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# **Hamas: A Social Welfare Government or War Machine?**

Hillel Frisch



**Mideast Security and Policy Studies No. 116**

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**THE BEGIN-SADAT CENTER FOR STRATEGIC STUDIES  
BAR-ILAN UNIVERSITY**

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# Hamas: A Social Welfare Government or War Machine?

*Hillel Frisch*

## EXECUTIVE SUMMARY

Hamas is proud of its reputation for dedication to the public welfare of Palestinians, including provision of a variety of social services. Hamas retains this image despite the fact that it has waged three rounds of warfare with Israel over the past seven years. This study evaluates the veracity of Hamas' claim to concern for Palestinian welfare. It assesses the extent to which the Hamas government has balanced the costs of war-making with the needs of the population it ostensibly serves. It shows that Hamas has failed to engage in true state-building for the general welfare of Palestinians in Gaza, while devoting inordinate resources to building its war machine for conflict with Israel; conflict that visits disaster after disaster upon the population of Gaza. This is a classic case study of the disastrous leadership that has plagued the Palestinian national movement since its inception.



# Hamas: A Social Welfare Government or War Machine?

*Hillel Frisch*

## INTRODUCTION

Hamas enjoys a reputation for being dedicated to the public welfare of Palestinians and to the needs of Palestinian society, and for providing many social services. It retains this image despite its responsibility for a long list of brutal kidnappings and suicide attacks against Israel, and after waging three rounds of military confrontation in the space of seven years. The following study tries to evaluate the veracity of this claim. It focuses mainly on the Hamas government, which ruled Gaza from June 2007 - after wresting exclusive control from the Fatah-dominated Palestinian Authority - up to the establishment of the unity government in the summer of 2014. The study assesses the extent to which the Hamas government balanced the costs of war-making, which throughout history has always exacted considerable cost in blood and treasure from the population waging it, with the needs of the population it ostensibly served.

The study aims to show that the failure to balance between the two - reflected in the disparity between the international community's assessments of the rehabilitation of Gaza after three rounds of violence, and the funds at the government's disposal - was the key reason for the collapse of the Hamas government in June 2014, and is an illustration of failed state-building. The Hamas government in Gaza proved to be one more case study in the disastrous leadership that has plagued the Palestinian national movement since its inception.

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The study opens with a review of the impact of terrorism on Gazans' access to the Israeli labor market, which was the source of the relative prosperity Gaza enjoyed between 1970 and the mid-1990s. It then proceeds to look at the structure of government created by Hamas. A third section analyzes the degree of freedom the Hamas government allowed to key civil institutions, such as the Legislative Council (responsible for oversight of government activities) and civil society organizations, which typically demand government accountability. A fourth section focuses on government allocations to public welfare, compared to military and political allocations. The division of labor between the Hamas government and the Palestinian Authority is included within this analysis. The paper then proceeds to assess the costs of war-making compared to the resources Hamas possessed, and examine the ways in which it allocated these meager sources. This is followed by a section on how well the Hamas government coped with specific challenges facing Gaza such as electricity, fuel, potable water, and sewage management. The study concludes by analyzing the formation of the unity government, the failure of this body to develop into a properly functioning government, and the implications of this failure for Gaza's population.

### **KILLING THE GOOSE THAT LAID THE GOLDEN EGG: HAMAS, GAZAN WORKERS, AND THE ISRAELI LABOR MARKET**

The Hamas movement is frequently portrayed as an organization that has provided important welfare services to the needy segments of the Palestinian population.<sup>1</sup> These services ranged from organizing the *zakat* - the Islamic tithe - to running football clubs. On the eve of the Hamas takeover of Gaza in June 2007, it is estimated that Hamas was expending four to five million dollars monthly on social and welfare programs.<sup>2</sup>

This portrayal overlooks Hamas's decision to engage in political violence, and the human welfare effects of this decision on the Palestinian population. Just as states often face the dilemma of choosing between guns and butter (between war-making and allocating resources to social welfare), and their social welfare record is judged only after taking into account the cost of war-making, so should Hamas's social record be judged only after offsetting the cost of pursuing armed conflict.

Many professional studies in economics and political science have assessed the relationship between expenditures on war-making and human welfare outcomes, and have shown that military expenditures by and large reduce economic welfare.<sup>3</sup> A recent study claims that even in the case of Israel, despite the emergence of a high-tech industry much of which is based on technologies that emerged from military programs, the overall effects are negative rather than beneficial.<sup>4</sup> In the case of Hamas, it is quite clear that the same organization that provided social welfare and charity handouts also generated violence of which the costs, in human welfare terms, were immensely greater than the benefits of its charity. No social outlays or charitable work on Hamas's part could possibly outweigh the impact of terrorism on Palestinian access to the Israeli labor market and on the benefits that Palestinians, especially workers and their families from Gaza, derived from work in Israel.

To gauge the importance of Palestinian employment in Israel, it should be recalled that in the 1980s, before the outbreak of the first intifada, between 40 and 50 percent of Gaza's workforce (45,000 workers) were employed in Israel.<sup>5</sup> Work in Israel accounted for all the net growth of the Gaza workforce during these years.<sup>6</sup> Not only did almost half of the workforce find employment in Israel, but their net wages were appreciably higher than their fellow workers in Gaza, and in Judea and Samaria.<sup>7</sup> Joshua Angrist, an economist from Princeton University, estimated that in 1981 workers from Gaza employed in Israel enjoyed a 17 percent wage premium compared to their counterparts in Gaza itself. The premium declined to zero during the recession years 1984-5, and then increased once again to reach an all-time high of 36% in 1991. The average monthly dollar earnings in 1987 stood at 386 (1987) dollars per worker, or 17.4 million dollars of monthly income, assuming an average of 45,000 Gaza workers employed in Israel.<sup>8</sup> In other words, the welfare benefits of employment in Israel far outweighed the impact of Hamas's charitable activities, even assuming that Hamas expended similar amounts to those it was estimated to distribute 16 years later (four to five million dollars per month), by which time it had become a much more powerful and well-funded organization.

**Table 1: Gaza Labor Force Employed in Israel in Selected Years**

Year	Gazans employed in Israel	Gazans employed in Gaza	Gazans employed in Israel as a percentage of total employed
1986	43,400	49,900	46.1%
1987 (first intifada breaks out at end of year)	46,000	54,100	41.8%
1993	30,300	84,400	26.5%
1995 (major suicide attacks)	17,300	-	
2000 (second intifada breaks out at end of year)	29,800	160,500 (includes Gazans employed in West Bank)	15.3%
2001	2.0	130,000	0.2%
2005	0	-	0
2014	0	264,700	0

Sources:

- Israel Central Bureau of Statistics, *Judea, Samaria and Gaza Area Statistics 1987*, vol. 17, no. 3, p. 35.
- Israel Central Bureau of Statistics, *Judea, Samaria and Gaza Area Statistics 1988*, vol. 18, no.1, pp. 32, 35.
- Palestinian Central Bureau of Statistics, *Labor Force Survey 1987*, no. 2, pp. 126, 127.
- Palestinian Central Bureau of Statistics, *Labor Force Survey July-September 2000*, no. 18, p. 56, <http://www.pcbs.gov.ps/Downloads/book654.pdf>.
- Palestinian Central Bureau of Statistics, *Labor Force Survey October-December 2001*, p. 39, <http://www.pcbs.gov.ps/Downloads/book753.pdf>.
- Palestinian Central Bureau of Statistics, *Labor Force Survey 2005*, p. 33, <http://www.pcbs.gov.ps/Downloads/book1250.pdf>.
- Palestinian Central Bureau of Statistics, *Labor Force Survey Annual Report 2014*, pp.21, 39, <http://www.pcbs.gov.ps/Downloads/book2120.pdf>.

