

*INSS Insight* No. 1442, March 2, 2021

## **The Defense Budget for 2021**

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**The defense budget for 2021 continues the defense budget of 2020, which itself is a continuation of the 2019 defense budget, approved in March 2018. The sequence of continuation budgets constitutes a management failure by the government, which for political reasons has not passed a regular state budget. In this situation, IDF Chief of Staff Aviv Kochavi has taken upon himself a particularly difficult mission – managing a multi-year plan (the Tnufa plan) that is not backed by a regular defense budget and a multi-year budget agreement, or by cabinet approval for the plan. To this end, the Chief of Staff channels money from the defense budget framework, while asking the political echelon for budget supplements from time to time. The impression is that the triumvirate – the Chief of Staff, the Defense Minister, and the Prime Minister – are in agreement on Israel's defense challenges and the proper responses to them. This helps the Chief of Staff maintain the defense budget, even during the current economic crisis caused by the COVID-19 pandemic.**

The defense budget is meant to be the financial expression of the annual IDF work plan, which is supposed to be part of a multi-year work plan.

The Knesset was dissolved on December 22, 2020, after a bill to extend the deliberations over the state budget for 2021 was rejected. In its final hours in office, the Knesset approved laws that will allow a continuation budget for 2021, even in the absence of a regular budget law. This sets a historical precedent in which an entire budget (2020) ended without a regular state budget. The 419 billion NIS state budget for 2021 is a continuation budget (including supplements and linkage to the rate of population growth) of the 2020 budget. Because of the supplements, which were approved by the Knesset Finance Committee, the 2021 budget is actually close in size to what would have been the regular state budget (426 billion NIS), had it been approved by the Knesset plenum. At the same time, this budget is subject to the rules applying to a continuation budget, and is not based on an overall perspective and planning by all the government ministries.

The most recent approved defense budget, in 2019, totaled 72.9 billion NIS gross and 55.3 billion NIS net (11.5 percent of the state budget). It was the budget for the fourth year of the five-year Gideon plan, which IDF Chief of Staff Aviv Kochavi shortened by a

year in order to begin the Tnufa plan at the beginning of 2020. The Tnufa plan, however, is being implemented without a multi-year budget agreement and without cabinet approval, due to the political instability in Israel and the recurring elections.

In late January 2021, an IDF spokesperson stated, "As of now, discussions are underway to conclude a defense budget framework as part of the continuation state budget for this year. In these discussions, the Ministry of Defense and the IDF insist on the imperative on a response to the current defense needs according to the level of performance in 2020." On January 26, *Haaretz* reported that a 3 billion NIS supplement was granted for the 2020 year defense budget, which restored the defense budget to its 2019 level. Out of a request for 4.2 billion NIS, 2.5 billion NIS were added to the 2021 defense budget, with the approval of Prime Minister Benjamin Netanyahu, "for internal needs." Media reports say that with the support of Defense Minister Benny Gantz, the IDF is asking for a 3 billion NIS supplement to the 2021 budget "for current defense needs," in order to bring the 2021 defense budget to the actual 2020 defense budget.

A lecture by Kochavi at the INSS Annual Conference on January 26, 2021 explains why the budget supplement is necessary. The Chief of Staff said that the IDF performed internal shifting of 3 billion NIS within the year's defense budget, needed for implementation of the Tnufa plan. He described the army's tasks, the respective fronts, and the dimensions in which the army operates. The main message of his lecture was that the pandemic has not diminished the military threats to Israel, and that there were growing threats, above all the Iranian threat. He added, "Decisive action must be taken, as a result of which Iran will have neither nuclear capability nor the ability to break out to a bomb. In the end, Iran can decide that it wants to advance to a bomb, either covertly or in a provocative way. In light of this basic analysis, I have ordered the IDF to prepare a number of operational plans, in addition to the existing ones....The government will, of course, be the one to decide if they should be used." Note that capabilities for military action against nuclear facilities in Iran are very expensive. In January 2013, former Prime Minister Ehud Olmert revealed that the Netanyahu government had spent 11 billion NIS in 2011-2012 on preparations for an attack against Iran that was not executed.

