006, Shlomo Ben-Ami, a lead negotiator for the Israeli government at both Camp David and Taba, broke ranks with the party line and admitted that “Camp David was not the missed opportunity for the Palestinians, and if I were Palestinian I would have rejected Camp David, as well.”²³

There were other factors contributing to Tel Aviv's abandonment of serious negotiations at peace talks post-2001—factors just as powerful as Arafat's alleged intransigence or Sharon's personal drive to create a “greater Israel.” One related to the rise of Israel's tech economy. In the early nineties, Israel's economic elites wanted peace for prosperity, but the kind of prosperity they then built during the Oslo years ended up relying far less on peace than they had originally assumed. When Israel's niche in the global economy turned out to be information technologies, it meant that the key to growth was sending software and computer chips to Los Angeles and London, not shipping heavy cargo to Beirut and Damascus. Success in the tech sector did not require Israel to have friendly relationships with its Arab neighbors or to end its occupation of the territories. The rise of the tech economy was only the first phase of Israel's fateful economic transformation, however. The second came after the dot-com economy crashed in 2000, and Israel's leading companies needed to find a new niche in the global market.

With the most tech-dependent economy in the world, Israel was hit harder by the dot-com crash than anywhere else. The country went into immediate free fall, and by June 2001, analysts were predicting that roughly

three hundred high-tech Israeli firms would go bankrupt, with tens of thousands of layoffs. The Tel Aviv business newspaper *Globes* declared in a headline that 2002 was the “Worst Year for Israeli Economy Since 1953.”²⁴

The only reason the recession was not even worse, the newspaper observed, was that the Israeli government quickly intervened with a powerful 10.7 percent increase in military spending, partially financed through cutbacks in social services. The government also encouraged the tech industry to branch out from information and communication technologies and into security and surveillance. In this period, the Israeli Defence Forces played a role similar to a business incubator. Young Israeli soldiers experimented with network systems and surveillance devices while they fulfilled their mandatory military service, then turned their findings into business plans when they returned to civilian life. A slew of new start-ups were launched, specializing in everything from “search and nail” data mining, to surveillance cameras, to terrorist profiling.²⁵ When the market for these services and devices exploded in the years after September 11, the Israeli state openly embraced a new national economic vision: the growth provided by the dot-com bubble would be replaced with a homeland security boom. It was the perfect marriage of the Likud Party's hawkishness and its radical embrace of Chicago School economics, as embodied by Sharon's finance minister, Benjamin Netanyahu, and Israel's new central bank chief, Stanley Fischer, chief architect of the IMF's shock therapy adventures in Russia and Asia.

By 2003, Israel was already making a stunning recovery, and by 2004 the country had seemed to pull off a miracle: after its calamitous crash, it was performing better than almost any Western economy. Much of this growth was due to Israel's savvy positioning of itself as a kind of shopping mall for homeland security technologies. The timing was perfect. Governments around the world were suddenly desperate for terrorist hunting tools, as well as for human intelligence know-how in the Arab world. Under the leadership of the Likud Party, the Israeli state billed itself as a showroom for the cutting-edge homeland security state, drawing on its decades of experience and expertise fighting Arab and Muslim threats. Israel's pitch to North America and Europe was straightforward: the War on Terror you are just embarking on is one we have been fighting since our birth. Let our high-tech firms and privatized spy companies show you how it's done.

Overnight, Israel became, in the words of *Forbes* magazine, “the go-to country for antiterrorism technologies.”²⁶ Every year since 2002, Israel has played host to at least half a dozen major homeland security conferences for

lawmakers, police chiefs, sheriffs and CEOs from around the world, with their size and scope growing annually. As traditional tourism suffered in the face of security fears, this kind of official counterterrorism tourism emerged to partially fill the gap.

During one such gathering in February 2006, billed as a “behind-the-scenes tour of [Israel’s] struggle against terrorism,” delegates from the FBI, Microsoft and Singapore’s Mass Transit System (among others) traveled to some of Israel’s most popular tourism destinations: the Knesset, the Temple Mount, the Wailing Wall. At each location, the visitors examined and admired the fortress-style security systems to see what they could apply at home. In May 2007, Israel hosted the directors of several large U.S. airports, who attended workshops on the types of aggressive passenger profiling and screening used at Ben Gurion International Airport near Tel Aviv. Steven Grossman, head of aviation at the international airport in Oakland, California, explained that he was there because “the Israelis are legendary for their security.” Some of the events are macabre and theatrical. At the International Homeland Security Conference 2006, for instance, the Israeli military staged an elaborate “simulation of a mass casualty disaster that started in the City of Ness Ziona and concluded in Asaf Harofeh Hospital,” according to the organizers.²⁷