If in the early 1980s, organizations affiliated to the Muslim Brotherhood enhanced residents' welfare, this was no longer the case after the first intifada and the creation of Hamas. From the first intifada onwards, one

sees a direct relationship between organized violence, increasingly carried out by Hamas, and the decline of access to the Israeli labor market. The overall picture seen in Table 1 is that the flow of Gazan labor into Israel was repeatedly curtailed during peak periods of terrorist activity, and that each time it was resumed, this was at an incrementally decreased level.

The first precipitous decline took place in 1990-1 after the first Hamas kidnappings and the murder of an Israeli border police officer, which led for the first time to limitations being placed on the inflow of Gazan labor to Israel. The percentage of the Gazan workforce employed in Israel dropped from 41.8 percent to 26.5 percent by the end of the first intifada (see table 1).

The second, much more severe stage - in 1995 and 1996 - took place after massive suicide bombing attacks on buses and public places between 1994 and 1996 killed nearly 100 Israelis. These events included the killing of seven Israelis and one US citizen on April 9, 1995, when a bus was hit by an explosives-laden van near Kfar Darom in the Gaza Strip, an attack for which the Islamic Jihad claimed responsibility. In response, and after it was discovered that the perpetrators came from Gaza, Israel reduced the number of Gazan workers allowed to work in Israel down to 17,500. It should be noted that the source of this attack explains why the limitations on labor flow imposed on Gaza were far greater than those imposed on the West Bank.<sup>9</sup>

Access to employment in Israel continued to be curtailed in the wake of several other attacks. Six civilians were killed in a suicide bomb attack on a bus in Ramat Gan on July 24, 1995. On February 25, 1996, a suicide bomber set off an explosion that killed a hitchhiker outside Ashkelon, and Hamas claimed responsibility for the attack. Soon afterwards (March 4, 1996), a suicide bomber detonated a 20-kilogram nail bomb outside Dizengoff Center in Tel-Aviv, which killed 13.

Even when restrictions were lifted, the labor flow from Gaza never attained the levels it had reached in the 1980s (15.3 percent of the total Gaza workforce in 2000, compared to 41.8 percent in 1987). The shortfall was made up increasingly by laborers from Asian states such as Thailand, who posed no security threat to Israeli citizens.

A third, and more severe stage was reached with the outbreak of the second intifada in September 2000. The flow of labor from Gaza to Israel was halted in 2001 with the renewal of suicide bombing, and from 2005 ceased altogether. Gazans' access to the Israeli labor market, a central feature of Gaza life since 1969, came to an end.

The consequences of this lack of access for Gazan workers were considerable and pernicious, especially for those in unskilled and semi-skilled jobs. Many of these were unable to find work in the burgeoning Gazan public sector, related to the establishment and expansion of the Palestinian Authority bureaucracy and its security services, because such employment usually necessitated a high-school diploma. An economic simulation conducted by Wifag Adnan, comparing the period before the second intifada with the period after complete closure in 2007, found that the economic impact of the closure was equivalent to a decrease in real domestic wages by 64 percent. His model also validates his hypothesis that those most hurt were the unskilled and the young.<sup>10</sup> Adnan's findings are indirectly confirmed by evidence of a growing wage premium among workers from the West Bank, between those employed in Israel and those employed in the West Bank; this, because the flow of workers from Gaza to Israel effectively ceased during the second intifada. In 2005, workers from the West Bank earned 65.4 shekels in the West Bank, and Gazan workers earned 57.7 shekels working in Gaza; the wages earned by those working in Israel and Israeli settlements (NIS 134.6) were more than double these amounts.<sup>11</sup> A similar premium prevailed eight years later, at least, comparing the wages of West Bank workers employed in Israel (NIS 167.6) with those of workers in Gaza (NIS 65.2).<sup>12</sup>

The impact of restricting labor mobility from Gaza in the wake of Palestinian violence dovetails with broader findings in the economic literature. These show that restrictions on labor mobility across regions reduce social welfare and curb economic growth, by misallocating labor and increasing inefficiency.<sup>13</sup> Hamas war-making compelled Israel to reduce labor flows from Gaza, which has reduced drastically Palestinian welfare on a scale that could not possibly be offset by the charity and social services Hamas has provided.

## **TRADE DIVERSION, TUNNEL REVENUE, AND THE HAMAS ROLE IN THE SIEGE OF GAZA**

No sooner did Gaza's inhabitants suffer the impact of curtailed access to the Israeli labor market in the 1990s, than they had to face, from 2001 onwards, the pernicious effects of the trade diversion conducted by violent means by Hamas and other Gaza organizations, in search of revenue. Countless articles have attacked the government of Israel for the supposed siege of Gaza it imposed after the Hamas takeover of Gaza in June 2007 and the establishment of the Hamas government. According to many human rights organizations, this "siege" is responsible for an almost perpetual humanitarian crisis in Gaza (an unfathomable assessment in itself, given an average life expectancy in Gaza of over 74 years, which is higher than half the states around the world).<sup>14</sup> Overlooked is the critical role of Hamas and other violent Palestinian organizations in reducing trade between Israel and Gaza, in favor of Egyptian-Gazan trade through tunnel smuggling, which financed these organizations at the expense of the welfare of Gaza's inhabitants. Essentially, Hamas and other Palestinian violent organizations imposed a siege on Gaza's inhabitants long before the takeover, and proceeded to maintain and deepen it once the Gaza government was formed in 2007.

The most prominent reflection of this trade diversion were the frequent attacks on the Israel-Gaza border crossings, which were manned by Israeli authorities and the PA's Preventive Security Force. The incentive to attack an important artery of economic and civilian life for Gaza inhabitants was both economic and political. Economically, Hamas and other violent organizations sought to divert the trade flow between Israel and Gaza to tunnel smuggling between Egypt and Gaza, which enabled them both to impose fees on others, and to sell smuggled goods that were subsidized in Egypt. Again, this practice began long before the takeover in 2007. From a political perspective, during the second intifada Hamas sought to deprive the Palestinian Authority - and its hated security forces, which Hamas frequently dubbed "death squads" - of revenue accrued from the value-added tax (VAT) that Israel collected on its behalf on goods imported into Gaza through Israel. From Hamas's perspective, this revenue provided the salaries of the PA security forces which suppressed Hamas and other rival organizations.<sup>15</sup>

Attacks on the Israeli-Palestinian crossings and - from November 2006 up to the Hamas takeover - on the Egyptian-Palestinian crossing in Rafah were closely linked to the burgeoning tunnel smuggling trade. All five Israeli border crossings were attacked, with the frequency of the attacks on each crossing being closely related to its importance in Israeli-Gaza trade. Thus, the Karni (in Arabic, Mintar) border crossing situated just west of Gaza City, Gaza's main market and center of production, was attacked so often that in 2006, a year before the Hamas takeover, it was closed for 141 days for security reasons. In the gravest incident, in January 2005 five Israelis were killed after Hamas operatives dug a tunnel into the border crossing area.<sup>16</sup> The attacks served their purpose. The number of trucks crossing the border dropped from 144,364 in 2003 to 52,211 in 2007. The Nahal Oz fuel depot nearby, through which Gaza received most of its energy needs, was also a frequent target.<sup>17</sup>

