POLITICS AND POWER: THE 1992 ISRAELI LOAN GUARANTEES POLICY,

1988-1992

A Thesis

by

KATHERINE ANN CALLE WILLYARD

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Chair of Committee,	Harland Prechel
Committee Members,	Joseph Jewell
	Michelle Taylor-Robinson
Head of Department,	Jane Sell

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ABSTRACT

This paper examines the exercise of power in the U.S.-Middle East foreign policy formation process. Through application of historical methods, the capacity of state, class and historical contingency perspectives of political power to explain the formation of the U.S. Israeli loan guarantee policy between 1988 and 1992 is analyzed. Historical analysis supports a central proposition in historical contingency theory, which suggests that political power and alignment of class segments varies over time and is impacted by respective economic interests. Class segments unified to create political alliances with both Congress and the executive branch to establish preconditions to the provision of U.S. loan guarantees to Israel. As class segments began to mobilize politically, the pro-Israel lobby became split. Economic interests and previous state structures led to the establishment of class coalitions. Coalition efforts resulted in the establishment of the 1992 policy linking Israeli foreign aid to Israel's settlement activities in the Occupied Palestinian Territories, among other conditions. The analysis suggests that future research on U.S. foreign policy in the Middle East should not focus only on the actions of state managers, but should examine how and under which conditions do social forces external to the state influence the foreign policy formation process.

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1. INTRODUCTION

A recent central concern of foreign relations scholars has been what drives U.S. foreign policy in the Middle East. By making state-centered assumptions of political power, some researchers conclude that national interests drive U.S. foreign policy. Researchers from this perspective (Bass 2003; Hahn 2004) claim that U.S. foreign policy in the Middle East has been due to the actions of state managers to preserve U.S. national interests in stabilizing the region. According to state-centered foreign relations scholars, U.S. Middle Eastern foreign policy tends to support pro-Israel policies due to the shared values and goals of the two nations; interest groups external to the state have no influence on the development of U.S. foreign policy.

Whereas state-centered perspectives of power claim that national interests drive U.S. foreign policy, society-centered perspectives infer the interests of social groups external to the state control the foreign policy formation process. U.S. national interests are not enough to explain U.S. foreign policy in the Middle East because U.S. foreign policy in the Middle East isn't consistently aligned with national interests. From this perspective, U.S. foreign policy in the Middle East is determined by the interests of the pro-Israel lobby (Mearsheimer and Walt 2007). Interest groups have the power to dictate the foreign policy formation process.

Foreign policy researchers make strict society-centered or state-centered assumptions of power, and overlook historical contingency theory. Whereas state-centered and society-centered perspectives of political power view either the state or society as the sole bearers of political power, historical contingency theory acknowledges who holds political power varies over time and place. From this perspective, under some conditions the states has increased power, and in other conditions, groups external to the state hold the most political power. In this paper I attempt to bring historical contingency theory into the discussion of who holds political power in the foreign policy formation process in the U.S. My objective is to test the assumptions of competing theories of political power to determine which best explains the development of U.S. foreign policy in the Middle East.

2. STATE AND SOCIETY PERSPECTIVES OF POLITICAL POWER

Political sociologists have debated over what groups hold power throughout the policy formation process in the U.S. State-centered perspectives of political power assume that the state controls the development of public policy and examine the actions of state managers to explain the policy formation process. On the other hand, society-centered perspectives assume that political power is held by groups external to the state. Historical contingency theory aims to solve the debate between state-centered and society-centered perspectives of political power by examining the historical contingency of political power. From this perspective, the power of the state and the power of class factions vary over time. Both the actions within the state and those taken by external social groups must be examined to determine how public policy is formed.

State-centered perspectives of political power assert the structure and agenda of the state dictate political outcomes (Skocpol 1985). By examining state formations and expansions, state-centered theories assume political outcomes are independent from class structures. Due to the nation-state's monopoly of legitimate force within the country's established borders, the state maintains autonomous power over political outcomes. Since it has the power to regulate, tax, discipline and punish its citizenry, the state is beyond the control of both its general citizenry and elite groups (Mann 1984). From this perspective, the nation-state is an autonomous social actor responsible for certain political outcomes (Skocpol 1985). National interests dictate the policy formation process. State managers control the policy formation process. Due to the bureaucratic nature of the roles of state managers, they inherently share a collective consciousness and mission (Mann 1984). Capitalists and other groups external to the state are not unified due to competition. Since the state managers are most likely to be unified, when the interests of state managers conflict with the interests of external social groups, state managers have the capacity to achieve their interests over the interests of others (Block 1977). In short, according to state-centered perspectives of political power, since state managers are unified and external groups are not, state managers have the power to dictate public policy, unfettered by external group interests.

On the other hand, society-centered perspectives assume that the interests of social groups external to the state determine political outcomes. The state is viewed as a neutral force negotiating conflict among competing social groups (Dahl 1958). The structure and interests of the state do not impact the policy formation process. Public policy is the result of the exercised power of competing interest groups external to the state (Polsby 1960). Interests of competing interest groups control the political process, unaffected by the state. Political outcomes are viewed as the result negotiations between competing social groups external to the state. Class groups and the government are both fragmented. Within the state, small competing interest groups have an open space to pursue their self-interest (Dahl 1958). Numerous interest groups are each able to apply tactics to influence political outcomes. From the society-centered perspective, political decision making is made in adherence to the demands of political interest groups, uninfluenced by the state.

Whereas state-centered and society-centered perspectives of political power presume power is either with the state or with society, historical contingency theory assumes the power of the state and the power of social groups external to the state vary over time (Prechel 1990, 2000). Political outcomes are historically contingent upon both the conditions of the state and external political groups (Prechel 1990). Political influence within a system varies over time as state structures develop and change (Prechel 1990). The state contributes to outcomes but is only relatively autonomous from class structures (Poulantzas 1975). The state functions as a medium managing class conflict and reducing resistance from the working class (Poulantzas 1975). Although the state preserves the capitalist economic structure, it has a certain amount of freedom from capitalist interests in order fulfill its function managing class conflict. Historical contingency theory views the state from this perspective. The state is viewed as relatively autonomous from the capitalist class and the amount of autonomy the state has varies over time. In contrast to state-centered perspectives of political power, historical contingency theory suggests the expansion of the state does not increase state autonomy. Instead, the expansion of state structures creates more opportunities for the ruling class to pursue their economic interests politically (Prechel 2000). As the state expands, the relations among the capitalist class transform, leading to policy shifts (Liu 1998). The political environment creates constraints and incentives, establishing contingent responses. State structures and the external environment change, and in turn, so do class relations and class cohesion. Over time, who has the most power in the policy formation process changes.

