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**A Formula for the Ministry of Defense Budget**  
**in the Next Multiyear Plan**  
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**It is imperative that a multiyear budget for the Ministry of Defense and the IDF be prepared for the years 2021-2025, once the multiyear Gideon plan ends. This plan will also be the key for jumpstarting the procurement processes required within the framework of the new US aid program (2019-2028), which is a key to future IDF buildup. Defining a formula that links budgets to GDP or GDP per capita could be one of the most important elements in shaping the defense budgets in shekels for the next multiyear plan.**

Prime Minister Benjamin Netanyahu was reported recently to have ordered a study of a proposed new formula for determining the frame for the Ministry of Defense budget for the years following the end of the multiyear Gideon plan in 2020. According to the proposal, the Ministry of Defense budget will be determined as a specific percentage of GDP, within a defined range (for example: 5-6 percent of GDP) that cannot be exceeded.

The ratio between the Ministry of Defense budget and the estimated GDP for 2019 is 5.4 percent for the gross budget and about 4.1 percent for the net budget. In the years 1995, 2005, and 2015 the ratio between the MoD net budget and GDP fell from 8.3 to 6.6 and 4.9 percent, respectively. By contrast, during that same period there was considerable real growth in the MoD budget (net and gross) and in Israel's defense expenditure in general (including the costs of secret services). The main reason for these contradictory trends is that Israel's GDP grew at a far faster rate than the rate of growth in defense expenditure, as a multiyear average. Note that according to the Ya'alon-Kahlon agreement of November 2015, the change in defense budgets over the Gideon period will not be based on a formula linking the defense budget to GDP. However, this agreement also includes understandings between the MoD and the Finance Ministry regarding pensions, which are not time-limited.

The idea of linking growth in GDP to the defense budget is not new, and has even been implemented in the past. The Brodet Committee, whose recommendations were approved by the government in 2007, advised that the annual rate of growth (percentage) in defense expenditure should be equal to the annual rate of growth in per capita public civilian expenditure, while at the same time raising total public expenditure and taking growth of

GDP into account. According to the Brodet report, deviations from this framework should only occur in times of crisis, such as severe military hostilities or an economic crisis. In effect, the Committee recognized the principle that defense expenditure must also increase even in periods when there is no change in the map of threats, providing that growth continues and the civilian sector receives its share. This principle is based on the aspiration of states to improve their security level (the ratio between response and threats) as their resources increase, since security is a “normal product,” that is, a product whose consumption increases as income rises.

Consider the following two scenarios, to illustrate the possible scopes: (1) Increasing the MoD net budget (without US aid) by the rate of growth of GDP – for example, annual growth of 3 percent, starting in 2019. In quantitative terms, this means growth of about NIS 40 billion annually, based on a forecast GDP of about NIS 1.35 trillion in 2019. Of this, about NIS 1.65 billion will be added to the defense expenditure (3 percent of the net defense budget for 2019, amounting to NIS 55 billion), and about NIS 38.35 billion will be additional sources for the economy for other uses by the public and private sectors. (2) Increasing the MoD budget according to growth in per capita GDP only. Assuming the population grows by 2 percent, this means a growth of 1 percent. The significance is that the defense budget will increase by about NIS 550 million per annum (in terms of the 2019 budget), and about NIS 39.5 billion (NIS 13 billion after discounting the growth in population) will be additional sources for the economy for other uses by the public and private sectors.

Although an agreed link between the increase in defense expenditure and GDP can be seen as one of the important elements shaping the defense budget framework, the parameters for setting the defense budget are numerous, and the security risk, as perceived by the decision makers, is the decisive factor. The security risk is largely influenced by the gap between the threat and the response, by the probability of its realization and the price involved – in terms of casualties, damage to property and GDP, interruption of daily life, and the threat to sovereignty. Apart from threats on the front, to the civilian home front, and in cyberspace, the manner of the response has much impact on the defense budget. The modern weapons of choice, on which the IDF is based, are extremely costly – to purchase, operate, and maintain; Israel’s heightened sensitivity to losses is expressed in the development and purchase of means of defense and the use of counter fire. The desire to minimize the adversary’s civilian losses requires expensive precision weapons, and the government’s willingness to take security risks in the face of civilian needs likewise affects the size of the defense budget. The cost of the response is also influenced by defense strategy and its implementation, US aid, technological development, competition in the labor market, and uncertainty about the future, which demands a broad defense shoulder to cope with instances of surprise and errors of

judgement. To this must be added the increase in the Defense Ministry's civilian items (pensions, disabled veterans, and families) that are not part of the direct defense response and their impact on civilian needs (shortened mandatory service).

There is tension between the frequent changes in the security arena, which are very hard to predict for the long run, and the army's need for stable and budgeted long term plans, which inter alia enable it to embark on ongoing development and procurement processes. In the life of the multi-year plan there may be other surprises, such as across the board cuts in the government budget. There is currently a dispute between the Ministry of Defense and the Finance Ministry regarding the extra NIS 8.3 billion that the MoD wishes to have reinstated following cuts in the Gideon plan as part of general government budget cuts after the plan was agreed, and particularly in view of the change in the nature of threats in the northern arena. For its part, the Finance Ministry argues that the defense budget, as agreed following the Ya'alon-Kahlon agreement, is not immune to general cuts, so there could be a compromise.

The US aid program for 2019-2028 is a relatively stable and clear anchor for the MoD budget in foreign currency, during the next multi-year plan and thereafter. It consists of \$3.3 billion annually from the US State Department budget. To this amount, \$500 million was added for joint missile projects from the Department of Defense budget. According to the agreement, Israel is committed to put the same amount into the joint plan, so that the total joint project budget is about \$1 billion per annum, about \$10 billion for the decade. According to the terms of the aid, Israel agreed not to use the aid money for fuel purchases, and the option of converting part of the aid to shekels will gradually decline and ultimately be eliminated. The aid accounts for about a fifth of the gross defense budget, and given that it has a fixed nominal size, the MoD's share of the budget is expected to fall during the period 2019-2028.

### **Recommendations**

Although there is no simple formula for determining the size of the future defense budget, in view of the security challenges Israel faces, it needs long term budget frameworks to allow for planning and stability. It is therefore imperative to prepare a multi-year budgeted plan for the years 2021-2025 that will begin when the Gideon plan (2016-2020) ends. This plan would also be the key for starting the procurement processes required by the new plan for US aid, which is the critical element shaping the foreign currency defense budget for the next decade and the basis for increased IDF buildup.

Defining a formula that links the budget to GDP, or GDP per capita, could be an important element shaping the defense budget in shekels, making the debate over the budget simpler and more efficient, particularly in times when there are no irregular

security or economic challenges. This conclusion comes into sharper focus when looking back at the recommendations of the Brodet Committee, which adopted this principle. The chronic gap between the original budget (at the start of the year) and actual performance also supports the rise in the original defense budget. However, there is no need for a range, which could only reinforce the disputes. It is important to implement the formula above all for items that are direct inputs to defense production in the net defense budget (without US aid). As for the civilian items in the defense budget that are not directly related to security (e.g., pensions, rehabilitation), it would be best to separate them from the MoD budget and instead apply suitable criteria.