The Disengagement Price Tag

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An economic assessment of the disengagement includes two elements: one, calculating the planned financial expenses; and two, an estimate of the disengagement's long-range economic yields, which by definition, cannot yet be assessed.[1] The focus of this discussion, therefore, is the assessment: of the costs involved in the evacuation of the Gaza Strip and northern Samaria.

The assessment will address two sets of questions: the first deals with the total cost of expenses for implementing the disengagement and includes the estimate at the time of the planning, the reasons for deviations from the estimate, and examining whether such a change is liable to cause a macroeconomic change in the Israeli economy. The second set of questions focuses on changes in the nature of public spending following the disengagement and its likelihood of being a macroeconomic influence on the Israeli economy.

Disengagement Expenses: Estimate and Deviations

In December 2004 the Jaffee Center estimated the cost of the disengagement plan at between 6 and 9 billion NIS.[2] This figure included civilian expenses (5-7 billion NIS) and costs of the IDF's redeployment (1-2 billion NIS). The estimate reflected the assumption that at the time the plan was publicized, policymakers, at both the professional and political levels, asked that the lowest threshold of estimated expenses be the figures published.

When the evacuation of the Jewish settlements from the Gaza Strip was completed, the press was flooded with reports that the move had been accompanied by a rise in financial outlay. According to the media the deviation from the original cost estimate (the bottom threshold) came to 3-4 billion NIS. As such, the total estimated cost outlay for the evacuation of Gush Katif and completion of the Gaza disengagement plan (including resettlement of the inhabitants) would reach 10-11 billion NIS, or over 2 percent of the annual GDP. The plan called for this amount to be spent gradually over a two to three year period. Beyond tactical considerations in the economic and political spheres, there are a number of explanations for this deviation. The deviations from the cost budgeted, in overall amount and its breakdown, seemed to focus on the following areas: the compensation estimates for the evacuation that were based on the treasury's lowest figure; the cost of building infrastructures for new settlements, a cost that had not been budgeted; the actual cost of the evacuation that apparently deviated from the original plan by tens of millions of NIS; and, of course, errors in planning under pressure. In the military sphere, no information is available on changes in the army's planned deployment or changes in its estimate cost.

How will an increase in the reported sum affect the Israel's budgetary deficit? The state's budget (in shekels) is supposed to pay for the entire cost of the disengagement. Information on the distribution and size of the amounts allocated for the coming years is not available. It seems, however, that the budget plan intends to stay within the limits of the national deficit in the current fiscal year (2005) and the coming years. The chances of receiving American aid are low, given the magnitude of the recent natural disasters in the southern United States. Nevertheless, it is possible that this is only a temporary postponement of American aid.

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The Budgetary Outlay since the Evacuation

The evacuation of Gush Katif from the Gaza Strip changes the public cost connected with the population that was evacuated. First, the one-time cost for the evacuees' resettlement has increased, including the preparation of new sites for evacuee resettlement. Second, the evacuation of the Gaza settlements has raised another public-budgetary issue: will there be any cost savings?

In other words, it may be claimed that the civilian budgets distributed to the Gush Katif settlers are larger than those given to citizens inside the Green Line. It should be mentioned that different estimates exist regarding the per capita budgetary expense in Gush Katif. Whatever the case, the cost discrepancy is not serious from a macroeconomic point of view. Thus, the disengagement's importance lies in its social-political implications rather than its budgetary-economic significance. Furthermore, although the evacuation obviates certain ongoing expenses (for example, regional councils, security, and infrastructure maintenance) such savings should not be sought in the budget until after the evacuees have been resettled within the Green Line. Therefore the estimated costs do not include an estimate of the gap, whether positive or negative, in the per capita outlay in different regions.

Conclusion

Disregarding the political ramifications, the economic situation estimate rests on two partial assessments: one, the overall expense of the disengagement and its degree of influence on the size of the state's budget deficit and government outlay; and two, the composition of the cost and its relative regional or industrial sector concentration.

The overall cost of the Gaza disengagement will be approximately 2 percent of the GDP. Only if this sum is soon channeled to the economy as an addition to the general demands will pressure be exerted on the local resources, such that growth may be accelerated while the deficit increases in the regular accounting of the balance of payments. In this scenario, prices could rise in local input centers for construction infrastructures and associated industries. However, since the treasury has budgeted the cost, while deviating slightly from the deficit's parameters and the increased costs at the basis of its macro policy, a change is not to be expected in the conduct of the economy after the disengagement.

Nevertheless, the concentration of expenses in the southern region, especially in Ashkelon and its vicinity would probably generate regional development that would create an active economic periphery outside the greater Tel Aviv region. Furthermore, against the backdrop of plans for resettling Gush Katif evacuees, if the cost for developing the Galilee and Negev regions increases, this could be seen as an affirmative social-economic move. In addition, the military cost that focused on the redeployment of camps and bases will also create demands for construction and industrial products for the security of civilian settlements under the threat of steep trajectory fire. This additional expense will also contribute to the development of the southern region.

Notes

1. Political uncertainty about Israeli-Palestinian relations renders the issue of mutual influence and interconnection between the two economies beyond analysis, and what remains is to broach various alternatives. The border crossings and the preferred customs regime are exceptionally sensitive issues that demand immediate resolution, but even here, a decision independent of political-security considerations is essentially impossible. Additional economic-related questions have been raised in Israel's public debate, mainly: will the disengagement improve Israel's economic rating in the eyes of foreign agencies that rank national economies? Can the import of vast sums of money be expected after the disengagement? Will the stock market start to climb after the disengagement? The answers to all these questions depend on the political and economic developments in the post-disengagement period, and therefore the actual disengagement's influence on these answers is non-essential and undoubtedly transitory.
2. Imri Tov, "Economic Implications of the Disengagement Plan," *Strategic Assessment* 7, no. 3 (2004): 16-23.