

Defense Expenditure and Israel's Social Challenges

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The social protests of the summer of 2011 on the one hand, and the security challenges facing Israel on the other, have intensified the Israeli debate on national expenditure priorities, pitting social welfare against defense needs. Those favoring moving resources from defense to welfare believe that “at the present moment, the threats stemming from our social challenges are no less important than the threats to our security, and demand a change in the relative emphasis reflected by the state budget” (Trajtenberg Committee).¹ Others are of the firm opinion that the defense budget is much lower than the actual need (Tishler Committee).²

This disagreement raises several questions: How are the nation's priorities determined? What are the nation's current priorities? How are these manifested in the allocation of resources between the military sector and the civilian sector? What is the scope for maneuver in terms of moving resources from the former to the latter?

This essay presents an analysis of Israel's national priorities as demonstrated in practice by the allocation of national resources between the military and civilian (public and private) sectors, based on the national accounting data published by the Central Bureau of Statistics. According to this data, the civilian sector is currently the recipient of 94 percent of the “economic sources” while the military is allotted close to 6 percent (“the defense burden”). Even though the latter is high when compared to that of other countries, Israel's defense burden has never been lower. This is the result of a long term trend – growing civilian consumption versus

decreasing military consumption – reflecting a fundamental change in apparent national priorities.

The debate about priorities at the national level resembles a tug of war between Finance Ministry representatives demanding that the defense budget be slashed, and defense establishment representatives seeking to increase it. For example, in the cabinet debate on August 15, 2012 about the 2013 defense budget, the gap between the sides was NIS 11.5 billion, with the government deciding not to decide. This conduct demonstrates the necessity of integrated staff work before the state budget is presented to the government for debate and approval.

The stormy debate about the defense budget, which recurs year after year, often diverts attention from other important matters concerning the economic effectiveness of national resources in the larger civilian sector, e.g., improving the effectiveness of expenditures in education and health, developing new municipal centers in Israel that would reduce the cost of housing; investing in future growth engines, and more. Obviously these are not instead of defense expenditure or monitoring the effectiveness of the expenditure; examination of the actual contribution of the expenditure and the different defense outputs to total national defense; and presentation of the alternative cost in terms of social needs and economic risks.

The Basket of National Uses

According to the data published by the Central Bureau of Statistics, the basket of national uses (some NIS 875 billion in 2011) includes three tracks: public consumption, private consumption, and investment. These are identical in value to the total economic sources (“the resources”) at the market’s disposal.³

Public consumption includes consumption by the governmental sector: the government, the National Insurance Institute, local governments, national institutions, and non-profit institutions financed mostly by national institutions. Public consumption can be divided into two main categories: one, individual consumption on services provided by the governmental sector, i.e., spending on services used individually by the members of Israeli society, such as education, healthcare, culture, and so on; two, collective consumption by the government, i.e., spending on defense, public order,

administration, research and development, the environment, and so on, or all the public goods serving all residents of the state collectively. To illustrate, in 2011, public consumption totaled NIS 207.7 billion, of which NIS 106.6 billion went toward individual consumption and NIS 101.1 billion toward collective consumption.

The difference between the two is that for individual spending, such as education and healthcare, the government can decide the level of funding: generous funding requiring extensive taxes (the welfare state) or basic funding, leaving the population to buy improved services out of pocket, i.e., buying complementary healthcare and education on the free market (the capitalistic approach). By contrast, when it comes to collective consumption, especially defense consumption, such a model is not possible, because the government is the only body permitted by law to establish and maintain an army.⁴

Private consumption is the total expenditure of households on finite goods and services, excluding residential housing. In 2011, private consumption totaled NIS 506.5 billion.

Investment is civilian public and private spending on infrastructures and means of production⁵ designed to allow future growth of the GDP. In 2011, investment in the Israeli market totaled NIS 161.4 billion. Defense sector investment is included in defense consumption.

Distribution among Defense Consumption, Civilian Consumption, and Investment

Another way of categorizing the basket of uses is to differentiate between defense consumption, civilian consumption, and investment for the future, whose value also equals the total economic sources available to the economy.