According to historical contingency theory, the historical conditions of the economy and the expansion of state structures affect state autonomy and the policy formation process. In times of economic crisis, the state becomes less autonomous because the capitalist class unifies in times of economic crisis and politically mobilizes to enact policy advancing their economic agenda. In contrast, the state is most autonomous during periods of economic growth because capitalists are able to realize their economic agendas within the prevailing political-legal arrangements. The state also loses autonomy as it expands. After state structures are established, they provide the legitimate basis for capitalist class fractions to advance their economic interests. The expansion of state structure creates new opportunities for capitalists to pursue their respective economic agendas leading to a decrease in state autonomy (Prechel 1990, 2000). The expansion of state policy creates a more complex political structure. As the political structure becomes more complex, it provides political groups with the legitimate means to mobilize and exercise their political power. Historical contingency theory accounts for both the power of the state and the power of class fractions as they vary over time. Political outcomes result from historically contingent state structures and external political coalitions.

3. THE CASE STUDY

3.1 The 1992 Israeli Loan Guarantee Policy

The 1992 Israeli Loan Guarantee Policy is the first U.S. foreign policy attempting to deter Israeli settlements in the Occupied Palestinian Territories (OPT) by linking Israeli foreign aid to its settlement activities. This historical case was selected because it appears to be a unique point of time when the interests of the U.S. executive branch directly conflicted and overrode the interests of the pro-Israel lobby. This outlier case contradicts Walt and Mearsheimer's (2007) theory that pro-Israeli lobbyist group interests determine U.S. policy in the Middle East. By understanding the details of how the political process resulted in this particular outcome, we can better understand how U.S. foreign policy in the Middle East is developed.

The case study was used as the unit of analysis because it is a holistic approach that best analyzes processes and explains a large number of interdependent variables. By using a case study, detailed observations can be made over a long period of time. Case studies maintain high internal validity since they provids an accurate in-depth description and analysis of observed reality (Gagnon 2010). By exploring the details of the political process behind this particular case, we can understand how U.S. foreign policy is enacted.

Archival data was collected from the Bush Presidential Library archives. Archival research has the benefit of representing social processes as they transform over time and location (Hill 1993). Data was extracted from Freedom of Information Act (FOIA) request

2003-0255-F. Archival data emerging from the Bush Presidential Library was utilized because of its accuracy. Government archival documents score highly in Scott's (1990) criteria assessing historical evidence: credibility, authenticity, representativeness and meaning. The archival documents are applied to demonstrate how political coalitions emerged, developed, and evolved while accounting for historical contexts (Clemens 2007). By using archival documents to historically trace the formation of the foreign policy, we can understand how political actors constructed and reconstructed social arrangements leading up to particular political outcomes.

This study implements evenemential historical analysis. Evenemential analysis denies teleological assumptions that history is not contingent as well as experimental assumptions that historical laws lead to the eruption of events. Instead, evenemential historical analysis assumes social relationships are characterized by path dependency. From a path dependence perspective, an event occurring at an earlier moment of time affects the possible outcomes of future events. Therefore, when conducting evenemential historical analysis one must follow sequences of events in order to understand causal mechanisms. By employing evenemential historical analysis, I trace key events to identify how the 1992 Israeli loan guarantee policy came to fruition.

3.2 Proposition One: State-Centered Perspective

If the assumptions of state-centered perspectives of political power correctly apply to this historical case, the state's formation of the foreign policy linking Israeli loan guarantees with settlement expansion was a result of the state, unaffected by the demands of social groups external to the state. The policy can be traced back to the agenda and structures of the state. The foreign policy was established because the state structure and agenda prompted state officials to use their political power to create the policy. If state-centered assumptions of political power best explain this case, state officials were the key players behind the initiation and implementation of the policy and external class segments did not influence the formation of the policy.

3.3 Proposition Two: Society-Centered Perspective

If society-centered perspectives of political power best explain this case, the U.S. foreign policy linking Israeli loan guarantees with settlement expansion was a result of the exercised power of competing interest groups external to the state, unaffected by the state. The foreign policy is not related to the state structure or national interests, but instead is the result of the political actions taken by competing interest groups. If society-centered assumptions of political power best explain this case, interest groups were the key players behind the initiation and implementation of the policy and the structure and interests of the state did not affect the foreign policy formation process.

3.4 Proposition Three: Historical Contingency Theory

If historical contingency theory assumptions best explain this historical case, the

U.S. foreign policy linking Israeli loan guarantees with settlement expansion was a result of both the state structure and the exercised power of external political coalitions. As the state structure expanded, it created opportunities for political groups to mobilize and direct their efforts at revising the policy. The unity of external class segments is not a constant, but varies over time in relation to the changing rates of capital accumulation (Prechel 1990). Changing historical, economic and state structures transformed the political interests and relations among different class segments, leading to the establishment of the policy.

4. HISTORICAL ANALYSIS

4.1 The Rise of Soviet Jewish Refugees and the Power of the Pro-Israel Lobby

As the Cold War came to a close, the USSR loosened its immigration restrictions leading to an increase of Soviet Jewish refugees seeking to flee persecution prevalent in the USSR. By 1988, the U.S. Immigration and Naturalization Service (INS) became overrun by Soviet refugee applications for admission into the U.S. However, as the number of refugee applicants rose, the INS budget was not adequately increased to accommodate for the increased need for services. Rather than mobilizing to increase the budget, state managers initiated efforts to revise its admittance policy of Soviet Jewish refugees (Lazin 2005). These efforts were largely made in response to the efforts of the pro-Israel lobby. The pro-Israel lobby is an ideological interest group made up of a loose network of formal and informal groups and individuals seeking politically pressure the U.S. government to act in the interests of Israel. The pro-Israel lobby was able to form a coalition with the executive branch to limit the number of Soviet Jewish refugees to be admitted into the U.S. and push the refugees towards Israel.