The Hamas government's tenure in office only led to an intensification of these attacks, so much so that the Karni border crossing closed altogether in March 2011 after being subjected to missile and mortar attacks on an almost daily basis. It should also be noted that Palestinians were frequently victims of these attacks as well.<sup>18</sup>

So intent were Hamas and other organizations on diverting overland trade to the subterranean route that the attacks even included the Egyptian-Gaza Rafah border crossing, a crossing whose existence Israel initially opposed for security reasons. It was only under relentless pressure from the United States that Israel relinquished its control over this trade route, through the Kerem Shalom border crossing, as part of an international agreement. The new border crossing was operated by the Palestinian Authority and monitored by on-site European observers; according to the agreement, the border crossing could only operate in their presence. Movement was brisk for the first nine months after the border crossing opened in November 2005. But the situation changed radically after June 25, 2006, when Hamas gunmen infiltrated Israel from the Gaza Strip, killed two Israeli soldiers, and kidnapped a third, Gilad Shalit.<sup>19</sup> Israel responded by closing the Kerem Shalom border crossing through which the European monitors reached the Rafah border crossing. But the problem was hardly technical. Hamas's violent breach of the Egyptian-Palestinian border in July 2006, and

its subsequent - albeit temporary - takeover of the Rafah border crossing, demonstrated the dangers that the European monitors faced. Throughout the following months, the border crossing remained closed most of the time. Subsequent fighting between PA security forces and Hamas fighters close to the border crossing led to its total closure on November 26, 2006, nine months before the Hamas takeover.<sup>20</sup>

The very partial budgetary data released by the Hamas government reveals indirectly the importance of smuggling revenue for Hamas. Hamas government budgets since 2009 indicate local revenues amounting to 200 million dollars, while expenditures have averaged 500 million. According to Harriet Sherwood and Hazem Balousha of the *Guardian*, most of these additional funds came from smuggling.<sup>21</sup>

A substantial part of this smuggling revenue derived from hefty profits from smuggling highly-subsidized Egyptian oil and gasoline, which probably explains the attacks on the Nahal Oz fuel depot at the Karni crossing, through which energy supplies from Israel entered Gaza. The price of gasoline in Egypt in 2012 was one-third of the international price, representing a 63 percent subsidy. In contrast, gasoline from Israel was sold at the international price. This very considerable differential enabled Hamas to enjoy hefty profits from either directly smuggling Egyptian-subsidized gasoline, or by imposing fees on the smuggling activities of others. According to Nicolas Pelham, it was the Hamas organization, rather than the government, that both collected and benefited from the taxes on smuggled goods. He points out the irony involved: “While [Gaza] government officials campaign for the lifting of the siege, Hamas operatives in Rafah have a financial stake in keeping the tunnel traffic moving.”<sup>22</sup>

The negative impact of this trade was hardly limited to Gaza. Inhabitants of Egyptian Northern Sinai complained bitterly of gasoline shortages due to fuel smuggling activities into Gaza. Interestingly, the price on the black market in northern Sinai was the international price (11.25 Egyptian lira per liter), three times higher than the official rate (3.75 Egyptian lira) at the filling stations. This means that the smugglers in the chain, among them Hamas, enjoyed a 66 percent markup at the expense of the Egyptian taxpayer, and at no net benefit to the Gazan consumer. The vastness

of the smuggling project was confirmed both by Egypt's South Sinai security director Major-General Mohammed al-Hefnawi, and by the general supplies director of the North Sinai province, Tharwat Afifi.<sup>23</sup>

The Hamas government has also employed other means to extract revenue from smuggling. According to Norwegian researcher Are Hovdenak, Hamas, through the Rafah municipality it controls, has imposed license fees on those who dig and operate tunnels.<sup>24</sup>

Attacks on the Israeli border crossings to divert trade away from Israel did not prevent the Hamas government from contributing to the "siege" on Israeli-Gazan trade itself. Despite the Hamas takeover and suppression of organizations linked to Abbas' Palestinian Authority, it still allowed Ramallah-loyal officials to staff the border crossing on the Palestinian side of the Israel-Gaza border. But Hamas then established a checkpoint along the main road leading from the al-Karmi crossing. Import companies were obliged to register their imports at this checkpoint and forced to pay a 14.5 percent value-added tax. For the Gazan consumer, this meant paying a combined VAT of 30.5 percent, since the Hamas-imposed levy came on top of the VAT collected by Israel - on behalf of the Ramallah-based government - on imports through Israel, as part of the economic agreement signed during the Oslo process.<sup>25</sup> The double tax, of course, contributed to trade diversion. Thus Hamas both helped create the "siege" and benefited from it, at the expense of the inhabitants of Gaza.

## **THE HAMAS STRUCTURE OF GOVERNMENT**

Hamas supporters could argue that, however grievous the social welfare impact of Hamas rule on Gaza's inhabitants, this was offset by the emotional gains of living under full Palestinian rule for the first time in the 90 years of Palestinian national struggle. Unlike areas controlled by the Palestinian Authority, Gaza has been totally free of an Israeli presence since 2005, and under Hamas rule since 2007. Of course, the strength of this argument depends on the meaning of political independence and freedom. Does it mean formal independence, or does it refer to the quality

of freedom the Hamas government provides its “citizens”? If the answer is the latter, the Hamas government has been a disappointment. Both the Ramallah and Hamas governments resemble the authoritarian Arab regimes that the civil revolts in 2010 (and afterwards) tried to replace, with little success.

Authoritarianism has characterized the Hamas government from the top down. The cabinet, cast as the “Council of Ministers” by the official website of the Gaza government that paralleled the Abbas government site, consisted at first of five Hamas ministers from Gaza from the preceding National Unity Government, and six other appointees who replaced Hamas ministers in the former government.<sup>26</sup> (The ministers replaced resided in the West Bank and could no longer fulfill their duties in Gaza.) These ministers also took charge of ministries headed by other factions, principally Fatah, who continued to hold office in the West Bank. Thus, for example, Ismail Haniyeh not only served as prime minister, but was also responsible for the two key portfolios of finance and foreign affairs. All the ministers were known Hamas members or adherents. In the absence of elections, the government in Gaza became a one-party state, just like its Abbas-led counterpart in the West Bank.

Growing authoritarian uniformity characterized the ministries as well. Hamas loyalists took over key management-level positions even in those ministries in which some of the previous employees, such as the health and education sector, continued to work. Ironically, prolonged strikes in the public sector, organized by Fatah at the Abbas government’s bidding soon after the Hamas takeover, facilitated Hamas government control over the ministries. Hamas justified hiring new staff on the grounds that continued abstention from work by existing employees threatened the collapse of critical public services. Although many employees confirmed that they were indeed allowed back to work after the strike ended, this was not the case for managers and for key administrative staff, who were systematically removed from their positions or offered other, more minor posts.<sup>27</sup> The Hamas government also struck at the grass roots of political power by removing municipality councils controlled by Fatah and replacing them with appointed councils consisting of Hamas members.