Defense consumption is part of the public consumption and reflects the country's total direct expenditures on defense.⁶ In spending on defense consumption, local defense consumption (in shekels) is distinguished from defense imports financed almost completely by US financial aid, which is therefore not a burden on the Israeli economy. Clearly, there is a direct link between the growth in defense consumption and the growth of external threats to security (by foreign armies, underground organizations, and so

on), but defense consumption also tends to grow as the result of growth in economic sources. This link appears in the 2007 Brodet Committee Report, which determined that defense consumption should grow by 1.3 percent annually, assuming the economy would grow at an annual rate of 4 percent.

Expenditures on defense consumption for 2011 totaled NIS 53.7 billion, some 26 percent of the public consumption and some 6.5 percent of the GDP. The local defense consumption (not counting acquisitions financed with US financial aid) totaled NIS 45.3 billion, i.e., 22 percent of the public consumption and about 5.4 percent of the GDP.

Civilian consumption consists of the total private and public civilian consumption. In general, a decrease in real terms in per capita civilian consumption leads to a lower standard of living and a higher threat to internal stability. This phenomenon is accompanied and/or is the result of a drop in real income, increased unemployment, increased taxes, higher prices, lower standards of services, and more. Alternatively, as long as per capita civilian consumption rises in real terms, the standard of living, as well as both public satisfaction with the leadership and internal stability, is supposed to increase. However, this connection is not necessarily borne out in practice, because growing income gaps between population segments or growing gaps in welfare expectations are liable to cause public resentment, even if civilian consumption increases overall.

Civilian consumption in Israel for 2011 totaled NIS 660.7 billion, of which NIS 506.5 billion was private consumption and NIS 154.2 billion was public consumption. The state could change the elements of civilian consumption by, for example, expanding public consumption at the expense of private consumption (by raising taxes and expanding civilian budget items), or change the breakdown of private consumption among population segments (e.g., by decreasing regressive taxes and increasing progressive taxes) without changing the state budget's expenditures. In other words, there are broad channels for improving welfare in Israel that do not require cutting the defense budget.

A comparison of the items of civilian consumption with national defense consumption in 2011 shows that national consumption on education totaled NIS 73.4 million (8.4 percent of the GDP)⁷ and national consumption on

healthcare totaled NIS 67.4 billion of the GDP.⁸ These expenditures are larger than national consumption on defense, and these areas appear to need streamlining at least as much as the defense sector. Thus, an analysis of the national uses presents more clearly the country's national priorities than the national budget, which does not include many of the expenditures the government does not assume fully but rather passes on to the citizens in other ways and are thus included in private consumption.

The government's challenge is to divide the total economic sources (NIS 875 billion in 2011) optimally among defense consumption, civilian consumption, and investment in order to bring about maximum utility to the state in the long run. Because these uses give the state different utilities at different times, the optimal division should be determined as a simultaneous solution of two dilemmas:

- a. How to divide the total economic sources between current needs versus future needs, i.e., how to divide the total economic sources between the current consumption (civilian consumption and defense consumption) and investments (future consumption). Deciding this dilemma is likely to be instructive about the state's view of the future. The more a state is future-oriented, the higher the proportion of its investments for the future. The more a state is mired in the problems of the moment, be they related to defense or to social issues, the more it will increase the proportion of current consumption at the expense of investment.
- b. How to divide the resources allocated for current consumption between defense consumption and civilian consumption to balance defense needs directed at external threats and social and economic needs directed internally and affecting the stability of the society and the economy.

The following discussion shows how Israeli governments resolved these dilemmas, that is, how over the years the national economic sources were divided among the different uses.

Change in National Priorities: Quantitative Analysis

Table 1 describes the division among the three national uses in 1995-2011: civilian consumption (public and private), defense consumption, and

investment, giving a sense of apparent national priorities and how these shifted over time.