Prior to the change in U.S. immigration policy, Soviet Jewish refugees attempting to migrate to the U.S. were required to go through Accelerated Third Country Processing (ATCP). Instead of applying and being processed at the U.S. Embassy in Moscow, Soviet Jewish refugees had to first obtain exit permission from the USSR. Only then could they leave for Rome to go through ATCP to immigrate to the U.S. In order to obtain exit permission, Soviet refugees had to receive an invitation from a relative abroad. This was problematic for Soviet refugees who wanted to immigrate to the U.S. but did not have familial ties. Soviet refugees who did not have family in the U.S. would obtain an invitation from Israel, which would provide them with permission to exit the USSR. However, instead of immigrating to Israel, where job opportunities were weak, in order to pursue their economic self-interest, the immigrants would instead go to Rome, where they could obtain a refugee visa to immigrate to the U.S. through ATCP. This process created problems for the Israel, which planned to receive the refugees who requested and obtained an invitation to exit the USSR, (Lazin 2005).

In response to issues caused by ATCP, the Jewish Agency and Liaison Bureau mobilized to pressure the U.S. government to cease all financial support for the Soviet dropouts. The Jewish Agency and the Liason Bureau were particularly interested in this issue because they received funds from Israel upon assisting refugee relocation to Israel. This motivated the organizations to put pressure the Department of State to change INS policy by establishing immigration caps and requiring refugees to prove their refugee status (Lazin 2005). The Jewish Agency and the Liaison Bureau began to concentrate their efforts by lobbying the Department of State and executive branch. At the time, the pro-Israel lobby had a strong relationship with the executive branch due to executive branch dependence on Israel for support against the USSR throughout the Cold War. Due to the pro-Israel lobby's relationship and influence on Howard Eugene Douglas, the U.S. Ambassador at Large and Coordinator for Refugee Affairs at the State Department, the executive branch began to question its Soviet Jewish refugee policy (Lazin 2005).

After meeting with the heads of the Liaison Bureau and the Jewish Agency in 1988, Howard Eugene Douglas suspended and eventually closed ATCP. It was also announced the U.S. would be requiring Soviet Jews prove their refugee status by providing concrete evidence of individual persecution and immigration caps would apply. Due to pro-Israel lobbyist pressure on the executive branch, U.S. policy changed from accepting all Soviet Jews, to accepting those proving their refugee status, which lead some Soviet refugees to be denied entry into the U.S. (Beyer 1991). Upon denial of refugee status and rejection of parole into the U.S., many Soviet refugees were forced to immigrate to Israel.

Throughout the Cold War, the executive branch was dependent upon Israeli support to maintain its influence in the region. A total of $45.6 billion in foreign aid was provided by the U.S. to Israel throughout the Cold War (Sharp 2010). However, in November 1989 the Berlin Wall was torn down, establishing the start of the dissolution of the USSR. In response to this contingency, Israeli power in relationship to the U.S. executive branch decreased, as the U.S. was no longer reliant upon Israel and foreign pro-Israel groups to manage the communist threat.

As the Cold War was coming to a close, the executive branch began to question the value of uncontested support for Israel. President Bush and Secretary of State Baker formed an alliance with Senate minority leader Bob Dole to change the structure of foreign aid to more adequately represent the new power relations within the New World Order. In January 1990, Dole proposed a 5% cut to Israeli foreign aid in order to free funds to be spent on supporting the democracies emerging among the decay of the USSR. Shortly after, the Department of State endorsed Dole's proposition. The U.S. Ambassador to Israel, Dr. William Brown, publically announced the standard \$1.2 billion annual allocation of foreign aid to Israel was no longer necessary (Felton 1990a). Republican Senator Bob Dole helped expand the coalition among his fellow members in Congress. Members of the Congressional Black Caucus, Representative Gus Savage and Representative George Crockett, Democrat Senate Appropriations Committee Chairman Robert Byrd, Democrat Chairman of the House Appropriations Subcommittee on Foreign Operations Representative David Obey, and Republican House Minority Whip Newt Gingrich all joined the coalition supporting a limit on foreign aid to Israel (Felton1990a; Felton 1990b).

Nevertheless, support to decrease funds to Israel did not receive widespread traction in Congress. Although the pro-Israel lobby had decreased influence over the executive branch, the pro-Israel lobby still maintained their power in Congress. Many members in Congress relied upon the pro-Israel lobby for re-election campaign support. Immediately after Dole made his proposal, pro-Israel lobbyist groups mobilized politically and pressured Congress to challenge the proposal. This political strategy succeeded as 73 senators signed a letter to President Bush voicing their lack of support for Senator Dole's proposal to decrease funds to Israel (Felton 1990c).

Senator Dole explained public political support was minimized due to fear for repercussions from the pro-Israel lobby on upcoming congressional election campaigns (Rasky 1990). Despite the lack of public support in Congress, the arguments made by Dole had a large scale impact. Major American news agencies began to recount Dole's arguments about Israel's decreased importance after the Cold War. It was reported in the *New York Times*:

> Supporters of Israel in Congress and among Jewish organizations acknowledge that Israel's backing within the United States is not as deep as it once was, reflecting a tangle of factors, like Israel's role in putting down protests on the West Bank and in the Gaza Strip and the perception that Israel is no longer so strategically important, given the fading of the Soviet theat. (Schmidt 1990)

Although historical circumstances shifted dependencies and coalitions causing the Israel and foreign pro-Israeli organizations to lessen its power over the executive branch, in September 1989, Israeli Finance Minister Shimon Peres made a request to the executive branch for $400 million in loan guarantees to manage the increased number of Soviet refugees entering into Israel (Felton 1990c). The request was not endorsed by the executive branch and Senator Dole maintained a coalition against increasing aid to Israel, but the majority of Senate supported the housing guarantees for Israel. On February 8, 1990, the Chairman of the Appropriations Subcommittee on Foreign Operations, Senator Patrick Leahy (Democrat), and senior minority member of the Appropriations Subcommittee on Foreign Operations, Senator Bob Kasten (Republican) introduced Senate Bill 2119 granting Israel $400 million in loan guarantees, among other benefits.