Nowhere was Hamas's exclusive control more pronounced than in the security sector it created. The newly-formed Ministry of Interior and Public Security became an exclusive Hamas domain. Over the course of the following seven years, the ministry hired approximately 20,000 to 30,000 security personnel, drawn almost exclusively from the ranks of the Izz ad-Din al-Qassam Brigades, the terrorist arm of Hamas.<sup>28</sup> Officially, those hired were usually designated as civil police, but clearly, given the low crime rates in religious and conservative Gaza society, most were Izz ad-Din al-Qassam members who either belonged to the Internal Security Apparatus that operates against domestic opposition, or who served in the Izz ad-Din al-Qassam Brigades in their war against Israel.

Critical to the Hamas government is the close relationship that prevails between it and the Hamas organization. The organization is the major economic beneficiary of the government's fiscal policies, either through tunnel revenue, or from its monopoly over the import and retail sale of cigarettes, or from the al-Multazim insurance company it created to insure all government cars. According to Yezid Sayigh, in an otherwise complimentary analysis of Hamas, "the revenues from these various activities and enterprises accrue to Hamas, not to the government treasury."<sup>29</sup>

The Hamas government's record in human rights has also reflected its subservience to the aims of the Hamas movement rather than to the interests of the Gazan public. Only two newspapers have enjoyed completely free circulation in Gaza since June 2007: *Felesteen*, published by Hamas, and *al-Istiqlal*, published by Palestinian Islamic Jihad.<sup>30</sup> Mustafa Ibrahim, a researcher for the Independent Commission for Citizens' Rights, a human rights organization linked to the Abbas government, described the Hamas government in 2013 in the following way: "The government exercises repression and tyranny against the citizens. The police and security agencies exercise violence in various forms, from illegal detentions to restrictions on civil liberties and expression."<sup>31</sup>

Little wonder then that Freedom House, in its detailed evaluation of the Hamas government in 2015, ranked Gaza as "not free," and awarded it the uncomplimentary score of 6.5 - one grade above the worse accorded to states such as Iran and North Korea.<sup>32</sup> The inhabitants of Gaza might be free of Israeli rule, but they are a long way from achieving liberty.

## **AN UNACCOUNTABLE GOVERNMENT: HAMAS, THE LEGISLATIVE COUNCIL, AND CIVIL SOCIETY**

As a general rule, governments that are accountable to free parliaments, a free press, and civil society organizations provide economic welfare efficiently and at low levels of corruption. Governments unrestrained by such institutions are typically characterized by low levels of economic welfare and by high levels of corruption. The Hamas government clearly fits the latter category.

Parliaments are invariably key institutions in making governments accountable and their activities transparent. This cannot really be said of the Palestinian Legislative Council, which under Hamas rule was essentially a one-party legislature. To recall, in the January 2006 elections Hamas, participating for the first time in elections to the PLC, won by a landslide to secure 74 of a total of 132 seats.<sup>33</sup> Yet no sooner had it won the elections and established its government, than the PLC was undermined by President Abbas (who had won another term of office in presidential elections a year earlier) and the Fatah faction he headed. The decision of the Hamas government to establish a separate security force under the Ministry of Interior in April 2006 (called the Executive Force) was bitterly opposed by Abbas and Fatah. When the legality of this decision was affirmed by the Hamas-dominated PLC, the Fatah faction responded by refusing to attend future sessions of the Council. Thus the PLC, as a representative parliamentary body with oversight of the government, was paralyzed long before the Hamas took exclusive control over Gaza in June 2007.<sup>34</sup>

It was hardly surprising then that the PLC continued to hold session in Gaza even after it formally became a one-party legislature, following the Hamas takeover. The use of video technology enabled the participation of the 26 Hamas members residing in Abbas' PA, and these were joined by one Gaza-based independent.<sup>35</sup> However, arrests of Hamas members of the PLC carried out by the Israeli security forces, and other forms of harassment by their PA counterparts, have severely curtailed their participation in PLC activities. In the PA itself, Abbas has of course refused to acknowledge the Legislative Council in Gaza, and rules instead by presidential decree.<sup>36</sup> Hamas in turn, considers

these decrees constitutionally invalid, since formally his term of office expired in January 2009.

A one-party legislature has hardly been conducive to legislative output or oversight, and both have been particularly scarce. The Gaza PLC passed only 14 new laws between June 2007 and the summer of 2010, and reached a total of only 42 by May 2013 (the latter figure also includes four laws enacted in early 2006, before the split between Hamas and Fatah).<sup>37</sup> These are meagre results compared with the output of functioning legislatures (the comparison looks even worse for the Legislative Council in the West Bank, which ceased to legislate altogether). As an example, the Republic of Eire's national legislature (the Dail) ratified on average 35 laws a year from its inception in 1949 to 2000.<sup>38</sup>

The Legislative Council in Gaza showed greater alacrity in fighting Abbas. Its first act was to cancel all the decrees issued by President Abbas following the Hamas takeover in Gaza.<sup>39</sup> It should be pointed out that most Palestinian human rights organizations oppose both Abbas's presidential decrees and Hamas law-making, on the grounds that to recognize them consecrates the partition between the two entities.<sup>40</sup> One could argue that this nationalist stance comes at the expense of the public's welfare, given the need to legislate in order to cope with changing circumstances.

A careful reading of *Al-Barlaman*, the official organ of the Gaza-based Legislative Council, reveals that its chief line of business is declaratory - defending the acts of the Hamas government, denouncing both Israel and the Abbas government, and promoting ties with the outside world. There is little evidence of ministers coming under scrutiny, or of investigation into the action or inaction of the government over the pressing issues that preoccupy the public and the press (which itself is Hamas-controlled), such as potable water, sewage, electricity shortages, and the price and availability of cooking oil.

Clearly, Gaza's local inhabitants do not perceive the Legislative Council as an institution that redresses grievances. Though the official site urges citizens to submit complaints, as of June 2015 only 14 have appeared to have done so since 2009, which is the earliest date such a complaint was filed.<sup>41</sup>

Nor could Gazan society expect that the judiciary would act to make government more accountable or transparent. The Gaza judiciary was completely revamped after officials and judges left their posts at the bidding of the Abbas government, which continued to pay their salaries. Their departure effectively paralyzed the judiciary for several months in 2007 and 2008. Hamas responded by dismissing the judges, the prosecutors, and the attorney general, and appointing replacements in other senior positions in the judicial bureaucracy.<sup>42</sup> It also established the High Justice Council, a parallel institution to its Ramallah-based counterpart, which oversees the functioning of the courts.<sup>43</sup>

## **RIVALRY AND SYMBIOSIS: THE HAMAS GOVERNMENT AND THE PA**

Public service delivery in Gaza was complicated by the tortuous relationship between the Hamas government and its Ramallah counterpart, which contained elements of rivalry, symbiosis, and dependency. The dependence of Hamas on the PA's economic wherewithal is a particularly noteworthy feature: for every dollar the Hamas government spent in Gaza, the Abbas government spent at least three (a total of 1.4 billion dollars in PA expenditures, compared with 300-400 million dollars for the Hamas government).<sup>44</sup>

The symbiotic yet highly-troubled relationship between the two governments was all too evident in the heated controversies over the obligations of the unity government formed in August 2014, and its failure to pay the salaries of employees hired by the Hamas government between 2007 and 2014. In response to a remark from former prime minister Haniyyeh, who denied that the PA spent 55 percent of its revenue in Gaza, the PA's Ministry of Finance responded that "it spent no less than 47 percent of its budget on Gaza."<sup>45</sup> Most of this was expended on the 63,000 security personnel belonging to the PA. Other funds were spent on 7,000 employees in other ministries (most of whom refrained from work), and the remainder went to released security prisoners, families of terrorists, and those with injuries and disabilities caused by Israeli-Palestinian confrontations.