Table 1. Division among Market Uses, 1995-2011 (in percentage of total economic sources)

Year	Investment	Civilian consumption	Defense consumption	Noteworthy events
1995	23.1	69.1	7.9	Oslo accord (II)
1996	22.8	69.1	8.1	Netanyahu government is sworn in; Western Wall tunnels incident
1997	22.2	69.6	8.1	
1998	20.9	70.9	8.1	
1999	21.2	70.8	8.1	Barak government is sworn in
2000	20.5	71.8	7.8	Withdrawal from Lebanon; outbreak of the second intifada
2001	19.5	72.7	7.9	Events of 9/11; start of the global economic crisis, Sharon government is sworn in
2002	17.7	73.5	8.9	Operation Defensive Shield
2003	17.2	74.3	8.5	
2004	17.4	74.8	7.8	End of the second intifada
2005	18.8	73.6	7.6	Disengagement from the Gaza Strip
2006	19.1	73.3	7.7	Olmert government is sworn in; Second Lebanon War
2007	19.9	73.1	7.1	
2008	18.5	74.7	6.8	Global economic crisis
2009	17.1	76.3	6.5	Operation Cast Lead; Netanyahu government is sworn in
2010	16.3	77.3	6.4	
2011	18.4	75.5	6.1	

Source: Based on Central Bureau of Statistics data (in current NIS), August 2012

The table demonstrates that since the mid 1990s, there has been a steady increase in civilian (public and private) consumption out of the total national consumption compared to a continuous decline in defense consumption. Between 1995 and 2011, defense consumption dropped from 7.9 percent of economic sources in 1995 to some 6.1 percent in 2011, whereas the part of civilian consumption grew from 69.1 percent in 1995 to 75.5 percent in 2011. This shift is not the result only of population growth, because in tandem there was also a significant growth in real per capita civilian consumption, as detailed in table 2. In other words, in current consumption a clearer preference was given to civilian consumption, i.e., standard of living, over defense consumption than in preceding years.

The increase in the relative proportion of civilian consumption also came at the expense of the portion set aside for (civilian) investment in the economy, which dropped from about 23.1 percent in 1995 to 18.4 percent in 2011. In other words, a clear preference was given to the needs of the present over the needs of the future. Among the apparent reasons for this trend was an increase in the economy's uncertainty, causing a preference for current consumption over investment, but another reason may be the difficulty of withstanding political pressure. This is clear when one compares the 1990s, the years of the political process, when the proportion of investment was bigger than its share in the basket of uses in the 2000s (years of the second intifada, the Second Lebanon War, the 2008 global economic crisis).

The quantitative analysis above indicates an apparent change in the national priorities since the mid 1990s: more resources to welfare and fewer to defense and investment for the future. It is hard to say whether in a long term national view this was a preferred trend, but one can certainly say that it is not a product of in-depth national staff work. Rather, it is a direct derivative of ad hoc decision making resulting from changing circumstances and political pressures. There is a link between the continuing deterioration of the defense situation and an increase in the defense burden, as exemplified in 2002 (the height of the second intifada). Nonetheless, there is no apparent link between the decrease of the defense burden and the ruling political party (Labor, Kadima, Likud). In other

words, it is hard to make distinctions among the political parties on the basis of their defense budgets.

Based on the data in table 1, the ratio between defense consumption and civilian consumption is steadily narrowing. In 2011, it reached 1:12, with the ratio between local defense consumption (NIS 45.3 billion), without American aid, and civilian consumption (NIS 660.7 billion) reaching close to 1:15. The significance of this ratio is that in order to increase the resources directed at standard of living by only 1 percent (NIS 6.6 billion), it is necessary to cut close to 15 percent of the local defense consumption (NIS 6.6 billion of NIS 45.3 billion). In other words, a minor improvement in the standard of living (welfare) would require significant cuts to defense. One should note that the ratio between local defense consumption and the total expenditures of the civilian sector (civilian consumption and civilian investments) reaches close to 1:19.

Table 2 shows the drop in the defense burden in terms of per capita consumption. Since 1995 per capita defense consumption has decreased by some 8 percent, whereas per capita civilian consumption has increased by 46 percent (in real terms).

Unlike the 1970s and early 1980s (when the defense burden reached 20-30 percent of the GDP), today's defense budget cannot be seen as a potential significant resource to generate an in-depth change in the socioeconomic realm. In other words, welfare for Israeli society cannot be found in the defense budget. By contrast, a critical deficiency in resources for defense needs is liable to increase the security threat to Israel's population and economy. Thus, the big money for social change in Israel is to be found in the civilian sector, where an in-depth overhaul is no less necessary than in the defense sector, if not more so. At the same time, local defense consumption remains a large component (22 percent) of public consumption in Israel, and therefore it is important to place it too under a microscope.

