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THE BUDGET DEBATE AFTER THE LEBANON WAR: A CHANCE TO CHANGE

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The current public debate in Israel about the size of increases to the defense budget before its approval by the Knesset is focused on astronomical figures: some 30 billion shekels over the next three years. Acceptance of such demands from the defense establishment and other budgetary bodies could seriously undermine the fiscal discipline that has contributed to financial stability and economic growth and might set in motion retrograde patterns of economic behavior.

On the other hand, the national order of priorities over the next two years is effectively dictated by the reality in the aftermath of the Lebanon war, which permits little distinction between the urgent and the important. The defense establishment's immediate needs constitute only part of the national challenge with which Israel must deal on an urgent basis. Reconstruction in the north and rehabilitation and preparation of the home front for expected future military challenges are additional areas demanding investment. The need to change government methods of operation will probably emerge from various post-war investigations, and meeting that need will also require resources. As for the social needs that Israel was planning to address with greater resources on the eve of the war, they have not disappeared but no longer appear as high priorities for 2007 or, in all probability, for the year after that. But failing to respond to those needs will create a highly combustible political situation that some decision makers will be only too happy to inflame even as others try to cool it down.

Thus, budget policy confronts a dilemma that the existing rules cannot contain. It may therefore be necessary to use 2007, which will in any event be a year of "national reorganization," to reexamine the resource allocation model on which the treasury relies. Indeed, the campaign in the north can be leveraged to carry out a comprehensive assessment of the challenges of budgeting and of governance as a whole.

The increase in the defense establishment's demands, which drive the overall budget increase, raises a number of substantial questions for budget planners. The most immediate of these, an positive answer to which the public and policymakers await in vain, is whether the

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defense establishment can mobilize the resources it needs through internal reform and elimination of waste. Can the defense establishment and the IDF save through greater efficiencies and come up with the money through its own efforts? The defense establishment's answer is categorically negative, and that appears to be the only relevant response for the next few fiscal years, given the size of the requirements. All the ideas to cut out "fat" in the defense budget – including the closing of overseas missions, the shutting down of production lines, and layoffs of permanent army staff and Defense Ministry employees – would not free up the necessary funds. Consequently, those who demand "efficiencies now" in order to save the traditional budget policy will have to look for another solution to the challenges facing Israel. That solution may have to be sought in the multi-year formulation, planning and management of a multi-year budget and in a rigorous comparative analysis of competing departmental needs.

A second question is whether the army and the defense establishment actually need such sums in order to guarantee preparedness over the coming years. That is a legitimate question, and approval of budget requests will have be contingent on presentation of planned activities, that is, on explanation of the expected strategic challenge, the required military response, the shortfalls in current force structures, and the financial supplements needed to make up the shortfalls.

But even if the defense establishment meets this requirement, an additional condition of budget approval for defense – and for all other government ministries and agencies – is the availability of the necessary resources within the framework of macro-economic policy. Two basic guidelines have driven fiscal policy: a budget deficit of no more than 2-3% of national product, and an annual growth in government expenditure not exceeding 1%. The importance of these guidelines lies in the budgetary discipline the treasury has managed to impose on the government and its ministries in recent years. That discipline is essential to preserve economic stability and growth, investor confidence, and a sense of economic security.

However, the war in Lebanon has created a new situation that should be exploited in order to bring about change. Decision makers need to compare the expected risk of deviating from these guidelines with the expected risk of failing to strengthen the defense establishment and/or rehabilitate the north of the country and/or address the urgent social problems created or exposed by the war in Lebanon. Such an examination is not just a professional-economic process – breaching the budget guidelines is a national risk – and if it leads to the conclusion that the two guidelines should not be implemented for, say, the next two years, and that a temporary deviation from them should be approved, the treasury will need substantial political support – perhaps in the form of special legislation – in order to deal with the challenge.

The shock to the state budget inflicted by the war in Lebanon justifies change in the way the budget is planned, formulated and implemented. Moreover, the fact that it is vital, in the aftermath of the war, to make a brutal choice between the risks of deviating from budget guidelines and other national risks can serve as an opportunity to build a mechanism for national and comparative risk assessment.

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