According to the Ramallah-based Ministry of Finance, 70 percent of Ministry of Social Welfare expenditures, and 50 percent of spending on infrastructure and development, were devoted to Gaza. Hospitalization costs of Gaza residents in external facilities likewise came to half of the total PA expenditures in that area. The ministry also claimed that it paid NIS 55 million monthly to the Israel Electric Company for electricity provided to Gaza, and had spent 300 million dollars since 2007 underwriting the costs of Gaza's power plant.<sup>46</sup> Overall, the Ministry claimed that Gaza received favorable treatment; even though Gaza held only 39 percent of the total Palestinian population, it accounted for over 47 percent of the expenditures of the PA government.<sup>47</sup> Paying the salaries of its 70,000 Gazan employees amounted to approximately 80 million dollars, almost double the total expenditures of the Hamas government.<sup>48</sup> Again, it was only due to the bitter arguments that emerged after the establishment of the unity government in August 2014, over payment of salaries to government employees hired by the Hamas government, that these basic facts (not always consistent) came to light.

These claims are severely contested by Hamas leaders. In a meeting of the Hamas-dominated Legislative Council held in April 2015, council member Yihya Musa al-'Ibadsa claimed that total expenditures of the PA in 2015 amounted to 4.2 billion dollars, of which on a proportional basis, 1.6 billion, or 140 million monthly, should have been expended in Gaza. Instead, according to his assessment, the PA spends 70–75 million dollars monthly on Gaza, with the remainder “invested in preserving the division [between Hamas and Fatah].”<sup>49</sup>

A functional analysis of the impact of the takeover in each ministry tends to substantiate the reliance of the Hamas government on just those ministries with a significant social impact, an area in which the Hamas movement had supposedly been traditionally strong. According to Hovdenak, Ramallah continued to pay the salaries of most of the Gaza employees in the social affairs, health, and education ministries.<sup>50</sup>

## **EXPENDITURES, WAR-MAKING, AND HUMAN WELFARE**

Assessing the Hamas government's performance on human welfare is a difficult exercise, due to its persistent and probably deliberate failure over seven years of rule to provide detailed budgets or expenditures, or a breakdown of government employees by ministry. Instead, it made do with providing general budget and expenditure figures that were publicized in the Legislative Council newsletter, and which the Legislative Council approved after receiving the finance minister's report on the budget.

A prominent Palestinian economist, Mazin al-'Ugala, noted the deficiencies of this system:

“The problem is not the appraisal of the budget, but rather the challenge is to present a detailed and transparent budget which clarifies revenues and expenses, rather than making do with publishing budgets for media purposes that do not reflect professional knowledge or financial planning.”<sup>51</sup>

However, for all the deficiencies of the budget and expenditure data that the Hamas government has made public, these data reveal beyond doubt the extent to which the Hamas government was devoid of any social vision, and made no contribution to social welfare beyond the welfare of the employees it hired. In the last budget report the Hamas government released for the 2013 fiscal year, it reported that in the first nine months of the year, 78.7 percent of total government expenditures (274 million out of 348 million dollars) were spent on the salaries of the 42,000 employees the Hamas government had hired since 2007.<sup>52</sup> By way of comparison, wages and salaries account for 25% of total government expenditures in Egypt, which in itself is high in comparison with other states with Egypt's profile. Only 39 million dollars (11.2% of total government expenditures) were spent on social transfers, which have a social welfare component and which typically form the largest part of a developing state's budget. If we once again take Egypt, the largest share of government expenditure is on subsidies and social transfers.<sup>53</sup> The Hamas government spent 28 million dollars (eight percent) on operating costs incurred by the ministries over the course of the year, while a mere seven million dollars (two percent

of total expenditures) were spent on development. Clearly the major business of the Hamas government was to provide its hard core support with jobs, rather than to enhance the welfare of Gaza's inhabitants.

The marginality of social welfare is also reflected in the little data we have on government employment. Before the takeover, the Ministry of Social Affairs had 817 employees. After the crisis of June 2007, 89 remained in their positions, while the remainder preferred to remain loyal to Ramallah and stayed at home. In response, the Gaza government hired 238 employees, and thus overall the ministry had to make do with considerably less than half the staff it formerly employed. The situation in the Ministry of Transportation was even worse. Before the takeover, it employed 800; afterwards, 26 remained, and were supplemented by 110 new employees.<sup>54</sup>

This is not to deny that a focus on internal security and on the restoration of public order had some positive consequences for public welfare. Hovdenak cites an official in the Gaza Ministry of Local Government who claimed that the Hamas-appointed municipal councils had improved tax collection, from previous rates of 15–20% of taxes owed, to 60–70% collection rates by 2009. The improved rates of tax collection enable local councils to pay employees their salaries, and even to repay debts incurred to suppliers and contractors.<sup>55</sup>

## **ASSESSING THE SOCIAL COSTS OF HAMAS WAR-MAKING**

Few regimes since World War II have been as bellicose as the Hamas government. In its insistence on “resistance” in pursuit of the destruction of the State of Israel, it has launched over 8,000 missiles against population centers in Israel (either directly or through affiliated groups), and waged three major rounds of major conflict with Israel: the first in the winter of 2008-9, the second in 2012, and the third in the summer of 2014.<sup>56</sup> The temporal intensity of these rounds of conflict in the course of less than seven years has no parallel in the century-long Arab-Israeli conflict.

The temporal effect is compounded by the geographic dimension: Gaza, a strip of land of 360 square kilometers, is smaller than 60 metropolitan

areas in the United States. We have seen in the previous section how welfare expenditures took a back seat to Hamas's regime maintenance and providing jobs for its cadres. The expenditures on the welfare of the Gaza population pale even more in comparison to the costs of Hamas war-making, with the overwhelming proportion of damage caused by conflict (when comparing the Israeli and the Arab sides) being borne by the civilian Gaza population.

### *The Cost in Human Life*

During the seven years that Gaza was governed by Hamas, its small population suffered casualties of a magnitude and intensity unprecedented in previous confrontations between Israel and the inhabitants of Judea, Samaria, and Gaza. According to the various estimates, somewhere between 1,166 (Israel Defense Forces figures) and 1,440 (Palestinian Ministry of Health figures) Gazans were killed in the war that straddled the end of 2008 and the beginning of 2009.<sup>57</sup> In the second, briefer round in 2012, there were between 155 and 177 casualties; and in the third and longest round to date, the number of deaths ranged between the IDF assessment of 2,140 and the Palestinian Ministry of Health figure of 2,310.<sup>58</sup> All told, these figures indicate a casualty rate in the course of seven years that exceeded all casualties incurred in Gaza over the preceding period of twenty years, from the outbreak of the first intifada onwards.<sup>59</sup>