Qualitative Analysis

The global economic crises affecting the West since 2008 raised glaring questions about the nature of the socioeconomic order – with comparisons from predatory capitalism to naive socialism – that democratic nations ought

Table 2: Trends in Per Capita Civilian Consumption, 1995-2011
(thousands of NIS, in fixed prices – 2005)

Year	Per capita private consumption	Per capita civilian public consumption	Total per capita civilian consumption	Total per capita defense consumption
1995	41.0	9.9	50.9	6.85
1996	42.2	11.5	53.7	7.14
1997	42.5	12.5	55.0	7.04
1998	43.8	13.3	57.0	7.03
1999	44.3	14.0	58.3	7.01
2000	47.0	14.6	61.5	6.90
2001	47.5	15.3	62.8	7.03
2002	46.9	15.8	62.7	7.69
2003	46.0	15.3	61.3	7.09
2004	47.5	15.4	63.0	6.54
2005	48.2	15.7	63.8	6.54
2006	49.3	16.2	65.5	6.83
2007	51.4	16.7	68.1	6.73
2008	51.9	17.4	69.3	6.63
2009	51.8	18.0	69.8	6.32
2010	53.5	18.8	72.3	6.23
2011	54.5	19.9	74.3	6.32

Source: Central Bureau of Statistics, August 2012

to pursue. On the one hand, the crisis in the United States demonstrated the bitter effects of the capitalistic approach. On the other hand, the economic crisis in Europe manifested in the crisis of debt reduction, high unemployment, and more in countries such as Greece, Spain, and Italy, demonstrated the failure of states managing their economies without paying strict attention to rigid economic criteria.

The global economic reality of recent years increases the confusion: is the capitalistic approach the way to respect individuals' rights to control their property, working hours, and money and to fully realize their skills and talents in favor of their own interests, or is it simply an approach that views

the world in terms of financial profit and loss, increases social inequality, and is liable to empty the state of its social functions? Alternately, does the socialist approach support social equality and care for the weak and unfortunate, yet at the same time impinge on the rights and motivation of the talented and hardworking in society and encourage laziness, because the profit from work decreases as taxes rise, welfare services expand, and unilateral transfers are made by the government to the weaker elements in society?

Despite the deep debate about social justice, the different socioeconomic approaches in the West do not differ in essence regarding the debate about defense expenditures as a burden on the economy. In this sense, there is no essential difference between those who support a free market economy and those who support a centralized or welfare state economy where the state has a high degree of involvement in the economy. In the case of Israel, there are strong ties between the defense sector and the civilian sector that detract from the socioeconomic benefits likely to come from deep cuts to defense expenditures. In addition, Israel faces significant security threats compared to other countries, so a significant cut in defense expenditures is liable to be a fateful decision. These two factors make other countries less relevant for Israel as models for cuts in defense spending.

Regarding the link between defense expenditures and the economy: defense spending is likely to result in high economic yields, because it prevents economic damage and the costs of lack of security, i.e., spending or losses caused to the economy as the result of lack of security or defense damages that could have been prevented or minimized by strengthening the defense system. For example, the major investment in the Iron Dome system for interception of short range missiles has reduced the number of casualties and the damage to property, allowed most of the economy to function regularly during Operation Pillar of Defense in November 2012, and seemed at least for now to have prevented the need for a ground incursion by the IDF into Gaza. The system also represents a political economic asset for defense exports. A second example is the expenditure on the security fence on the Egyptian border, which is insignificant when compared to the benefit to the economy resulting from preventing people from entering Israel illegally. Third, Operation Defensive Shield of

March-April 2002 helped end the second intifada, which in turn allowed for the country's economic revival. In addition, defense expenditures yield indirect economic benefits: not only is security enhanced, but the IDF reaps indirect yields for society and the economy, such as proving a source for skilled workers, managers, and entrepreneurs for the economy (especially in the fields of technology and communications); contributing to technological development; contributing to the defense industry, and more. In many ways, the IDF is a school and training center of significant value for the civilian economy.