Senate Bill 2119 was supported by the pro-Israel lobby and its friends in Congress. However, pro-Arab lobbyists were strongly against the policy due to Israeli officials stating the funds would go towards building homes in the Occupied Palestinian Territories (OPT). Pro-Arab lobbyist groups were strongly against increased settlement activity as they agreed with the Department of State that the settlements are an obstacle to Arab peace with Israel (Felton 1990c). Pro-Arab lobbyists voiced concern that the needs for the loan guarantees were not due to the humanitarian need for assistance, as expressed by the pro-

Israel lobby, but were instead due to the pro-Israel lobby's efforts to establish immigration quotas:

> The whole "need" for the $400 million in guarantees goes back to the leveraging of the U.S. by Israel. Remember, it was the American Jewish community, the Congress, and U.S. Presidents, not Israel, who lobbied for years to free Soviet Jews. But, then Israel lobbied us for 50,000 quota so that most of these immigrants had to go to Israel only, even though a large majority preferred to come to the U.S. Not only was it morally wrong for the U.S. to acquiesce in this limitation on the freedom of choice, we deprived ourselves of an important, skilled pool of immigrants. (Ellsworth 1990)

However, the pro-Israel lobby dismissed pro-Arab lobbyist claims, saying Arabs oppose all immigration to Israel and are willing to blame Israel for anything to stop Jewish immigration (Felton 1990c).

The push for increased funds to support Soviet Refugees in Israel was achieved over the interests of the executive branch and its small coalition in Congress with the passage of the first Israeli housing loan guarantee policy attached to an act promoted by President Bush to provide funding to the newly emerging democracies in Nicaragua and Panama. The Israeli housing loan guarantee policy was originally established on May 25, 1990 when Representative Jamie Whitten of the House Appropriation Committee sponsored the attachment of S. 2119 to the Dire Emergency Supplemental Appropriations for Disaster Assistance, Food Stamps, Unemployment Compensation Administration, and Other Urgent Needs, and Transfers and Reducing Funds Budgeted for Military Spending Act of 1990 (P.L. 101-302). The Act, introduced on March 27, 1990, appropriated $720 million to Panama and Nicaragua as well as $1.2 billion for food stamps and $400 million to veterans programs. Despite Dole's coalition against increasing aid to Israel, after the act was introduced, only members of the Congressional Black Caucus attempted to delete the funds appropriated to housing guarantees for Israel. The Act was passed in House on April 3, 1990, and passed Senate on April 24, 1990. The conference report was agreed to on May 24, 1990, and the Act was signed into law the next day. Since the Bill was added to an Act supported by the President, he was pressured into signing the Act rather than making use of his veto (Bush 1990).

The approval of the Dire Emergency Supplemental Appropriations Act of 1990 was the largest amount ever guaranteed under the housing program. In order to get the Bill passed, the pro-Israel lobby pressured Congress to lift numerous limits on U.S. loan guarantee policies, including a $100 million annual cap on loan guarantees, a $25 million limit on the amount of loans annually granted to a single country, management fees, requirements that 90% of the funds must go to households with below average income, and a $2.188 billion limit on the total number of loans guaranteed. The loan proceeds did not oblige Israel to spend the funds on U.S. products, nor did they require the funds be spent on low income families in accordance with section 223(j) of the Foreign Assistance Act of 1961. The Dire Emergency Supplemental Appropriations Act of 1990 didn't have specific wording regarding where the funds were to be spent, although it was informally agreed the funds were not to be directly spent in territory Israel occupied after the War of 1967. According to John Felton from Congressional Quarterly Weekly:

> Leahy said he and other members of Congress will want assurances that no U.S. taxpayer money will be used to finance developments in the occupied territories for the Soviet Jews or any other immigrants. But Leahy said he sees no need for Congress to impose formal conditions of the aid because longstanding U.S. policy already addresses the matter. Several administration officials said that every U.S. aid agreement with Israel contains a clause stating that none of the money can be used in the occupied territories. The officials said that Israel could spend its own money in the

> territories and then use the U.S. funds only within the pre-1967 war borders. (February 17, 1990; P 538)

This was in congruence with previous U.S. foreign policy which condemns Israeli settlements. Although not formally stipulated by Congress, Baker reported the executive branch would only release the funds once Israel provided the U.S. with a guarantee it would not spend the funds on settlements. This created a delay between the passage of the law and the distribution of funds. Although the Act was passed on May 25, 1990, the U.S. Agency for International Development (USAID) under the authority of the executive branch did not release the funds until ten months later, after the Department of State received a written guarantee from Israel that funding coming from the loan guarantees would not be spent in the OPT, as well as information from Israel on housing plans and the financial incentives for which the funds would be used. The Israeli housing loan guarantees were approved with the Dire Emergency Supplemental Appropriations Act of 1990 with only the small compromise made between the executive branch and Israel which forced Israel to provide limited information on settlements in the OPT (General Accounting Office 1992).

In conclusion, despite the executive branch led efforts to decrease aid to Israel, the coalition between the Appropriations Committee and the pro-Israel lobby initiated the passage of the Dire Emergency Supplemental Appropriations Act of 1990 with a bill attached providing funds for Israel through guaranteed housing loans. Although the President did not approve of the policy, he signed the Act into law due to his priority of appropriating funds to newly emerging democracies in Panama and Nicaragua. Even though the coalition was unable to stop the loan guarantees from being released without strings attached, the executive branch was able to use its administrative power to delay the distribution of the funds until Israel compromised by providing the U.S. with information about Israeli settlements in the OPT.