Not only have these rounds of conflict taken a severe human toll, but the morale of the Gazan population has plummeted as it faced - almost alone - the costs of Hamas war-making. In the previous rounds of conflict, during the first and second intifadas, the suffering endured was more or less proportionately shared between the Arab inhabitants of Judea and Samaria, and those of Gaza. Since the end of the second intifada, and especially since the Hamas takeover in 2007, the overwhelming brunt of the Israeli-Palestinian conflict has been borne by the Gazan population. Gaza is home to only 40 percent of the population in the territories, yet it has suffered more than 95 percent of the casualties during this period. All three rounds of conflict have been characterized by an absence of solidarity on the part of West Bankers, but most painfully during the third

round, since the escalation that led up to it was ignited by the murder of three high-school students in the Jerusalem area by Hamas terrorists from the southern West Bank, rather than in Gaza.<sup>60</sup>

Yet it was the Gazans, rather than the population in the West Bank, who almost exclusively suffered the painful consequences of that escalation: a fifty-day campaign, the longest in the history of the Arab-Israel conflict and the most geographically concentrated. Little wonder that even the Jihadi Salafists, who express obeisance to the Islamic State in their conflict with Hamas, acknowledge that the Gazan public does not want another round of war (although another round might yet be generated by the launching of rockets as part of the internal feud between Hamas and the Jihadists).<sup>61</sup>

### ***Assessing the Material Costs of Hamas War-making***

To assess the net welfare impact of the Hamas government on Gaza's inhabitants over time requires offsetting the costs incurred against the net welfare benefits that Hamas, in its incarnations as both as an organization and a government, presumably expended on the Gazan population. Hamas could argue that the costs of war-making were partially borne by the international community, which compensates the Gaza population for their losses. After the third and most bitter third round in 2014, international donor states convened in Cairo in October 2014 and pledged 5.4 billion dollars to budget support and rehabilitation. However, the problem with pledges is that they are not always honored, and that the sums given also include existing commitments and ongoing disbursements.<sup>62</sup> Actual disbursements, then, can be appreciably less.

We can estimate what the disbursements are likely to be on the basis of an aid conference convened in Paris on December 16, 2007. At that time, the international community pledged 7.4 billion dollars to be spent over three years in both the West Bank and Gaza. The donors hoped that their generosity, considerable by international standards, would stave off economic disaster and help create the Palestinian state.<sup>63</sup> However, actual aid disbursements fell far short of the mark. According to Global Humanitarian Assistance (GHA), a think tank dedicated to monitoring

aid flows, the West Bank and Gaza Strip received 6.3 billion dollars in official development assistance over a period of ten years (2003–2012).<sup>64</sup> This means that, on average, considerably less than half of the pledged money actually arrived. A report by the United Nations Development Agency on the state of rehabilitation one year after the first round of conflict (the Cast Lead offensive), produced in winter 2008–09, demonstrates once again the difference between the amounts pledged and the amounts actually disbursed in Gaza to cope with the costs of the war. The report stated that 527 million dollars were yet needed to restore the Gaza Strip to the state it was before the outbreak of hostilities, and that only 125 million dollars had been expended so far.<sup>65</sup>

These figures pale in comparison to the damage inflicted during Operation Protective Edge, the third and far more protracted round of conflict (50 days compared to 24 for Cast Lead). On the basis of estimates provided by leading international organizations, the PA put the cost of rehabilitation at four billion dollars.<sup>66</sup> The impact of the Cairo Conference on Rehabilitation, convened in November 2014, resembles a repeat of the Paris conference. Donor states in the Cairo conference committed to providing 5.4 billion dollars, half of which was to “be dedicated to work in Gaza (not necessarily rehabilitation).”<sup>67</sup> Four months after the Cairo conference, only 300 million USD had been received, according to an unidentified source at the office of the Palestinian Deputy Prime Minister Mohammad Mustafa, who is in charge of the PA’s reconstruction efforts in Gaza.<sup>68</sup> Three months later, the Association of International Development Agencies stated that only 26.8 percent of the funds (945 million dollars) had been received. The Association doubted whether the full remainder would be honored, given the plight of refugees in nearby battlefields such as Syria, Libya, and Yemen.<sup>69</sup> Since two of these conflicts (in Syria and Libya) were ongoing long before Operation Protective Edge, one wonders about the sagacity of Hamas’s strategy of engaging in escalating violence with Israel.

Distinguishing between budget support and humanitarian assistance is also important in assessing the actual aid dispensed to the inhabitants in Gaza to offset reconstruction costs. According to GHA, between 2003 and 2012 humanitarian assistance amounted to only 35% of total aid to the Palestinians.<sup>70</sup> The bulk of the remainder went to support the budget of

the Palestinian Authority and its payroll of 177,000 employees.<sup>71</sup> Even if one assumes that half of humanitarian aid will go to Gaza reconstruction, the amount actually spent on the basis of past performance will probably be around a half of the 2.7 billion earmarked for Gaza, and only one-third to one-half of that will go to rehabilitation and reconstruction (approximately 450 million dollars).<sup>72</sup> Thus actual international aid is likely to cover only a fraction of the four billion dollars of damage incurred in the last round of conflict, according to the PA assessment.

Even more inconsequential in offsetting Hamas war-making damage were the social welfare expenditures of Hamas, both as a government and as an organization, which at most amount to 50–60 million dollars annually.<sup>73</sup> How can such paltry amounts possibly offset over 3.5 billion dollars of war damage incurred in 2014 alone, which international aid is not likely to cover? It would take fifty to sixty years of Hamas rule (provided it does not engage in further war-making) to pay back the (non-funded) costs to the inhabitants of Gaza of the third round of conflict alone!

Macroeconomic assessments of the Gaza economy also indicate the high costs of war-making. According to the latest IMF report, growth was extremely high (over 15 percent) from 2009 to 2011, that is to say, between rounds of conflict; and low to negative during rounds of conflict.<sup>74</sup>

Rather than enhancing the social welfare of the inhabitants of Gaza, Hamas's policies have only served to impoverish them, at a cost of considerable human life, belying the motto adopted by the Hamas Ministry of Interior and Public Security in the early years of Hamas rule: "Serving the People."

### **ASSESSING THE HAMAS GOVERNMENT'S PERFORMANCE IN OTHER KEY ISSUE-AREAS: ELECTRICITY, WATER AND SEWAGE**

Hamas governance, beyond security control and war-making, had only a minor impact on Gazan society. This was dictated both by the general fiscal constraints within which the Hamas government operated, and by the primacy it gave to the training, arming, and

technological development of the Hamas military wing, primarily in ballistic warfare. With 400 to 500 million dollars of expenditure annually, over a third of which was allocated to “law and order” and to war-making, it was a minor partner to the Palestinian Authority. The PA expended three times that amount, albeit mostly on paying government personnel, of whom slightly less than half were employed in security or terrorist-related activity.

The following is an analysis of the effect of the Hamas government on three key issue areas relating to the lives of Gaza’s inhabitants.

### ***Water Management***

Hamas’s rise to power has had a deleterious effect on water and sanitation issues in Gaza. The Palestinian Water Authority’s split into two separate entities, one in Ramallah and one in Gaza, creates a major impediment to solving a growing problem. In effect, the Ramallah government, which is far richer in water resources, remains responsible for the management of the water sector in Gaza and for the (minimal) long-term planning conducted.<sup>75</sup>

Where the Hamas government could have made an impact, it had failed to do so. The Hamas government is credited correctly for enhancing domestic physical security. Nevertheless it did little to address the grave problem of stolen water. The (Ramallah-based) Palestinian Water Authority estimated in 2014 that unaccounted-for water, calculated as the difference between water produced and water billed to customers, “stands at 41 to 46 %, which by international standards is high for an area that is almost entirely flat, and mainly equates to stolen water.”<sup>76</sup> This figure does not include non-revenue water, which is the water that has been accounted for, but not billed - water consumed by refugee camp inhabitants and mosques. To make matters worse, service providers suffer from low billing collection rates of 25–50 %, which lag behind those in neighboring countries such as Jordan or Egypt, not to mention Israel.<sup>77</sup> This means that the water management system is deprived of funds that are greatly needed to address serious leakage throughout the system, and to improve water availability.