At the social level, one finds close mutual effects between the military and Israeli society in terms of social integration and support for the country's socioeconomically challenged geographical periphery. In terms of social integration, the IDF functions as a platform for social integration and mobility and equality of opportunity for the middle and lower classes. The IDF allows population segments from every part of the country to acquire professional knowledge, skills and know how, work habits, leadership abilities, the drive for excellence, and more. For those who enlist in the regular army beyond the compulsory service, the army offers a promotional track with many options, relatively high pay, and other perks. The IDF thereby breaks down social barriers stemming from the periphery's distance from the center and the entrance barriers to formal education at the beginning of the road. As for benefits for the periphery, IDF forces are deployed primarily in the periphery and provide employment for middle class NCOs, workers, and contractors. In addition, population centers in the periphery close to the border are more exposed to security threats than the country's center, and therefore these centers' ability to conduct normal social and economic lives and develop properly is more dependent on IDF capabilities. As a result, cutting defense expenditures is liable to damage these areas more, both security-wise and socioeconomically.

Thus, it appears that the decision to move resources from defense to social needs should also take into account the socioeconomic damage stemming from cuts to defense expenditures. In other words, it is necessary to consider the delta of the move, not only the contribution of the resources taken from defense in favor of the civilian sector.

The Incomplete Debate on the Defense Budget

In the wake of the social protests in Israel in the summer of 2011, the Prime Minister established a committee on socioeconomic change headed by Prof. Manuel Trajtenberg, the former head of the National Economic Council. Senior figures on Israel's economy and society were among its members. The committee recommended allocating budgets of NIS 30 billion over the next five years for civilian uses, especially education and welfare, primarily on the basis of cutting the defense budget.⁹ The committee proposed that even in the 2012 budget more than NIS 4 billion be allocated for these purposes, with the defense budget being the source for NIS 2.5 billion of that sum. The committee's report, called "Creating a More Just Israeli Society," explained the need for shifting resources from defense to welfare as follows: "In our case, the key meaning of changing priorities is a significant decrease of the defense budget to allow for parallel growth of social budgets. At the present moment, the threats stemming from our social challenges are no less important than the threats to our security, and demand a change in the relative emphasis reflected by the state budget."

Another change proposed by the committee was the reorganization of civilian consumption, especially the private portion, by means of canceling the plan to lower income tax and raising other taxes (some NIS 6 billion in 2012), while at the same time lowering indirect taxes and giving credit points (also for a total of NIS 6 billion), for a total of NIS 30 billion over half a decade. The committee expected these moves to "lower prices and ease the cost of living, allow greater accessibility to public services, ease payments for education, grow net income because of credit points, and more."¹⁰

A number of the Trajtenberg report recommendations were in fact implemented, but defense expenditures for 2012 not only did not fall but actually increased, despite the tremendous growth of the treasury deficit because of decreased tax collection, which was unanticipated and required deep cuts in other ministries as well. In other words, the government rejected the committee's assumption – or conclusion – that the threat to social stability was greater than the threat to Israel's security.

How can this be explained? The Trajtenberg committee, which included only prominent experts in socioeconomic fields, proposed that the government slash the defense budget, but did not provide an explanation about the meaning of the cut in terms of increased security risks, i.e., what security risks did the government have to take in order to move resources to the civilian sector in order to implement the recommendations of the Trajtenberg committee in the civilian realm? This is precisely the reason that it is hard for the government to accept the recommendation of the Finance Ministry to cut defense expenditures. As noted above, a mere 1 percent increase for civilian consumption would require cutting close to 15 percent of defense consumption.

The necessary conclusion, therefore, is that it would be better were civilian government ministries as well as committees dealing with social welfare not to point to the need for moving resources from the defense budget without presenting the security risk that would be incurred by such a move, but were rather to propose a change in the priorities within the civilian sector itself, already benefiting from 94 percent of the economy's resources.

The debate on the defense budget in the government: On August 15, 2012, the government debated the 2013 defense budget. At the beginning of the debate, Prime Minister Netanyahu made it clear that the government would have to decide "not only on the amount of money to invest in defense but also where in the security establishment to put that money." Predictably, the Finance and Defense Ministries presented opposing positions: the Finance Ministry demanded that the 2013 defense budget be cut to NIS 50.5 billion (compared to an original budget of NIS 55.8 billion for 2012), whereas the Defense Ministry demanded NIS 62 billion (compared to an updated budget of NIS 58 billion for 2012). The government failed to settle the issue.