Another reason why the supplement is necessary concerns the part of the American aid that can be converted into shekels, and the real erosion of this component in shekel terms. The value of the aid converted into shekels in the 2021 budget is projected to decline because of both the fall in the shekel-dollar exchange rate and the decrease in the amount that according to the MOU agreement with the United States can be converted from dollars into shekels, from \$815 million in 2019 to \$795 million in 2021. The number of convertible dollars will decline further in the succeeding years until 2028, when it no

longer exists. The result will be a fall in procurement from the Israeli defense industry in local currency.

Most of Israel's aid in dollars can be used only for procurement from the United States. On February 7, 2021, the political-security cabinet approved a major new transaction with the United States – two years and four months after the beginning of the current multi-year aid agreement (October 2018-October 2027) went into effect. The transaction includes mainly various aircraft for the IDF amounting to \$9 billion. This is a substantial proportion of the multi-year aid package. The amount exceeds the resources currently available to Israel in the framework of the American aid, so financing the transaction also requires a financial solution; this too has been approved by the cabinet. The ministerial committee for equipment and procurement then approved specific projects from the overall plan that were ready for agreement, including refueling aircraft, a combat squadron, munitions, and air defense systems.

### **Significance**

The IDF must deal with the 2021 budget at a time of economic instability caused by the COVID-19 crisis, political instability in Israel, and a dynamic geopolitical situation, including the return of the nuclear agreement to the international agenda.

There are no published figures for the total defense budget in 2020 and 2021, but it appears that in the end, following the supplements to the Ministry of Defense budget, the COVID-19 crisis did not lead to cuts in the defense budget. It is likely that the supplements for the Ministry of Defense were designed to preserve the real value of the budget in comparison with 2019, meaning that there is no significant increase or cut in the budget framework.

With the pandemic ongoing, the defense budget supplements have aroused criticism of the IDF among the public and government ministers, which invites the question as to who is responsible for the size of the defense budget. The correct way to determine the defense budget is for the Chief of Staff to present to the political echelon the security threats, the IDF's capabilities in providing a suitable response to the threats, and the resultant costs. The job of the political-security cabinet is to establish priorities among the various threats, and between the threats and the country's diverse civilian needs, and to approve or reject the various proposals made by the Defense Minister and the Chief of Staff. After the budget is approved, the Chief of Staff must effectively carry out the tasks and achieve the goals set by the political leadership, i.e., to utilize the defense budget for achievement of the greatest possible security. To the extent that the political leadership seeks to cut the budget, or to add new tasks, it must theoretically allow the Chief of Staff to forego other tasks in accordance with the defense priorities. In other words, the

political echelon, and in particular the political-security cabinet, is responsible for the size of the defense budget. In practice, changes in the year's budget are currently decided by the Chief of Staff, the Defense Minister, and the Prime Minister.

The absence of a multi-year agreement on the defense budget, similar to the agreement on the Gideon plan, impacts negatively on the IDF's ability to implement multi-year plans for procurement and equipment in shekels from the state budget, its ability to sign multi-year contracts with suppliers, and implement reforms for promoting efficiency.

The 2021 budget also requires continued handling of difficult personnel questions, among them the Security Service Law, which has not yet been amended as demanded by the Supreme Court, and which led to the dissolution of the previous Knesset in 2018; shortening of the period of compulsory military service, which began in July 2020, but which the IDF seeks to revoke; the model for the standing army and its pensions stipulated in the budget agreement in November 2015 for the Gideon multi-year plan, which has not yet been fully legislated; and consideration of the legal validity of the pension increments ("Chief of Staff's increases"), which is being heard before the Supreme Court.

In conclusion, the impression is that the Chief of Staff, Defense Minister, and Prime Minister are in agreement on Israel's defense challenges and the proper responses to them. This helps the Chief of Staff maintain the defense budget even during the current economic crisis. The government that is formed following the upcoming elections must approve continuation of the Tnufa plan and a regular defense budget (in the framework of a regular state budget), as well as a multi-year budget through the end of the Tnufa plan, while taking into account the defense challenges on the one hand and the economic constraints and the needs of civilian society on the other.