



Economics in the Israeli-Palestinian conflict

Historical insights from quantitative analysis

Executive Summary

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The views presented in this paper are solely those of the authors and do not necessarily represent those of ODI, the World Bank or any of the member countries.

Why this research

The Israeli occupation of the Palestinian territory in 1967 spurred a conflict which has been spanning to this date with no solution in sight. The conflict (henceforth I-P conflict) has varied greatly in intensity with spurts of intense violence, such as during the first and second Intifadas, along with lengthy periods of low-intensity violence. While political, religious and sociological explanations for the conflict abound, relatively little is known about the economics perspective. That is an important limitation as much of the conflict literature recognizes the key importance of economic factors in modern conflicts.¹ It is also important as increasing attention is devoted to the external support of the Palestinian economy and to the effects of the Israeli occupation on the Palestinian economy.² Do these actions have any impact on the conflict?

A few empirical studies exist that look into economic explanations of the I-P conflict but they mainly focus on a narrow - albeit important - component of the conflict, namely Palestinian suicide attacks inside Israel. However most of the violence in the conflict has been perpetrated inside the occupied Palestinian territory (oPt) through killings, injuries, attacks and arrests. Such violence has defined the intensity of the conflict over time.

We have set out to analyse the determinants of this violence across space and over time (between 1995 and recent years) in order to shed light on the role that economic and non-economic factors have played in the conflict. We have also complemented this analysis with one on the impact of Israeli settlement policy on Palestinian attitudes towards the conflict. This understanding could help the parties involved and the international community alike to make informed choices on what factors to support to effectively advance the peace agenda.

In order to do that we have assembled the most comprehensive dataset to date on violence, repression, and attitudes towards the conflict across Palestinian localities and districts spanning over two decades.³ We have then combined this data with various data on labour markets, socio-economic characteristics, trade and Israeli settlements. Beyond the Israeli-Palestinian context, this research aims to be a contribution to the wider research field on the economic determinants of conflict through the use of new empirical methods and data.

What we found

The analyses – performed in a series of three papers - have yielded a rich set of findings.⁴ We summarise the main ones here and point the reader to the specific papers for the more detailed set of findings and methodological issues:

- 1. Adverse economic shocks to the Palestinian labor markets were important triggers to the violence in the second Intifada.** In particular, reductions in localities' private sector employment induced by lower Palestinian trade with Israel in the second half of the 1990s were associated with higher level of violence in the

¹ See for instance Collier, P. and A. Hoeffler (2004). Greed and grievance in civil war, *Oxford Economic Papers*, 56 (4): 563-96; Fearon, J. and D. Laitin (2003). Ethnicity, insurgency, and civil war. *American Political Science Review* 97 (1), 75–90; and Blattman, C. and E. Miguel (2010). Civil War. *Journal of Economic Literature*, 48: 3–57.

² See for instance World Bank (2013), *Area C and the future of the Palestinian economy*, Washington DC: The World Bank.

³ In particular violence is measured by Palestinian fatalities by Israelis and Palestinian suicide attacks inside Israel; repression is measured by arrests and attitudes towards the conflict are measured through opinion poll surveys and voting behaviour. See [What causes animosity between groups? Evidence from Israeli settlements in the Palestinian territory](#) for a full list of sources/data.

⁴ The three papers are Cali, M., S. Miaari and B. Fallah (2015), "[Does the wage bill affect conflict? Evidence from Palestine](#)"; Cali, M., H. Mansour and S. Miaari (2015), "[Trade, employment and conflict: Evidence from the Second Intifada](#)" and Cali, M. and S. Miaari (2015), "[What causes animosity between groups? Evidence from Israeli settlements in the Palestinian territory](#)".

second Intifada.⁵ In addition a reduction in sectoral exports to Israel increased also the probability of conflict in the Palestinian localities relatively dependent on that sector. This effect is similar to that linking the restrictions to Palestinian employment inside Israel at the beginning of the second Intifada with higher violence during the Intifada.⁶ In both cases a reduction in income increases the willingness of individual to participate in the conflict (in other words it reduces the ‘opportunity cost’ of engaging in conflict activities).

2. **During the second Intifada employment acted as a weak restraint to violence and only in the private sector.** During the second Intifada, private sector employment appeared to have raised the opportunity cost of engaging in conflict and thus it weakly decreased Palestinian participation into the violence. That did not apply to public sector employment as at that time public employees did not risk losing their job if they participated in political action. In fact larger public employment was associated with higher intensity of the conflict during the second Intifada. This positive relation did not carry through after the end of the second Intifada, when there was no relation between public employment and conflict.
3. **During periods of intense violence, economic conditions did not seem to matter in determining Palestinian suicide attacks into Israel.** This finding is consistent with previous studies and point to the importance of other (non-economic) grievances that are likely to matter in that respect.
4. **During the current period of low intensity conflict employment has had little impact on the ongoing violence.** Neither private nor public sector employment have had any robust association with violence after the end of the second Intifada, when the low intensity violence was associated with other factors. That does not rule out the possibility that a sharp drop in employment may cause a new wave of unrest, as in fact the first finding suggests.
5. **The construction of the West Bank wall is the most robust correlate with violence in the post-Intifada period.** This construction has been stimulating pockets of demonstration and violence thus fuelling the resistance to a peaceful resolution of the conflict. In addition it may have caused new grievances through the confiscation and the access restriction to Palestinian land.
6. **Israeli settlement policy has consistently fuelled grievances among the Palestinians at least over the last decade and a half.** The presence and expansion of the settlements have been particularly effective at radicalizing the Palestinians’ attitudes towards the conflict. In particular Israeli settlements reduce Palestinian votes for more moderate factions and increase Palestinian support for violence against Israeli civilians (including also settlers). This radicalization seems to be due to the confiscation of Palestinian land and to the violence against Palestinians associated with the settlements.
7. **On the other hand Palestinian employment in Israel has helped reduce Palestinian grievances. Not only has employment in Israel been associated with lower level of participation in violence by Palestinians during the second Intifada, but there is also reasonable evidence from opinion poll data to conclude that it also induced a more sympathetic view towards Israel. In particular it seems to have reduced the support for violence against Israeli targets among the local Palestinian population.**

⁵ This finding applies only to trade with Israel as that accounts for the vast majority of Palestinian trade. However a large part of trade with other countries is classified as trade with Israel as it goes through Israeli intermediaries. This probably causes an under-estimation of the importance of trade with the other countries to contain violence.

⁶ This finding is based on the analysis in Miaari, S., A. Zussman and N. Zussman (2014), Employment restrictions and political violence in the Israeli–Palestinian conflict, *Journal of Economic Behavior and Organization*, Vol. 101: 24-44.