These are not policy conferences, but highly lucrative trade shows designed to demonstrate the prowess of Israeli security firms. As a result, Israel’s exports in counter terrorism–related products and services increased by 15 percent in 2006 and were projected to grow by 20 percent in 2007, totalling \$1.2 billion annually. The country’s defense exports in 2006 reached a record \$3.4 billion (compared to \$1.6 billion in 1992), making Israel the fourth largest arms dealer in the world, larger than the U.K. Israel has more technology stocks listed on the Nasdaq exchange—many of them security related—than any other foreign country, and it has more tech patents registered in the U.S. than China and India combined. Its technology sector, much of it linked to security, now makes up 60 percent of all exports.²⁸

Len Rosen, a prominent Israeli investment banker, told *Fortune* magazine, “It’s security that matters more than peace.” During Oslo, “people were looking for peace to provide growth. Now they’re looking for security so violence doesn’t curtail growth.”²⁹ He could have gone much further: the business of providing “security”—in Israel and around the world—is directly responsible for much of Israel’s meteoric economic growth in recent years. It is not an exaggeration to say that the War on Terror industry saved Israel’s faltering economy, much as the disaster capitalism complex helped rescue the global stock markets.

Here is a small sample of the industry’s reach:

- A call made to the New York Police Department will be recorded and analyzed on technology created by Nice Systems, an Israeli firm. Nice also monitors communication for the L.A. Police and Time Warner, as well as providing video surveillance cameras to Ronald Reagan National Airport, among dozens of other top clients.³⁰
- Images captured in the London tube system are recorded on Verint video surveillance cameras, owned by the Israeli technology giant Comverse. Verint surveillance gear is also used at the U.S. Department of Defense, Washington’s Dulles International Airport, on Capitol Hill and the Montreal Métro. The company has surveillance clients in more than fifty countries and also helps corporate giants like Home Depot and Target keep an eye on their workers.³¹
- Employees of the cities of Los Angeles and Columbus, Ohio, carry electronic “smartcard” IDs made by the Israeli company SuperCom, which boasts the former CIA director James Woolsey as the chair of its advisory board. An unnamed European country has gone with SuperCom for a national ID program; another has commissioned a pilot program for “biometric passports,” both highly controversial initiatives.³²
- The firewalls in the computer networks of some of the largest electricity companies in the U.S. were built by the Israeli tech giant Check Point, though the corporations have chosen to keep their names secret. According to the company, “89% of Fortune 500 companies use Check Point security solutions.”³³
- In the run-up to the 2007 Super Bowl, all the workers at the Miami International Airport received training to identify “bad people, not just bad things” using a psychological system called Behavior Pattern Recognition, developed by the Israeli firm New Age Security Solutions. The company’s CEO is the former head of security at Israel’s Ben Gurion Airport. Other airports that have contracted with New Age in recent years to train workers in passenger profiling include Boston, San Francisco, Glasgow, Athens and London Heathrow, as well as many others. Port workers in the conflict-ridden Niger Delta have received New Age training, as have employees at the Netherlands Ministry of Justice, guards for the Statue of Liberty and agents with the New York Police Department’s Counter Terrorism Bureau.³⁴

- When the wealthy New Orleans neighborhood of Audubon Place decided it needed its own police force after Hurricane Katrina, it hired the Israel private security firm Instinctive Shooting International.³⁵
- Agents with the Royal Canadian Mounted Police, Canada's federal police agency, have received training from International Security Instructors, a Virginia-based company that specializes in training law enforcement and soldiers. Advertising its "hard won Israeli experience," its instructors are "veterans of Israeli special task forces from . . . Israel Defense Force, Israel National Police Counter Terrorism units [and] General Security Services (GSS or 'Shin Beit')." The company's elite list of clients includes the FBI, the U.S. Army, the U.S. Marine Corps, the U.S. Navy SEALs, and London's Metropolitan Police Service.³⁶
- In April 2007, special immigration agents with the U.S. Department of Homeland Security, working along the Mexican border, went through an intensive eight-day training course put on by the Golan Group. The Golan Group was founded by ex-Israeli Special Forces officers and boasts more than 3,500 employees in seven countries. "Essentially we put an Israeli security spin on our procedures," Thomas Pearson, the company's head of operations, explained of the training course, which covered everything from hand-to-hand combat to target practice to "getting really proactive with their SUV." The Golan Group, now based in Florida but still marketing its Israeli advantage, also produces X-ray machines, metal detectors and rifles. In addition to many governments and celebrities, its clients include ExxonMobil, Shell, Texaco, Levi's, Sony, Citigroup and Pizza Hut.³⁷
- When Buckingham Palace needed a new security system, it selected a design by Magal, one of two Israeli companies that have been most involved in building the Israeli "security barrier."³⁸
- When Boeing begins building the planned \$2.5 billion "virtual fences" on the U.S. borders with Mexico and Canada—complete with electronic sensors, unmanned aircraft, surveillance cameras and eighteen hundred towers—one of its main partners will be Elbit. Elbit is the other Israeli firm most involved in building Israel's hugely controversial wall, which is "the largest construction project in Israel's history" and has also cost \$2.5 billion.³⁹