This picture may indicate a certain improvement in the quality of the government debate about the defense budget (the willingness to discuss the contents of the defense budget, not only its size),¹¹ but it also shows that as yet there is no serious discussion at the professional level about the size and composition of the defense budget before it is presented to the government. Currently, Finance Ministry economists, demanding deep

cuts to the defense budget, bear no responsibility for the security of the state and are not experts in analyzing security threats or how to respond to them. By contrast, Defense Ministry personnel determine the size of the budget without being responsible for social needs or the economy's stability. Thus, both sides end up presenting the government with one-sided assessments rather than balanced integrated assessments necessary for sound decision making. Given such contradictory, one-sided positions, how can cabinet ministers make an informed decision on the dilemma and bridge enormous gaps presented by two groups of experts? The obvious conclusion is that the government needs professional assessments based on a comprehensive view of the country's security and social needs that would place the socioeconomic risks side by side with the security risks and the advantages of preferring to contribute resources to one side as opposed to the other.

To create such staff work for decision makers, a formal inter-ministerial dialogue should be held, e.g., in the context of the National Security Staff and with the participation of the National Economic Council, representatives from the defense establishment, the Bank of Israel, the relevant ministries, and advisors. The use of an inter-ministerial dialogue, as an integral part of staff work, is preferential to creating ad hoc committees, no matter how good, that would develop knowledge that would not be used in the long term. It could also institutionalize a way of thinking and organizational culture, and require senior personnel in government ministries to assume responsibility and accountability for the counsel they dispense. The product of such a dialogue would be the sketching of a number of scenarios on defense and social budgets. Each of the scenarios would make clear the level of security that would be attained (in terms of defense capabilities), the alternate social cost of the scenario, and the security risks the scenario does not cover. Thus, cabinet members would be able to decide on the nation's priorities in the context of security and assume risks in an informed manner.

The efficiency of security expenditures: The imperative to become more efficient is incumbent upon the defense establishment at all times, i.e., it must provide the most security per given budget, just as the Education Ministry is required to provide maximal education per its budget. To do

so, the defense establishment must present goals for increased efficiency and display maximal transparency toward the Finance Ministry and the National Security Council. At the same time, it would be best to separate the dialogue about the scope of spending on security, based on pricing the capabilities and actions required to confront the security threats, from the demand of the defense establishment to streamline. Making the transfer of resources to the defense establishment contingent upon increased efficiency is liable to risk the army's preparedness or even lead to a national disaster (a lesson learned from the State Comptroller's report on the devastating Mount Carmel fire).

Conclusion

The quantitative analysis of national resource allocation demonstrates that a change in national priorities – increasing the portion of civilian consumption and decreasing the portion of defense consumption – has in fact been a longstanding trend, dating back at least to the mid 1990s, if not before. The qualitative analysis demonstrates that defense consumption in Israel provides significant social and economic contributions in addition to producing security. Both analyses show that at present even a deep cut in the defense budget would not result in an essential change in Israel's standard of living, but would apparently result in fundamental damage to security. As such, it seems that improvements to Israel's standard of living first of all require deep changes in the civilian sector (civilian consumption and investments), representing 94 percent of national uses. In other words, while the debate about changing national priorities on the level of defense versus social needs is important, it is not the place to seek a solution to Israel's socioeconomic problems. Even more problematic, that debate shunts aside debates about efficiency in civilian uses, which are at least as important.

At present, the governmental and public debate about changing priorities on the level of defense versus social needs is itself inefficient. Defense experts claim the need for bigger budgets without consideration for social needs, while experts on the economy and social needs claim the need for cuts in defense without understanding the ramifications or having to be accountable for them. Improving the discourse and decision making

requires joint efforts by experts in all disciplines. This essay recommends that such discourse be developed formally and in an institutionalized manner through the National Defense Staff and the National Economic Council with the participation of the relevant government ministries. The focus of the discourse is the question how to balance the need to minimize security threats with the need to minimize threats to the stability of Israel's economy and society in the present and the future.

Given current data, the most significant consideration in determining defense expenditures must be the security threats and strategic challenges facing Israel and how these have changed in recent years. Assessing Israel's current strategic security challenges, it is hard to see how Israel can make significant cuts in defense spending; on the contrary, there seems to be reason to increase it. Even if there are those who think there has been no fundamental change in the cumulative security threat scenario, given the rise of certain threats and drop of others, a renewed defense assessment of the mix of threats forming in and of itself requires increased sums for defense spending.