4.2 Class Unity Reacting to the New World Order

The development of the loan guarantee policy through the Dire Emergency Supplemental Appropriations Act of 1990 came about with little influence from pro-business groups. However, once the early 1990s recession hit in July of 1990, pro-business groups (including various local chambers of commerce, representatives of Bear Stearns and BMI Capital, the Arab-American Business and Professional Association and the CATO Institute) joined the coalition opposing the housing loan guarantees without pre-conditions for Israel. In response to the 1990s economic recession and scarcity of economic resources, business and finance lobbyist groups began to compete for the dispersion of government funds. Loan guarantees were pursued by Israel for the purpose of obtaining a better interest rate on loans pursued in the private market. Allowing Israel to obtain a better deal on loans than U.S. businesses during the poor economic times caused pro-business groups to organize and question the government on the true value and cost of the loan guarantee policy. The nature of the loan guarantees did not benefit finance capitalists, who financially benefitted from the high interest rates associated with Israeli loans not guaranteed by the U.S. government. Israeli loan guarantees create risk for the U.S. government since they ensure the U.S. is held financially responsible for the loans if

Israel were to default. Although many Senators echoed pro-Israel lobbyist claims the loan guarantees would not cost the U.S. anything, the free-market pro-business business think tank, the Cato Institute, compiled and released information stating the loans could cost U.S. taxpayers up to $800 million (Richman 1991). Standard & Poor's, an American financial service company, even rated Israel with a credit grade of "BBB-" which is the lowest investment grade rate possible (Doherty 1992a).

On top of pro-business groups questioning the Israeli economy, the state also questioned Israel's overall fiscal responsibility. According to a General Accounting Office report issued in February 1992:

> The Israeli government's reliance on subsidies and incentives to encourage developers to build in less desirable locations, including the occupied territories is costly. U.S. and Israel officials estimate that builders may be unable to sell as much as 40 percent of the newly constructed housing units and will probably exercise the government purchase commitments.

The economic downturn prompted pro-business groups to mobilize and seek for resources to be allocated within the U.S. instead of abroad. With these motives they joined the coalition with the executive branch, Dole's coalition in Congress, and pro-Arab lobbyists. The pro-business groups began to contact members within the U.S. government, and expressed their lack of support for Israeli loan guarantees without preconditions. As groups publically questioned the financial responsibility of providing loan guarantees to Israel without pre-conditions, the executive branch's coalition gained political leverage.

As the financial situation made individuals in the U.S. unsure about the financial responsibility of providing Israel with loans without preconditions, local leaders began to criticize the policy. Mayors, the chambers of commerce, and other local leaders began to campaign against the granting of loan guarantees to Israel when the U.S. economy is in turmoil. One mayor wrote in concern:

> I find it totally absurd to loan any foreign country, which at this time I will use Israel's request of a $10 billion loan in their absorption program for new immigrants as a prime example, with the growing number of people being unemployed, the swelling of public aid rolls, and the decay of our own cities; this is becoming very distasteful with the people of America. (Noren, August 13, 1991)

The support of the pro-business lobby increased the power of the coalition against providing loan guarantees to Israel without preconditions. According to a report by Congressional Quarterly (Doherty 1992b):

> Several members of Congress said the administration's hand was immensely strengthened by the intense, election-year backlash against foreign aid in this country, which blunted congressional opposition to Bush's hard line. In meetings with lawmakers on the issue, both Bush and Secretary of State James A. Baker III frequently cited polls showing that the American people overwhelmingly supported the administration's position, according to congressional sources.

Changes in economic conditions transformed the political conditions impacting the loan guarantee policy. As pro-business groups teamed up with the executive branch and its growing number of allies, the public began to question the fiscal responsibility of providing loan guarantees to Israel. Public disapproval of the foreign aid increased the political power of the coalition against providing loan guarantees to Israel without preconditions.

The early 1990s recession led pro-business groups to question not only the fiscal responsibility of the U.S. providing loan guarantees to Israel, but also the fiscal responsibility of the entirety of Israel's economic system:

> But the Israeli economy, a state-dominated economy, is not vibrant; it is virtually stagnant. For a free market economy, immigrants are a boon. For a state-run economy, immigrants are a burden. In Israel, immigrant physicians and scientists are driving cabs and scrubbing floors- when they are employed at all. They are not at fault. What is at fault is a government that spends 80 percent of a wealth created in Israel; that politically controls investment, with all the patronage and corruption that kind of a system inevitably produces; that inflates its money supply for political ends, with devastating consequences for savings; that maintains some of the highest tax rates in the world; and that fosters a near monopoly on labor, with resulting high unemployment. (Beyer 1991:91)

As a result, pro-business groups increased their political pressure on the executive branch, requesting for additional pro-capitalist incentives to be linked to conditions attached to the loan guarantees. After the recession hit, pro-business groups began sending President Bush letters of support for opposing the loan guarantees without preconditions. Board members of both BMI Capital and Bear Sterns came out to voice their support of the president's policy of establishing conditions for the loan guarantees.

Even through there were interlocks between the governing boards of pro-business and pro-Israel lobbyist groups, the two groups differed in their support of the policy. Upon the economic downturn, in many cases class status triumphed over cultural status as businessmen began to support the pro-business lobbyist efforts opposing loan guarantees without preconditions over opposing pro-Israel lobbyist efforts. Jerome Goldstein, board member of both Bear Sterns and the Board of Governors of the American Jewish Committee, even went out to voice support for the policy, describing the policy linking settlements to loan guarantees as "our best course of action" (Goldstein 1991).

Just months after the recession hit, in response to the invasion of Kuwait, the U.S. led a coalition against Iraq, thus igniting the seven-month-long Gulf War. The relationship among Arab countries, the pro-Arab lobby and the U.S. executive branch faced a significant change during and after the Gulf War. As political affiliation and bureaucratic development with these countries expanded, national political alignments transformed. Whereas the development of the policy before the Gulf War was not largely impacted by actions of pro-Arab groups, the loan guarantee policy after the Gulf War displayed significant influence from their demands.

Throughout the Gulf War, the U.S. maintained a coalition of forces to fight in Iraq. Amidst the Gulf War, the Bush Administration was able to maintain an anti-Iraq coalition through the establishment of strong ties with Arab countries by increasing diplomatic relations through the Department of State and National Security Council. This information network, originally established to manage the Gulf War, eventually produced the organizational structure necessary for the countries to mobilize, opening up the opportunity to initiate the Arab-Israel peace process (Ben-Zvi 1993).