With more and more countries turning themselves into fortresses (walls and high-tech fences are going up on the border between India and Kashmir, Saudi

Arabia and Iraq, Afghanistan and Pakistan), "security barriers" may prove to be the biggest disaster market of all. That's why Elbit and Magal don't mind the relentless negative publicity that Israel's wall attracts around the world—in fact, they consider it free advertising. "People believe we are the only ones who have experience testing this equipment in real life," explained Magal CEO Jacob Even-Ezra.⁴⁰ Elbit and Magal have seen their stock prices more than double since September 11, a standard performance for Israeli homeland security stocks. Verint—dubbed "the granddaddy of the video surveillance space"—wasn't profitable at all before September 11, but between 2002 and 2006 its stock price has more than tripled, thanks to the surveillance boom.⁴¹

The extraordinary performance of Israel's homeland security companies is well known to stock watchers, but it is rarely discussed as a factor in the politics of the region. It should be. It is not a coincidence that the Israeli state's decision to put "counterterrorism" at the center of its export economy has coincided precisely with its abandonment of peace negotiations, as well as a clear strategy to reframe its conflict with the Palestinians not as a battle against a nationalist movement with specific goals for land and rights but rather as part of the global War on Terror—one against illogical, fanatical forces bent only on destruction.

Economics is by no means the primary motivator for the escalation in the region since 2001. There is, of course, no shortage of fuel for violence on all sides. Yet within this context that is so weighted against peace, economics has, at certain points, been a countervailing force, pushing reluctant political leaders into negotiations, as was the case in the early nineties. What the homeland security boom has done is change the direction of that pressure, creating yet another powerful sector invested in continued violence.

As has been the case on previous Chicago School frontiers, Israel's post-9/11 growth spurt has been marked by the rapid stratification of society between rich and poor inside the state. The security buildup has been accompanied by a wave of privatizations and funding cuts to social programs that has virtually annihilated the economic legacy of Labor Zionism and created an epidemic of inequality the likes of which Israelis have never known. In 2007, 24.4 percent of Israelis were living below the poverty line, with 35.2 percent of all children in poverty—compared with 8 percent of children twenty years earlier.⁴² Yet even though the benefits of the boom have not been widely shared, they have been so lucrative for a small sector of Israelis, particularly the powerful segment that is seamlessly integrated into both the military and government (with all the familiar

corporatist corruption scandals), that a crucial incentive for peace has been obliterated.

The Israeli business sector's shift in political direction has been dramatic. The vision that captivates the Tel Aviv Stock Exchange today is no longer that of Israel as a regional trade hub but rather as a futuristic fortress, able to survive even in a sea of determined enemies. The revised attitude was most pronounced in the summer of 2006, when the Israeli government turned what should have been a prisoner exchange negotiation with Hezbollah into a full-scale war. Israel's largest corporations didn't just support the war, they sponsored it. Bank Leumi, Israel's newly privatized megabank, distributed bumper stickers with the slogans "We Will Be Victorious" and "We Are Strong," while, as the Israeli journalist and novelist Yitzhak Laor wrote at the time, "the current war is the first to become a branding opportunity for one of our largest mobile phone companies, which is using it to run a huge promotional campaign."⁴³

Clearly, Israeli industry no longer has reason to fear war. In contrast to 1993, when conflict was seen as a barrier to growth, the Tel Aviv Stock Exchange went up in August 2006, the month of the devastating war with Lebanon. In the final quarter of the year, which had also included the bloody escalation in the West Bank and Gaza following the election of Hamas, Israel's overall economy grew by a staggering 8 percent—more than triple the growth rate of the U.S. economy in the same period. The Palestinian economy, meanwhile, contracted by between 10 and 15 percent in 2006, with poverty rates reaching close to 70 percent.⁴⁴

One month after the UN declared a cease-fire between Israel and Hezbollah, the New York Stock Exchange hosted a special conference on investing in Israel. More than two hundred Israeli firms attended, many of them in the homeland security sector. At that moment in Lebanon, economic activity was at a virtual standstill and roughly 140 factories—manufacturers of everything from prefab homes to medical products to milk—were clearing away the rubble after being hit by Israeli bombs and missiles. Impervious to the impact of the war, the message of the New York gatherings was upbeat: "Israel is open for business—has always been open for business," announced Israel's ambassador to the United Nations, Dan Gillerman, welcoming delegates to the event.⁴⁵

