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The Economic Costs of Operation Guardian of the Walls

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As in previous rounds of fighting against Hamas, Operation Guardian of the Walls exacted three types of economic costs: the direct military cost, reduction in economic activity, and property damage caused by the rocket fire from the Gaza Strip. Some of these costs are difficult to estimate, and it is thus too early to assess the full economic consequences of the operation. In addition, the parties responsible for these estimates, that is, the Ministry of Defense on the one hand and the Ministry of Finance on the other, have opposing interests in this matter. Nevertheless, it is already evident that despite the high intensity of the recent operation, its economic costs will be substantially lower than those of the preceding round, Operation Protective Edge. Operation Guardian of the Walls lasted 11 days and was waged from the air, with no fighting by ground troops. During the COVID-19 crisis, the economy learned how to shift quickly and efficiently from normal times to an emergency mode and remote work patterns. All of these factors should reduce the operation's cost. At the same time, the severe damage to Israel's image caused by its activity in the Gaza Strip is liable to incur high economic costs in the future, and the cognitive campaign should therefore consider the economic dimension, as well as the political dimension.

Operation Guardian of the Walls occurred while the Israeli economy was recovering from the COVID-19 crisis, which caused a contraction of GDP, a major increase in the budget deficit, and a jump in the national debt. On the one hand, the experience accumulated during the pandemic allowed businesses and workers to carry on to a reasonable extent, despite massive rocket attacks on the Israeli home front. On the other hand, the military campaign did slow down economic activity, in ways similar to what occurred as a result of the lockdowns during the pandemic, leaving open the question of the campaign's broader costs and economic consequences.

The campaign's military costs comprise three principal components: military costs caused directly by the fighting, damage to economic activity, and damage to the home front. The first item covers the price of the munitions used by the IDF (e.g., missile interceptors, precision munitions, artillery shells, etc.), costs of operating the various platforms (such as warplanes, tanks, and APCs), and the cost of mobilizing regular army and reserve forces. The cost to the economy includes the loss of workdays, the partial or full closure of factories and businesses, and a drop in demand. Finally, the property damage caused by rocket barrages against Israeli cities, mainly to buildings and cars, entitles those who suffered damage to compensation from the state. This also includes the damage to private and public property caused by the riots in towns with mixed Jewish-Arab populations.

According to data from the chief economist in the Ministry of Finance, the cost of the fighting in Operation Protective Edge (July-August 2014) totaled NIS 7 billion, while the cost to the economy and the compensation paid for damage on the home front added NIS 1.7 billion – bringing up the total to NIS 8.7 billion. It is too early to come up with a reliable estimate of the cost of Operation Guardian of the Walls, because the calculation of each of its elements takes time, and some of the damage is likely to emerge only after weeks or even months. Previous rounds of warfare against Hamas in the Gaza Strip, however, provide a reasonable basis for an initial estimate, while stressing the main differences between this operation and its predecessors.

The first difference lies in the length and intensity of the campaign. Operation Protective Edge lasted over 50 days, compared with only 11 days of Operation Guardian of the Walls. During this time, the IDF used the same quantity of firepower against targets in the Gaza Strip, implying that the intensity of the bombing in Operation Guardian of the Walls was five times greater than in Operation Protective Edge. Hamas and Islamic Jihad launched 4,360 rockets and mortar shells at Israel (approximately 1,000 of which fell short of the border), about the same number as during Operation Protective Edge.

The second difference concerns the widening of the designated "danger area" within Israel to 80 kilometers from the Gaza Strip, compared with only 40 kilometers in Operation Protective Edge. As a result more economic activity was affected, particularly because the longer range included the central region around Tel Aviv, where a large proportion of Israel's economy is concentrated. However, the operation's relatively short duration compensated to some extent for the longer range of the rockets.

The third difference, which was almost certainly the most significant, is the rioting in Israeli towns with mixed Jewish-Arab populations, especially in the early days of the operation, which resulted in both large-scale property damage and injuries. The extent of the economic damage caused by these violent events will become clear only in the weeks and months ahead. In particular, it remains to be seen whether the Jewish and Arab communities will be willing to resume working and trading with each other, or whether in the long term mutual suspicion will damage the delicate fabric of coexistence.