Although the opportunity for peace opened up as the Gulf War concluded, Arab countries had a set of expectations before the peace process would be initiated. Pro-Arab groups demanded settlements stop before the peace process started (Palestine Arab Delegation 1991). Because of increased American dependence on Arabs throughout the Gulf War and their necessary diplomatic involvement in the Arab-Israeli peace process, the executive branch of the U.S. government complied with pro-Arab group demands to diplomatically pressure Israel to cease settlement activity.

In March 1991, the Department of State released its findings on settlements in the OPT. The report exposed Israeli government financial support for settlements in the OPT.

Although the findings exhibited proof Israel provided financial support to settlements, it did not demonstrate Israeli violation of the terms of agreement within the Dire Emergency Supplemental Appropriations Act of 1990. Although Israel provided funds to the settlements, it claimed the particular loan guarantees funds were not used for settlements. This issue led Congress to discuss and question the fungibility of the loans: Is providing Israel with loan guarantees freeing up government funds to build on settlements?

During a congressional hearing on February 21, 1991 held by Representative David Obey, Americans for Peace Now, a left-wing pro-Israel group, testified: “the best way for the U.S. to condition the loan guarantees is on Israel’s freezing settlement activities” (Curtiss 1992). The Department of State found U.S. funds opened up Israel’s budget, allowing Israel to allot $82.5 million towards settlements. Additionally, the Department of State recognized Israel’s support for settlements went beyond the verified $82.5 million, claiming Israel furthered its support of settlements by establishing other financial opportunities and incentives for Soviet-Jews to migrate to the West Bank (Department of State 1991). The report concluded there are two major problems with aiding Israel as they expanded settlements: 1) It is impossible to directly link the use of U.S. funds towards Israeli settlements, due to the fungability of funds, and 2) The Israeli budget alone cannot quantify the amount of support Israel provides to settlements since subsistence to Israeli settlements can be found in other non-directly related budget line items (Welch 1991). The findings of the report induced the argument if it were against U.S. foreign policy to support Israeli settlements, loan guarantees and other American funds provided to Israel should be linked to settlement growth.

Just over a month after USAID released the $4 million in loan guarantees in accordance to the Dire Emergency Supplemental Appropriations Act of 1990, Israel's ambassador to the U.S. announced Israel would be requesting an additional $10 billion in loan guarantees without preconditions. As the coalition against providing Israel with loan guarantees without preconditions grew, members of Congress began to voice the desire to decrease the amount of aid received by Israel. Even Senator Bob Kerrey, who was currently running for president in the democrat primaries, voiced support for linking settlements with loan guarantees.

The executive branch took steps to stop the new request for loan guarantees from being provided to Israel without preconditions. Baker met with Prime Minister Shamir requesting Israel delay their formal request for loan guarantees until after the Madrid Peace Conference, but Shamir refused. Despite the lack of U.S. executive branch support for the loan guarantees, Israel continued to plan its budget to include a $2 billion loan from the U.S. One day after the Israeli budget was released, knowing Israel was going to make its request despite the lack of approval of the executive branch, Baker publically appealed to Congress to delay Israel's request once it was made. Baker immediately began to meet with members of Congress to verify their support against the loan guarantees before Israel made its formal request. Due to Baker's efforts, even before Israel made its request, the chairs of both the House and Senate Appropriations committees controlling foreign aid, Senator Leahy and Representative Obey, voiced their support for the President's request to delay the loan guarantees.

On September 6, 1991, Israel formally requested the U.S. provide Israel $10 billion in loan guarantees over the next five years without preconditions. On this same date, President Bush asked Congress to delay Israel's request for 120 days in order to maintain Arab attendance at the Madrid Peace Conference to be held October 30, 1991. President Bush immediately began to make calls to members of the Senate to get support for the delay. House majority leader Tom Foley and Senate majority leader George Mitchell both supported the president's decision to delay the loan guarantees, despite their strong ties with the pro-Israel lobby which supported the immediate implementation of the loan guarantees without preconditions. Senator Ted Stevens, a member of the Appropriations Committee also voiced his support, but informed the President that the bill needed to be stopped in the Senate Foreign Operations Appropriations subcommittee, as he was unsure if Congress would be able to stand up to the pro-Israel lobby during congressional campaign season.

Although congressional support to delay the loan guarantees increased, some members of Congress did not support the President's request to delay distribution of the loan guarantees, voicing their dependence on AIPAC support for upcoming congressional campaigns (McClure 1991). In order to consolidate support, President Bush met with the chairman of the Senate Appropriations Subcommittee on Foreign Operations, Patrick Leahy, as well as Senators Daniel Inouye and Robert Kasten. During the meeting with the Senators, President Bush made a promise that the lack of support for the distribution of loan guarantees was only a 120 day delay and the executive branch would support the loan guarantees after the Madrid Conference.

On September 12, 1991, the Counsel of Presidents of Major America Jewish Organizations held a "National Leadership Action Day" calling for all of their supporters to use the day to lobby Congress for the acceptance of the loan guarantees without preconditions. In response to the challenge made by the pro-Israel lobby, on the same day President Bush held a press conference to publically condemn pro-Israel lobbyist efforts and announced he would use his veto power if Congress approved the loan guarantees. On October 2, 1991, the Senate agreed to delay the request for 120 days.

On October 30, 1991 the Madrid Conference was officiated in coordination with the U.S. and the USSR. The conference marked a starting point for bilateral negotiations between Arab states and Israel. Although Israel attended the conference, Israeli Prime Minister Rabin, supported by his right-wing coalition in the Knesset, refused territorial concessions and would not even discuss Palestinian autonomy of land. Despite the lack of progress towards the discussion of territorial issues, the Madrid Conference was considered a success for the U.S by the global community. The American cosponsored event initiated bilateral talks between Israel and their neighboring Arab countries, providing hope for a peace settlement. Even though many celebrated the Madrid Peace Conference as a success, it was seen as a disaster by right-wing Zionists in Israel, whom feared pursuing peace would require giving up land occupied during the 1967 Six Day War[1].

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[1] Right-wing Zionists in Israel support "Eretz Yisrael" or "Greater Israel" and believe that the state should occupy the land of historical Israel as described in the Old Testament. This includes all land from the Nile River to the Euphrates River.