Only a decade earlier, this kind of wartime exuberance would have been unimaginable. It was Gillerman who, as head of the Israeli Federation of Chambers of Commerce, had called for Israel to seize the historic opportu-

nity and become "a Middle Eastern Singapore." Now he was one of the most inflammatory of Israel's pro-war hawks, pushing for an even wider escalation. On CNN, Gillerman said that "while it may be politically incorrect and maybe even untrue to say that all Muslims are terrorists, it happens to be very true that nearly all terrorists are Muslim. So this is not just Israel's war. This is the world's war."⁴⁶

This recipe for endless worldwide war is the same one that the Bush administration offered as a business prospectus to the nascent disaster capitalism complex after September 11. It is not a war that can be won by any country, but winning is not the point. The point is to create "security" inside fortress states bolstered by endless low-level conflict outside their walls. In a way, it is the same goal that the private security companies have in Iraq: secure the perimeter, protect the principal. Baghdad, New Orleans and Sandy Springs provide glimpses of a kind of gated future built and run by the disaster capitalism complex. It is in Israel, however, that this process is most advanced: an entire country has turned itself into a fortified gated community, surrounded by locked-out people living in permanently excluded red zones. This is what a society looks like when it has lost its economic incentive for peace and is heavily invested in fighting and profiting from an endless and unwinnable War on Terror. One part looks like Israel; the other part looks like Gaza.

Israel's case is extreme, but the kind of society it is creating may not be unique. The disaster capitalism complex thrives in conditions of low-intensity grinding conflict. That seems to be the end point in all the disaster zones, from New Orleans to Iraq. In April 2007, U.S. soldiers began implementing a plan to turn several volatile Baghdad neighborhoods into "gated communities," surrounded by checkpoints and concrete walls, where residents would be tracked using biometric technology. "We'll be like the Palestinians," predicted one resident of Adhamiya, watching his neighborhood being sealed in by the barrier.⁴⁷ After it becomes clear that Baghdad is never going to be Dubai, and New Orleans won't be Disneyland, Plan B is to settle into another Colombia or Nigeria—never-ending war, fought in large measure by private soldiers and paramilitaries, damped down just enough to get the natural resources out of the ground, helped along by mercenaries guarding the pipelines, platforms and water reserves.

It has become commonplace to compare the militarized ghettos of Gaza and the West Bank, with their concrete walls, electrified fences and checkpoints, to the Bantustan system in South Africa, which kept blacks in ghettos and demanded passes when they left. "Israel's laws and practices in the OPT

[occupied Palestinian territories] certainly resemble aspects of apartheid,” said John Dugard, the South African lawyer who is the UN’s special rapporteur on human rights in the Palestinian territories, in February 2007.⁴⁸ The similarities are stark, but there are differences too. South Africa’s Bantustans were essentially work camps, a way to keep African laborers under tight surveillance and control so they would work cheaply in the mines. What Israel has constructed is a system designed to do the opposite: to keep workers from working, a network of open holding pens for millions of people who have been categorized as surplus humanity.

Palestinians are not the only people in the world who have been so categorized: millions of Russians also became surplus in their own country, which is why so many fled their homes in the hope of finding a job and a decent life in Israel. Although the original Bantustans have been dismantled in South Africa, the one in four people who live in shacks in fast-expanding slums are also surplus in the new, neoliberal South Africa.⁴⁹ This discarding of 25 to 60 percent of the population has been the hallmark of the Chicago School crusade since the “misery villages” began mushrooming throughout the Southern Cone in the seventies. In South Africa, Russia and New Orleans the rich build walls around themselves. Israel has taken this disposal process a step further: it has built walls around the dangerous poor.

SHOCK WEARS OFF

THE RISE OF PEOPLE’S RECONSTRUCTION

I want to say to you, my Indian brothers concentrated here in Bolivia, that the five-hundred-year campaign of resistance has not been in vain. This democratic, cultural fight is part of the fight of our ancestors, it is the continuity of the fight of [the indigenous anticolonial leader] Tupac Katari, it is a continuity of the fight of Che Guevara.

—Evo Morales, after being sworn in as president of Bolivia, January 22, 2006¹

People know best. They know every corner and every detail of their community best. They also know their weak points.

—Pichit Ratakul, executive director of the Asian Disaster Preparedness Center, October 30, 2006²

The people from the barrio built the city twice: during the day we built the houses of the well-off. At night and at weekends, with solidarity, we built our own homes, our barrio.

—Andrés Antillano, resident of Caracas, April 15, 2004³

When Milton Friedman died in November 2006, many of the obituaries were imbued with a sense of fear that his death marked the end of an era. In Canada’s *National Post*, Terence Corcoran, one of Friedman’s most devoted disciples, wondered whether the global movement the economist had launched could carry on. “As the last great lion of free market economics,