Calculation of Cost Components, Based on What is Known So Far

1. ***Direct military cost***: One of the difficulties in calculating this cost is the recurrent debate between the Ministry of Defense and the Ministry of Finance. Thus, for example, the Ministry of Defense estimated the cost of Operation Protective Edge at NIS 9 billion while the Ministry of Finance's estimate was NIS 6.5 billion, ending in an official estimate of NIS 7 billion. These costs included a price tag of NIS 80-120 million for each day of aerial warfare, as well as about $50,000 for each Tamir Iron Dome interceptor. Since Operation Guardian of the Walls was more intense, presumably the daily cost of aerial warfare was double the cost in Operation Protective Edge. At the same time, the duration of Operation Guardian of the Walls and the reliance on aerial warfare is likely to lower the direct military cost to NIS 4-5 billion.
2. ***Property damage caused by the rocket fire against Israel***: In Operation Protective Edge, 4,600 claims were made for direct damage, and compensation totaled NIS 200 million, an average of NIS 44,000 per claim. According to the Israel Tax Authority, 5,245 claims were filed for compensation due to direct damage during Guardian of the Walls. This time the damage will almost certainly be more extensive, due to the greater destructive incoming firepower from the Gaza Strip. It is therefore likely that the average claim will be higher – probably around NIS 60,000 per claim. This yields NIS 315 million (60,000 x 5,245) as an estimate of the total costs of property damage.
3. ***Damage to economic activity***: According to initial calculations by the Economics Department of the Manufacturers Association of Israel, the cost of the damage to economic activity during the campaign amounted to NIS 1.2 billion. This estimate is based mainly on lost workdays of about one third of those employed in southern Israel, whereas workdays in the central region were estimated to have shrunk by 10 percent. The distance from the Gaza Strip was critical in this respect. The cost component is therefore 20 percent lower than the corresponding figure for Operation Protective Edge (NIS 1.5 billion). Another question in this context involves the drop in demand during the campaign and the resulting loss of economic activity. Experience from previous campaigns shows that households increase their demand after rounds of military conflict, which to a large extent makes up for the initial loss. It is still too early to know whether this pattern will recur in the coming weeks and months, since this time the conflict spilled over into the internal theater.

High-intensity conflict, combined with a flare-up in the internal theater, can potentially increase the costs. There is no doubt, however, that the short duration of Operation Guardian of the Walls contributed significantly to lower the economic costs, in comparison with Operation Protective Edge. Furthermore, a series of specific factors this time helped the economy move with easy from routine to emergency and back to routine, including:

a. ***The pandemic "dress rehearsal":*** In contrast to previous rounds of fighting, in Operation Guardian of the Walls, the economy switched quickly to work patterns acquired during the COVID-19 crisis, especially working from home, and thus many sectors suffered almost no damage. In particular, damage to the hi-tech sector, which accounts for 52 percent of Israel's exports, was minimal. Also contributing to lower costs was the education system's ability to adapt itself quickly to online learning, based on the experience acquired during the pandemic. A general shutdown, which would have made the campaign more expensive as a result of a greater loss of workdays among parents, was thus avoided.
b. ***A limited mobilization of reserves*:** The daily cost of one reserve soldier is over NIS 500. Reserve call-ups were very limited in Operation Guardian of the Walls (fewer than 10,000 reservists), and the campaign was fairly short. This cost was therefore very low – far less than in Operation Protective Edge, during which 40,000 reserve soldiers were called up for long periods.
c. ***A shutdown of the economy during only half the campaign period*:** During the first two days of warfare, the restrictions on the economy were insignificant, and there were few absences from work beyond 80 kilometers from the Gaza Strip. Furthermore, during the Shavuot holiday weekend, which lasted for four days, economic activity would have been very limited even without any hostilities.
d. ***Adaptation and protective defense of factories*:** Based on experience accumulated in previous campaigns, most of the factories near the Gaza Strip were not shut down; they have protective installations, and operate in ways that enable continuation of work, even when rockets are raining down on the area.
e. ***Tourism*:** Tourism accounts for a small proportion of GDP in Israel (about 2 percent). Moreover, because of the pandemic, few tourists were visiting Israel in any case, and the damage to the sector caused by Operation Guardian of the Walls was therefore minor or non-existent in the short term. In comparison, the Bank of Israel annual report for 2014 stated that the tourist industry lost approximately NIS 2 billion as a result of Operation Protective Edge.

The Israeli economy can also take encouragement from the resilience of the Israeli capital markets. The experience of recent years shows that the local capital market is affected less by events involving the Israeli-Palestinian conflict and more by events in the global economy. In Operation Guardian of the Walls, it was again evident that the damage to the economy during the conflict had no effect on the capital markets. The main market indicators even rose slightly, compared with their level just before the campaign.

However, a significant lengthening of the campaign might well have had a negative impact on the capital market.

The analysis above refers to costs evident thus far, but Operation Guardian of the Walls will likely generate additional costs down the road. Thus, for example, the issue of providing adequate shelters for the Israeli population threatened by rockets has returned to the agenda, both because many families within rocket range of the Gaza Strip still lack access to in situ shelters, and because it is now likely that existing building codes for shelters are not stringent enough. Providing adequate shelters for the entire population of Ashkelon, a city that sustained heavy bombardment, could reach NIS 1.4 billion, and nearby towns will probably also require a revamping of their shelters. Another issue is the damage to Israel's image around the world: foreign media outlets and social media deliberately published biased imagery of the fighting, as well as leveling unfounded accusations against Israel. As in previous occasions, Israel failed this time to convey a balanced picture of both the underlying reasons for the fighting and of what actually happened during its course. Clearly, such damage to reputation is bound to have economic implications, but it is too early to evaluate their extent in terms of tourism, investments, and marketing. This is an unfortunate byproduct of the events, and Israel would do well to learn to conduct an appropriate “image campaign” any time that a violent confrontation takes place.