For the peace process to continue, Arab states at the Madrid Conference demanded foreign powers ensure Israel stops its practice of settlement expansion on the OPT. Arab countries contended if Israel were allowed to continue settlement expansion while negotiating territory borders, it would have no reason to come to a conclusion because by delaying the peace process, Israel would be able to change demographic facts on the ground regarding who resides in certain contended areas. Since the executive branch wanted to be credited with assisting Israel and the Arab states in achieving peace and recognized for its positive influence in the region after the Gulf War, they acquiesced to Arab demands.

The pro-Israel lobby continued to be split in regards to the benefits of a settlement freeze. The left-wing of the American pro-Israel lobby argued a settlement freeze was necessary for the peace process to continue. The right-wing of the pro-Israel lobby argued settlement activities had no relationship to the peace process. However, upon the conclusion of the Madrid Conference, internal politics within the pro-Israel lobby shifted. As both sides made their arguments about the relationship between peace and settlements, some members of the right-wing pro-Israel lobby agreed a settlement freeze was necessary for peace. This led to some right-wing pro-Israel groups to approve of President Bush's loan guarantee policy in hopes for peace. For instance, the American Jewish Congress lobbied in support of the president's policy linking loan guarantees to a settlement freeze in hopes it would bring peace to the Middle East:

> We propose that the Administration consider offering Israel the full $2 billion per year for two years – a total of $4 billion – on condition that there be a freeze on settlements (either publicly or in some other form). That would be an offer no Israeli government would find politically possible to turn down. If it is accepted

> and results effectively in a settlement freeze, the cost will have been well worth it. If it is refused, the Administration will be able to say convincingly that it was prepared to respond generously to a humanitarian request. That is not something it can say now. (The Administration might also be able to leverage its willingness to take certain risks (i.e. generous loan guarantees to Israel before U.S. elections at a time of serious domestic economic constraint for the sake of obtaining a settlement freeze) to urge Arab countries to be more forthcoming in affirming their acceptance of Israel's legitimacy. In combination with the loan guarantees and a halt in settlements, this could increase exponentially the chances for progress in the peace negotiations.) (Siegman 1992)

Due to insurances from both the pro-Arab and pro-Israel community that a settlement freeze would benefit the continued peace process, the executive branch decided to take an even harder stance against settlements. Upon the success of the Madrid Conference, the executive branch announced it would not allow loan guarantees to be released until Israel stopped all settlement expansion and initiated a complete settlement freeze.

Although the President had agreed with Congressmen Leahy, Kasten and Inouye during their September 11, 1991 lunch meeting that he would support the loan guarantees after the Madrid Conference, the executive branch changed its position and refused to consider a policy providing Israel with loan guarantees without preconditions. Emboldened by the shift of political power in their favor, when Congress reconvened after the agreed 120 day delay in February 1992, the executive branch established the precondition Israel freeze settlement construction before the loan guarantees be issued. On February 25, 1992, Secretary of State Baker testified before the House Appropriations Subcommittee to explain and enforce the President's position.

After the executive branch's announcement regarding its opposition to the distribution of loan guarantees without preconditions, AIPAC and its ever-shrinking coalition of pro-Israel lobbyist groups began to push its supporters in the Foreign Operations Appropriations subcommittee to create a bi-partisan negotiation with the executive branch to allow for the loan guarantees to be immediately released. AIPAC began to pressure congressmen up for re-election, including the chairman of the Appropriations Committee's Foreign Operations subcommittee, Senator Leahy, and the subcommittee's ranking minority member, Representative Kasten. Although both of the congressmen had supported Bush's policy of delaying the loan guarantees until after the Madrid Conference, now the conference was over and the 120 day delay had elapsed, they began to press for the loan guarantees to be distributed to Israel without preconditions with the next foreign operations appropriations bill.

By March 1992, the Leahy-Kasten proposal was presented to the President and Congress as a compromise to the President's request for Israel to freeze settlement construction. The pro-Israel lobby backed compromise allotted an immediate $1 billion in loan guarantees to be provided with a deduction of $200 million as a dollar-for-dollar reduction penalty for money already spent by Israel on settlements in 1992. The compromise requested for the other $9 billion be released at a later date with the precondition Israel stop settlement expansion, excluding the natural growth of the settlement population and security settlements in strategic areas of the OPT (U.S. Congress 1992). When presented with the compromise, President Bush claimed he would veto the proposal.

In response to a lack of support from the executive branch in regards to the Leahy-Kasten compromise, Senator Lautenberg drafted a nonbinding Senate resolution in support for “appropriate loan guarantees” for Israel (Doherty 1992c). The nonbinding Senate resolution (Senate Resolution 277) was approved 99-1, with only Senator Robert Byrd voting against it. However, as pointed out by Senator Dole when explaining his approval of the resolution, the draft was loosely worded to the point it could either mean support or opposition for the executive branch’s loan guarantee policy (Doherty 1992c).

Throughout the development of the Bush loan guarantee process, the Israel lobby was split on the connection between foreign aid and settlement growth. Although AIPAC did not support the link, other pro-Israel lobbyists supported the policy. Instead of blaming Bush for causing problems to the peace process and U.S. -Israel relations, they blamed Israeli Prime Minister Shamir for his policy expanding settlements in the OPT (Seliktar 2002). However, not only was the American pro-Israel lobby split on the policy, so were Israelis. The pro-Israel lobby was divided in regards to the perceived benefits of pursuing the peace process. Many Israeli citizens wanted to continue to pursue peace, even if it meant giving up the OPT. However, the Shamir government was held together by Zionist conservatives and others whom opposed giving up land for peace.

After Shamir attended the Madrid Peace Conference, his far-right coalition in the Knesset collapsed and new elections were called. Due to his dependence upon the right-wing parties within the Knesset to consolidate his coalition, during the election campaign, Shamir stressed Zionist ideology and voiced angst in regards to participating in the U.S. lead peace process. On the other hand, Shamir’s contender, Yitzhak Rabin, advocated pragmatism and campaigned to improve Israeli ties with the U.S. by pursuing the peace process on practical, not ideological terms.

