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Trying to Put a Price on Middle East Peace

Israeli and Palestinian economists look for solutions in hard numbers



Arnon, an Israeli, and Bamy, a Palestinian, hope economics can fix what politics can't Anne-Christine Poujoulat/AFP/Getty Images

By Elizabeth Dwoskin

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Eds Note: A previous version of this story had an incorrect title for Saed Bamy.

In July 2002 a small group of Israeli and Palestinian economists sat down for a rare meeting in the idyllic French village of Aix-en-Provence. It was the height of the violent Palestinian uprising known as the Second Intifada. A Hamas suicide bomber had recently blown himself up in a hotel where a Passover meal for 250 people was taking place, and Israel was engaged in a military campaign in the occupied territories that would ultimately result in thousands of Palestinian deaths. Official communication had been severed and political solutions were obviously coming up short.

The economists believed they could help. They concluded that translating the conflict into the data-driven language of economics might enable the two sides to cut through the rhetoric and begin to think dispassionately about the details of what peace would look like and cost in actual shekels.

The leaders of the Aix Group, as it came to be known, were two economists—a Palestinian and a Jewish Israeli. Arie Arnon, a left-leaning professor at Ben-Gurion University, was a child of Holocaust survivors, a veteran of the Six Day War, and a lifelong citizen of Jerusalem. Saeb Bamy was a Palestinian refugee from Jaffa—the Arab-majority section of Tel Aviv—who became a high-ranking official in the Palestinian administration. Both were born in 1947, the

year before Israel became a state. They began with the premise that eventually the six-decade-old conflict would, somehow, end in a two-state solution. They foresaw countless economic questions that would require concrete answers: What would it cost to resettle more than a million Palestinian refugees? What kind of trade agreements would exist between the two states? How would Jerusalem function economically as a divided capital?

In the decade since, despite spotty economic data and a political environment that changes month to month, they have slowly set about trying to put a price tag on peace. Every two years, Bamyia and Arnon select a new problem for the group to sort out. They meet at least twice a year to discuss their findings.

The future of the 5 million Palestinian refugees recognized by the United Nations was among the most difficult issues the group tackled. The men found it was not easy to separate their feelings from their calculations. “I am a Palestinian from Jaffa. I dreamt of returning my whole life. And if I let my feelings go, then I lose my mind, and that’s it, I cannot compromise,” says Bamyia, who served as a Deputy Finance Minister in the Palestinian Authority until the election of Hamas in 2006. “A price for peace must be paid,” he says. “But ... there must be fair compensation.”

After two years of work, the economists concluded the cost of resolving all refugee issues will be steep, between \$55 billion and \$85 billion. They propose dividing the cost between the UN and the Israeli and Palestinian governments, with additional help from other countries, including the U.S. Using data culled from 60-year-old tax and land registry records—and factoring in inflation—the economists calculated that refugees could reasonably demand up to \$30 billion from the State of Israel in exchange for giving up their claims to land they owned prior to 1948.

They looked at the Palestinian population, roughly 450,000 refugees in Lebanon, 500,000 in Syria, and 2 million in Jordan, and tried to figure out how many people might choose to relocate to a new Palestinian state, and what impact a mass migration would have on the regional economy. “You have to look at how an economy, at its current level, could sustain a large influx of people while maintaining the standard of living,” says Arnon, who teaches a course on the Palestinian economy.

They concede they have no way of reliably calculating how many Palestinians will want to resettle. They estimate there could be as few as 900,000 or as many as 1.8 million. They put the total cost for absorbing refugees at between \$8 billion to \$19 billion, depending on how quickly they would arrive, how much they would pay in taxes, and what the government could afford to spend. “You have to build a model of the economy,” Arnon says. The group used a formula similar to one the Israeli government created when it planned to take in hundreds of thousands of Russian Jewish immigrants in the 1990s. “It’s complex,” he says. “There are many, many assumptions.”

The group has anticipated various trade scenarios that might exist between Israel and a future Palestinian state. They advocate free trade areas, with low tariffs in Jerusalem’s Old City. The idea is to encourage commerce between Israelis and Palestinians that will benefit both equally. They took up the question of what to do with poor and older Arabs in East Jerusalem who currently depend on monthly entitlement checks of about \$275. The economists say Israel should continue to bear the cost of these benefits for those who have paid into the Israeli system. A

Palestinian state would be responsible for covering its citizens who apply for benefits after a peace deal. The group puzzled over how much it would cost to build a roughly 30-mile highway or rail line between Gaza and the West Bank, two Palestinian areas on opposite sides of the state. They mapped out three possible routes, putting the price at \$13 million per square kilometer, for a total of up to \$1 billion. Building in security features—such as an electronic fence or surveillance towers—could add \$200 million more.

“These guys are up to their eyeballs in the tedious stuff,” says Robert Danin, a fellow with the Council on Foreign Relations who participated in Aix meetings as a Deputy Assistant Secretary of State in the Bush Administration. “It’s not sexy, but it’s critical.” Over the years, Danin says, the discreet group’s meetings have served as an informal gathering place for policy makers on both sides of the conflict as well as representatives of international organizations such as the European Union, International Monetary Fund, and World Bank, which has helped fund its work. Dan Catarivas, a former Deputy Director General in Israel’s Finance Ministry who has come to the group for ideas, says he’s waiting for the day when they can be put to use. “Sure, it’s nice to talk about safe passage, and relocation, and repatriation, but what is it going to cost? People are very good at talking about politics, but at the end of the day, there is a reality on the ground that costs money, and someone will have to pay for it.”

For now, though, Bamyra and Arnon recognize that their briefing books will have to remain on the shelf. The two sides are no closer to an agreement than they were when the economists met for the first time a decade ago. Arnon sometimes wonders if his efforts will ever amount to more than an academic exercise. “It’s unrealistic today,” he says. “It might become very realistic tomorrow.”

The bottom line: Economists projecting the cost of a two-state solution say resolving the problem of Palestinian refugees could reach \$85 billion.

Dwoskin is a staff writer for *Bloomberg Businessweek* in Washington.