Notes

- 1 The committee on socioeconomic change appointed by Prime Minister Benjamin Netanyahu in August 2011 following the social protests of the summer of 2011.
- 2 The committee appointed to investigate the erosion of the defense budget appointed by Defense Minister Ehud Barak in 2012. The committee was headed by Prof. Asher Tishler, Dean of the Management Faculty at Tel Aviv University, and an expert on defense. Among its members were CPA Dan Margalit, CPA Gad Somekh, Attorney David Tadmor, and others.
- 3 Total uses = total economic sources = GDP (the product) + import surplus. In 2011, the total economic sources at the economy's disposal totaled some NIS 875 billion: NIS 870 billion in GDP and some NIS 5 billion import surplus (imports totaling NIS 328.2 billion minus exports totaling NIS 322.8 billion).
- 4 Private defense consumption is relatively very small and consists mainly of the added cost involved in building a safe room in one's home compared to a regular room, and the expenditures on security firms in the private sector aimed against terrorist threats.
- 5 Gross investments (investments) are the total of expenditures (buying equipment and self-manufacturing) to increase capital reserves of fixed assets belonging to industrial plants, the government, and non-profit institutions. Expenditures

include acquisition of non-consumable assets (other than real estate) for civilian use, construction projects in progress, large scale renovations, road pavement, and other infrastructure work. Furthermore, investments in abstract assets are included (especially spending on acquisitions and self manufacturing of software and spending on oil and natural gas exploration). Not included are government expenditures on buildings and equipment for military use (Central Bureau of Statistics).

- 6 Expenditures for defense consumption include defense establishment payments for salaries, acquisition of goods and services, depreciation, and taxes on production (Central Bureau of Statistics). The expenditures of the IDF are the main component of defense consumption, but it also includes expenditures by civilian defense institutions, such as the General Security Service and the Mossad (source: "The Report of the Committee Investigating the Defense Budget," Brodet Commission, May 2007, p. 46). Defense consumption also includes defense establishment investments, not only current consumption (the civilian sector distinguishes between spending on consumption and investments). Defense consumption is not included in spending on pensions for defense establishment pensioners (these are included in the defense budget) but it does include the charge of spending on pensions for those serving in the regular army and civilian workers in the defense establishment. This addition to the cost of labor stems from the government's commitment to pay the pensions of the defense establishment's pensioners from the government budget as a substitute for deductions to pension funds (Central Bureau of Statistics). Defense consumption does not include spending on compensation and rehabilitation for bereaved families and service people who became handicapped in the course of their service; these are included in the defense budget. The definition of defense consumption matches accepted international definitions used to present national accounting data. Defense consumption is consistently noted and reported by the Central Bureau of Statistics based on expenditures in practice. For more information about the composition of defense consumption, see "Defense Expenditures in Israel 1950-2009," the Central Bureau of Statistics, Publication No. 1449, June 2011.
- 7 National expenditures on education: 87 percent of educational services were provided to the population by educational institutions of the central government, local government, or government NGOs most of whose funding is governmental (such as the universities, the ORT network, the Amal network); 4 percent of services were provided by NGOs whose funding is mostly private; and 9 percent of services were provided in for-profit settings, such as preschools, private tutoring, out-of-school courses for completing schoolwork, adult education, textbooks, and so on. Source: Central Bureau of Statistics, press release, August 28, 2012.

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- 8 Expenditures on healthcare: 34 percent of services were provided by the HMOs; 55 percent were provided by general hospitals, dentists, and private doctors, private clinics, and the manufacturers of medications and medical devices; 6 percent were provided by government institutions (hospitals for the mentally and chronically ill, health clinics, and bureaus); and 5 percent were provided by other non-profit healthcare institutions (such as Magen David Adom). Source: Central Bureau of Statistics, press release, August 13, 2012.
- 9 Summary of the Trajtenberg committee report.
- 10 Ibid.
- 11 See Giora Eiland, "A Model for Decision Making on the Defense Budget," presented at the INSS conference "Security Challenges of the 21st Century," May 2012.