This is just one more example of how the Hamas government is focused almost exclusively on maintaining its political monopoly and on war-making, rather than on the welfare of Gaza's inhabitants. With a high police-to-citizen ratio, one would have expected the Hamas government to address the issue with greater firmness. Greater firmness is also required in order to cope with excessive and (according to Gaza law) illegal drilling: this drilling is contributing to the destruction of the Gaza aquifer, alongside other factors such as the growing population, and growing per capita consumption as part of the rise in the standard of living.<sup>78</sup>

### *Electricity*

To judge from the headlines in the local Gaza media, the provision of electricity remains one of the gravest problems facing Gaza's inhabitants. Yet things could have been very different. In 2002, at the height of the second intifada, Gaza's only power plant was completed. It was intended to provide the bulk of Gaza's electric needs, with a capacity of 140 MW. Israel, which had previously met all of Gaza's electrical needs, was to supplement the supply with an additional 90 MW.

Yet instead of the situation getting better, it deteriorated considerably. In October 2007, after a period of escalating rocket attacks, Israel declared Hamas-controlled Gaza a "hostile territory," and as a result began limiting the amount of industrial diesel the Palestinian Fuel Authority was allowed to transfer to Gaza.<sup>79</sup>

At the end of 2009, the European Union (EU) stopped funding the purchase of industrial diesel for the power plant, after it became clear that Hamas was imposing taxes on a service that the European Community was funding. Previous efforts by Hamas to tax electrical power in 2007 were reportedly thwarted by the EU, which paid for the fuel for Gaza's power plant at the time. But by 2009, it was clear that Hamas was making a hefty profit on selling overpriced electricity to Gaza's population. A study in 2013 by a research group that monitors European Community aid found that the price of electricity produced in Gaza was four and seven times higher than electricity provided directly from Israel or Egypt (NIS 2.3 per kWh, as against NIS 0.56 for

Israeli electricity, and NIS 0.32 for Egyptian electricity).<sup>80</sup> In fairness to Hamas, its cash-raking at the consumers' expense was merely the continuation of a practice that was already in place when the PA ruled Gaza. At that time, the power plant was owned by a private firm closely linked to the Palestine Investment Fund, a Palestinian public investment fund established under the late Palestinian leader Yasser Arafat. Arafat's financial advisor at the time, Mohammed Rashid, was the PIF's director. Rashid subsequently fled to London, and was sentenced in absentia in Ramallah in June 2012 for corruption and misuse of public funds. Dor Alon, an Israeli firm that provided the fuel, is also accused of making exorbitant profits from the arrangement.

Wrangling between the Ramallah and Hamas governments over who was going to foot the bill no longer covered by the European community further reduced the amount of diesel entering the Gaza Strip. As the amount of diesel decreased, so did the hours during which electricity was provided to Gaza's inhabitants.

Hamas was also responsible for the next blow. Its attacks on the Nahal Oz fuel depot, intended to shift the source of oil import into Gaza from Israel to the tunnels from Egypt, resulted in the termination of the flow of diesel oil from Israel altogether in January 2011. At first, the negative impact was minor, related to the inferior quality of the fuel imported through the tunnels compared to the higher quality fuel that Gaza imported from Israel. But the situation became worse following the Egyptian destruction of the tunnels after al-Sisi's rise to power in July 2013.<sup>81</sup>

Overall, a 26 percent gap has emerged between Gaza's peak demand - estimated at 280 MW - and its maximal electricity supply capacity of 210 MW (of which 120 MW is provided by Israel, 17 MW by Egypt, and 60-70 MW produced by the local power plant).<sup>82</sup> The shortfall results in electric shortages and blackouts lasting 35 to 40 hours weekly, with deleterious effects for health and educational institutions, agriculture, and water and sewage facilities, including the seepage of sewage into the coastal aquifer. The effects of the latter extend into Israel. Poor bill collection, estimated at 20 percent (which the "law and order" Hamas government should really have improved), suggests that the situation will deteriorate rather than get better.<sup>83</sup> The inability to provide sufficient

electricity once again indicates that Hamas has primarily focused on political control and war-making, rather than on solving the electricity issue critical to the welfare of Gaza's inhabitants.

### *Sewage*

Water management, sewage treatment, and the provision of electricity are frequently interlocking issues whose interaction has considerable ecological and environmental effects, not only for the immediate location, but also for areas or political entities surrounding it. This is especially true of the very densely populated, and resource-poor, Gaza Strip. In such an environment, the management of sewage under the best of political circumstances would present a difficult task. The geopolitical situation that has developed in Gaza since the inception of the Palestinian Authority, and even more so under Hamas rule, has only made matters worse.

An analysis of what happened to Gaza's idle sewage plant, and of the ramifications of its closure, clearly illustrates both the interlocking relationship between these issues and the pernicious effects of politics for addressing them. The plant - the first regional sewage treatment plant of its kind in the Gaza Strip - was completed in 2013 at a cost of over \$80 million, provided by the World Bank and the international community.<sup>84</sup> Yet shortly after it was constructed, the plant suffered minor damage in Operation Protective Edge to the tune of 150,000 dollars. More serious was the lack of electricity needed to operate the plant.

The lack of electricity had nothing to do with physical or technical difficulties, but rather had its roots in financial and political problems. The PA is highly indebted to the Israel Electric Company for arrears in payments to the Jerusalem Electric Company, which supplies electricity to PA-administered areas, and for electricity that Israel provides to Gaza directly. The IEC, which presently subsidizes electricity to Gaza, is unprepared to increase supply (and therefore also the money owed it) to include the sewage purification plant. This is especially true following a recent Israeli High Court of Justice ruling that forbade Israel from paying off the debt to the IEC by debiting the VAT revenue it collects on imports consumed in the PA on behalf of the Ramallah government.

The problem is also political. One of the reasons the PA failed to pay its debts was due to the refusal of the Hamas government to turn over revenue from electric billing to the Ramallah government; instead, it used these monies to fund Hamas's military wing.<sup>85</sup> The sewage problem, which also reduces the quantity of potable water available in Gaza, has become an issue contested within Israel itself, because of the adverse impact it has on nearby Israeli population centers, such as Ashkelon. The Israeli Water Authority has stated that there may have been a linkage between a recent outbreak of polio cases in Israel and the contamination caused by Gaza sewage effluence. A recent report described the gravity of the sewage management problem in Gaza, calling it "a critical, existential strategic problem of the first order for the State of Israel," due to the simple fact that epidemics do not recognize man-made borders.<sup>86</sup>

## **THE HAMAS GOVERNMENT'S FISCAL COLLAPSE, THE UNITY GOVERNMENT, AND WAR-MAKING**

At the end of 2013, the parliamentary organ of the Hamas and Gaza-based Palestinian Legislative Council published a 2014 budget that indicated that the Hamas government had every intention of continuing to rule Gaza. Yet just six months later, it agreed to the formation of a unity government in which Hamas politicians were excluded. This change in affairs raises the question: What transpired to force Hamas, at least in terms of civilian governance, to abdicate from its governing role?