Yitzhak Rabin of the centrist Labour party won a clear victory over Shamir on June 23, 1992. Upon solidifying his coalition in the Knesset with left-leaning Meretz bloc and Shas religious party, Rabin conceded to President Bush's demands for pre-conditions (Haberman 1992). On July 19, 1992, the new Israeli Prime Minister Rabin formally announced a halt on new settlement activity.

During the newly elected Israeli Prime Minister's visit to Washington, DC from August 12, 1992 to August 13, 1992, President Bush announced the loan guarantees would be provided to Israel with various pre-conditions. Due to political fragmentation among the pro-Israel lobby and with the political support of powerful capitalist groups, the 1992 Israeli housing loan guarantee policy was established linking Israeli foreign aid to its settlement activities, among other conditions. On September 11, 1992, President Bush sent the recommended legislation to the Senate. Representative Obey introduced H.R. 5368 (1992) without any changes. On October 5, 1992, Congress approved the President's recommended legislation regarding the loan guarantee program as Title VI of the Foreign Operations, Export Financing, and Related Programs Appropriations Act of 1993.

The executive branch's loan guarantee program included numerous preconditions for the distribution of loan guarantees to Israel. First of all, the loan guarantees were linked to settlement expansion, as desired by the Department of State, Arab lobbyists, and left-wing pro-Israel lobbyists and opposed by AIPAC and their supporters in Congress. As requested by the President, in order to maintain executive branch power over the terms of the agreement, according to Title IV- Loan Guarantees to Israel, the President had the power to suspend or terminate all loan guarantees to Israel if Israel were to spend any

Israeli government money on the OPT. Besides providing the President with the ability to stop or postpone the loan guarantees, Title IV also included an automatic requirement any money Israel spent in the OPT should be reduced from the amount of the loan guarantees.

Unlike the Dire Emergency Supplemental Appropriations Act of 1990, due to pro-business lobbyist efforts, Israel was required to pay fees associated with the loan guarantees. Nevertheless, there was some conflict over the amount of fees to be paid. The Office of Management and Budget originally estimated the subsidy cost at 7 percent, but upon improved relations with Israel after Rabin was elected, it later changed its estimate to 4.5 percent. However, the Congressional Budget Office, which makes independent estimates for Congress, estimated the subsidy cost at the much higher rate of 13 percent (Doherty 1992d). Although Senator Leahy downplayed the issue as just a bookkeeping matter since Israel had agreed to pay the full cost of fees associated with the distribution of loan guarantees, the large Congressional Budget Office subsidy estimate required the Appropriations sub-Committee to trim $283 million of their budget authority. In effect, the CBO estimate caused Congress to eliminate some funds attributed to the European Bank for Reconstruction and Development, which provided loans to newly emerging capitalist democracies in the former USSR. The last precondition included in Title IV was also established out of pro-business concerns for the Israeli economy. According to the Israeli Loan Guarantee policy, Israel was required to be consulted on their economic measures such as privatization and deregulation.

One day after Title IV of the Foreign Operations, Export Financing, and Related Programs Appropriations Act of 1993 was approved by Congress, President Bush signed the bill into law, marking the first time U.S. foreign policy attempted to deter Israeli settlement expansion by linking Israeli foreign aid with its settlement activities in the OPT.

5. CONCLUSION

From this analysis, several conclusions can be drawn about how U.S. foreign policy in the Middle East is formed. First of all, it is shown that neither external interest groups, nor the state have complete control in determining U.S. foreign policy in the Middle East. Contradicting the assumptions of state perspectives of political power, foreign policy is neither an independent product of state managers nor is it purely the result of national interests. Although Israeli settlements have always been contradictory to U.S. national interests, it was only once powerful capitalist class fractions supported the executive branch that state managers were able to obtain the power necessary to deter Israeli settlements through financial disincentives. Nevertheless, state managers never had the autonomous power to dictate the policy formation process. Although the executive branch disapproved of the provision of the 1990 Israeli loan guarantees, the foreign aid was provided due to the power of the ideological pro-Israel lobbyist groups. However, during a time of economic decline and war, when capitalist class interests aligned with the interests of the executive branch, the state was able to have the political power to establish financial disincentives to Israeli settlement expansion in the OPT. Although members of the state have influence in determining public policy, their construction of public policy is largely affected by outside forces.

Although the state was not autonomous, it influenced the alignment of competing class fractions. The social groups that held power varied over time in response to historical conditions and previous state policy. Changing state policies, such as transformations in

U.S. immigration procedures, the original enactment of providing housing loans to Israel, entrance into the Gulf War, and the Madrid Conference, impacted class cohesiveness. During the economic downturn of the early 1990s class cohesiveness increased and their interests aligned with the state over the pro-Israel lobby. This variance in state power contradicts society-centered perspectives which view the state as a neutral force negotiating conflict among competing social groups. State managers have interests related to their position within the state. Under the condition their interests align with an external power block, state managers have the power to influence the policy formation process. Just like the state, the pro-Israel lobby is not an autonomous force steering U.S. foreign policy in the Middle East. The power of the pro-Israel lobby to achieve their political interests varies over time. When the interests of the pro-Israel lobby align with the state and capitalist interests, the pro-Israel lobby has increased power. However, when the pro-Israel lobby's interests are contrary to the interests of the state and capital accumulation in the U.S., the pro-Israel lobby has less power. Analysis shows the distribution of political power changes in relation to varying rates of capital accumulation.

The historical analysis demonstrates both state structures and class segments impact U.S. foreign policy in the Middle East. Neither state nor society perspectives of class power fully explain the policy formation process. Evidence indicates a lack of cohesion among class segments and the variation of relationships among class segments over time, depending upon expanding state structures and other historical elements. These findings are consistent with historical contingency theory assumptions that class segments impact policy, the relationship between class segments change over time and the expansion of state structures can influence the relationship and cohesion of class segments.

In conclusion, in order to understand the policy formation process, analysis shows both the power of the state and the power of class segments must be considered within their historical conditions. Analysis cannot focus solely upon the actions of state managers, nor should it only examine the actions of social groups external to the state. Neither national interests nor lobbyist group interests strictly determine political outcomes. This research shows foreign policy is the result of both interest groups and state structures driven by the accumulation of capital. Future studies on U.S. foreign policy in the Middle East should examine how and under what conditions do groups external to the state influence the policy formation process.

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