Hamas's annual budget and expenditure figures for 2013 provide a clue to the answer. The Hamas government presented a budget for that year of 897 million dollars, against an expectation that local revenue would cover only a small portion of that - 243 million dollars (27.1 percent). In fact, incomes turned out to be even lower. Local revenue generated only 200 million dollars; while, against an expected budget of 897 million dollars, actual expenditures amounted to only 464 million. The gap between the proposed budget and actual expenditures most probably reflects the loss of Hamas revenue from taxing trade through the tunnels.<sup>87</sup>

The reason for the loss of the tunnel trade also became public knowledge. Egypt's government, under al-Sisi, saw Hamas as an organization that abetted terrorism in Sinai and elsewhere in Egypt, and it was resolved to close the tunnels in order both to prevent the flow of arms and fighters to terrorists in the Sinai Peninsula, and to hurt Hamas economically.<sup>88</sup> According to Harriet Sherwood and Hazem Balousha of the *Guardian*, by the end of August 2013 Egypt had closed down 80 percent of the 1,000 tunnels, which accounted for 40 percent of Hamas government revenue, or 200 million dollars.<sup>89</sup> Deprived of such revenue, and facing a reduction in aid from Iran, the Hamas government could no longer pay the 42,000 employees it had hired during its rule. According to the Hamas government expenditure figures, the cost of these salaries had amounted to 365 million dollars over the first nine months of 2013. The proposed 2014 budget reflected even more its inability to pay wages. It envisioned only 195 million dollars of revenue, as against expected payment of salaries amounting to 509 million dollars.<sup>90</sup> Thus Hamas hoped that the unity government dominated by Abbas' Palestinian Authority would foot the bill.

As in any such agreement, and certainly one between such bitter rivals as Hamas and Abbas' Palestinian Authority, it would only be natural for the incoming partner to demand considerable returns for footing these bills, particularly when the employees in question likely represented the hard-core support of Hamas.<sup>91</sup> Abbas, as part of a strategy for regaining control in Gaza, had specific demands, the most immediate of which was the return to their former posts of 70,000 Gazan employees on the PA payroll who had either refrained from working in their positions or were eased out. For some of the former security members, who form the overwhelming majority of the PA payroll in Gaza, he earmarked posts in the border control authority, which he hoped would revert to Fatah control.<sup>92</sup> Egypt fully shares this aim, and keeps the most important crossing at Rafah closed most of the time, as a means to pressure Hamas to relinquish control of the sole border crossing that links Gaza with Egypt and the outside world.<sup>93</sup> Abbas has also been unwilling to agree to pay the salaries of the 20,000 personnel employed in the Hamas-dominated Ministry of Interior, which constitutes its internal security apparatus and police; in the Hamas government budget for 2014, these salaries amounted to 209 million dollars.<sup>94</sup>

It is not surprising, then, that the question of adding the 42,000 Hamas government employees to the PA payroll has become the most contentious issue between Hamas and the unity government headed by Rami Hamdallah, Abbas' prime-minister before the agreement.<sup>95</sup> While Hamas officials have denounced the failure of the government to meet its commitments, the employees themselves have reacted with work stoppages that are reminiscent of the response of PA employees soon after Hamas took over Gaza.<sup>96</sup>

To maintain the support of these employees, many of whom one can assume form the hard-core of support for the organization, Hamas engineered a social solidarity tax law, through the Legislative Council it controls, that will allow the taxation of commercial enterprises, and will tax cosmetics, cigarettes, and fruit - regarded by Hamas officials at least as luxury items for most Gaza households.<sup>97</sup> Needless to say, the tax has aroused protest from both business circles and political groups, such as the Popular Front for the Liberation of Palestine, and has also provoked allegations that the proposed tax is already being implemented against the law.<sup>98</sup> Similarly, car dealerships are threatening to stop the import of cars after the Hamas-run Ministry of Transport decided to impose a 25 percent import tax on cars, notwithstanding the fact that this is low by regional standards (in Israel and Egypt it is close to 100 percent).<sup>99</sup>

Both measures reflect the extent to which the unity government is moribund, and indicate how pressing Hamas's financial needs are. Nevertheless, since the beginning of 2015 Hamas has increasingly been able to pay most of the salaries to its employees: whereas between November 2014 and mid-February 2015 it was only able to pay one full monthly salary, in addition to NIS 2,000 in two one-time supplements (representing roughly half a full salary), in the following three months salaries were paid in full, albeit in installments.<sup>100</sup> The organization's increased liquidity might be related to revenues from the increasing import traffic from Israel, as well as to the latterly-eased restrictions on imports from Israel, and to aid from Qatar.

## **CONCLUSION: INTERNATIONAL AID, MORAL HAZARD, AND HAMAS WAR-MAKING**

In economics, and increasingly in the field of international relations too, the concept of “moral hazard” is used to describe risky behavior whose costly consequences are borne by parties other than the actor responsible for them. The concept originated in the world of insurance, where it is used to describe, for example, the moral dilemma of the wide pool of responsible holders of car insurance who share in defraying the costs of a few reckless drivers. Frequently, international aid has a similar impact on reckless political actors. Thus, a study of the Balkans crisis in the late 1990s has shown how the EU and NATO commitment to protect civilian populations from outside powers had promoted the Kosovar rebellion against the state.<sup>101</sup> Unfortunately, the substantial costs caused to the civilian population in trying to suppress the rebellion far exceeded the commitments of the international guarantors to their protection.

This is exactly what happened in Gaza under seven years of Hamas rule, following its 2007 takeover of power from the Ramallah-based Palestinian Authority. It acted recklessly in engaging in three massive rounds of violence with Israel in the belief that international aid - much of it flowing through the conduit of the Ramallah-based Palestinian Authority - and free electricity provided by Israel would offset the grievous costs such war-making inflicted on the Gaza population.<sup>102</sup> Hamas was wrong. The cost to the civilian population has been two-fold: civilians have suffered the consequences of Hamas’s risky and violent behavior, while Hamas has focused on enacting violence instead of on good governance.

In June 2014 the organization decided to concede governance to a unity government (which did not include the Hamas leadership), only when it felt it was unable to finance the estimated 42,000 to 51,000 Hamas government employees who formed the hard core of its supporters. Its subsequent escalation of violence against Israel in a bid to force the Ramallah-based PA to finance these employees, which resulted in a major confrontation with tremendous costs in terms of lives and infrastructure in Gaza, demonstrated how little social welfare concerns for the population were part of its calculations.

The international community has pledged to rebuild Gaza as it did after previous rounds, thus laying the ground, paradoxically, for a further round of violence at little expense - and even at considerable profit - to Hamas. There is a risk that humanitarian aid, once again, will prolong confrontation rather than contribute to its end.

The lesson is clear: in order to prevent moral hazard, and the exaction of great cost from Gaza's citizens, it is incumbent on the states that have provided international aid to bring pressure to bear on Hamas to stop its war-making. And even more significantly, these states should communicate these ideas both to their domestic audiences and to Gaza's citizens. International and domestic public opinion can thus be effectively engaged to compel Hamas to accept the broad guidelines of the Oslo process and Quartet road map, to recognize Israel, and to adopt the Oslo interim agreements as the basis for moving forward in a comprehensive peace process.

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