

More on Blood and Treasure

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My paper, “Blood and Treasure – On Military and Economic Thinking,” published in the March 2014 issue of *Military and Strategic Affairs*, presented the following theses:

- a. The two types of thinking – military and economic – are very similar, if the thinkers involved are **true** commanders and **true** economists. The resemblance is due to the fact that both the commander and the economist seek to achieve a goal by selecting the optimal way of operating, based on cost-benefit considerations, in a very uncertain environment.
- b. Most commanders do not distinguish between true economists, who operate according to cost-benefit considerations, and accountants, whose considerations can be narrow and therefore also erroneous.
- c. The unfruitful agitation accompanying the discussions of the defense budget stems mainly from the absence of an orderly procedure for setting national security policy. The political echelon does not properly define the goals and priorities and lacks adequate professional staffs and systems to formulate its own concepts, and thereby is left to the mercy of the IDF’s planners.
- d. A negative consequence of this situation is that the interests of a branch of the IDF or a commander’s ego (or just lack of thought and indolence) may play a role in determining the allocation of resources for defense.
- e. The lesson from the above is two-fold: (1) The national security planning and budgeting processes need to be improved – a reform recommended by many, but which the Israeli governments have not been willing to undertake; (2) There is a need to bolster the economic understanding

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of the commanders from the IDF Command and General Staff College to the training and education of generals.

Recent statements by a number of IDF retired generals underline the ambivalent attitude of commanders towards economic thinking. Standing on the right side is Ministry of Defense Director General and former IDF Deputy Chief of the General Staff Major General (ret.) Dan Harel, who stated that, “My criticism of the economic logic of the Iron Dome system was wrong . . . The cost of intercepting a rocket must be compared to the damage caused by that rocket to property and people in populated areas (and not against the cost of the Katyusha rocket).” Of this, there is an old Jewish saying, “He who admits his sins and abandons them, shall find mercy.” On the same side is outgoing IDF Deputy Chief of the General Staff Major General (ret.) Yair Naveh, who said, “I would recommend to every deputy chief of staff to be a graduate of a business administration school, and to come to this job after a period in the private sector.”¹ Indeed, experience is the best teacher.

But Major General (ret.) Gershon Hacohen thinks otherwise. A book of his lectures on national security topics was recently published; one of the lectures (Chapter 8) discusses defense appropriations. Hacohen, who was recently retired, stands out as a profound thinker – a warrior and a scholar. He asserts that profit and loss considerations should not stop Israel from going ahead with projects of national security importance. In his words, “Is the goal of Israel’s redemption and the ingathering of the exiles meant to meet the test of economic rationality? Must building Israel be justified according to economic criteria and the cold cost-benefit analysis?”² Hacohen gives examples of some important and useful investments that should be made, even though they incur a financial loss: the “Rafal (late IDF Chief of Staff Rafael Eitan) boys” educational project for disadvantaged youth, agriculture, communities on borders, and the IDF personnel policy, based on general compulsory service and reserve duty. Hacohen’s arguments and examples portray the economists as a bunch of narrow-minded spoilers who decide issues according to narrow financial considerations. In “Blood and Treasure,” I tried to explain why this portrayal is incorrect. I will merely say here that a true economist considers the cost-benefit of alternative actions in broad terms, not merely according to their narrow budgetary consequences. It is like a true commander, not looking at a mission solely through the sights of an M-16 and an F-16.

Let it be said that in recent decades, the economists have become skeptical, and are no longer willing to accept the statements of commanders without evaluating them first. More than once, it has emerged that behind what was portrayed as relevant national security considerations were various undisclosed interests, or just indolence and lack of thought. One such case was the Lavi project, an advanced jetfighter designed by Israel Aircraft Industries, which almost ruined the Israeli economy, the IDF, and the Israel Air Force. The Lavi mishap had many partners in the ranks of the government, the IAI, and the IDF, but this is not the place to list them. It is sufficient to say that the economists in the US administration and the Israeli Ministry of Finance succeeded, with great difficulty, in “shooting down” the project.³ These economists deserve credit for Israel’s advanced air force based on American warplanes, and on leading global high-tech industries created by scientists, engineers, and technicians who had been let go when the Lavi project was grounded. They also deserve credit for preventing an economic catastrophe. Another example is that intelligence facilities, the general staff, Israel Air Force headquarters, and the Ministry of Defense, in which huge sums were invested, are located in the heart of a residential area of Tel Aviv, close to high-rise office buildings, a major hospital, schools, museums, and an old age home. The operational and economic considerations indicate that the location of the Israeli “Pentagon” is questionable, not to mention what will happen in war to civilians whose homes and workplaces are located around it.

Hacohen points woefully and rightly to the diminishing feeling of mission among the current generation of Israelis. He asserts that economic considerations have an important role in diminishing the devotion to the cause among reservists and their employers. What he says is true, of course, but a different conclusion can be made from his observation; the reduced willingness to report for reserve duty can be attributed not only to egoistic materialism, but also to Israel’s improved strategic situation, which makes it possible to lessen the defense burden nowadays. It is more difficult to generate motivation based only on values; therefore, the right economic incentives should also be used, as it is not enough to hold annual celebrations in honor of the reservists.⁴

Hacohen has underlined an important point: the government must have professional staff groups that can examine in-depth strategic and operational issues pertaining to national security. Reliance on external consulting companies, including foreigners, such as McKinsey & Co., is a

serious fault, because they lack the knowledge, experience, and judgment needed to deal with defense appropriations, as well as the moral authority required for making decisions with fateful consequences. Professional staff groups are needed in the government and the Knesset. Prominent is the lack of an experienced and professional team specializing in national security issues within the Ministry of Finance. It is interesting to note that the Office of the State Comptroller has managed to assemble such a team, headed by retired senior IDF officers, while in the Ministry of Finance, the young economists may be eager and bright, but usually lack a sufficiently broad national-security background.

In conclusion, this note reflects the feeling that the discourse between commanders and economists runs in parallel channels that do not intersect. For this reason and due to the importance of the subject, it would be fitting to devote time and energy to training commanders in economic thinking and its potential contribution to improving the processes of force-building. In recent years, the IDF's land and air forces implemented successful joint operations and so did the Military Intelligence Directorate and the Israel Security Agency. It is about time to devote attention to joining the commanders and economists.

Notes

- 1 Anat Roeh, "Dan Harel: My Criticism of the Economic Logic of the Iron Dome System Was Wrong," *Calcalist*, November 19, 2014; Amir Rapaport, "Yair Naveh in His First Interview about Operation Protective Edge and Professional Progress in the IDF," *Israel Defense*, January 9, 2015.
- 2 Gershon Hachohen, *What is National in National Security?* (Ministry of Defense Publishing House and Modan Publishing House, Broadcast University Library, 2014), p. 81.
- 3 State Comptroller, *Annual Report* No. 37, November 1987, pp. 1293-1358; Brigadier General Y., "The Lavi Project: The Decision-Making Process, 1980-1987," *Ma'arachot (IDF Publishing House)*, No. 341, May-June 1995. The American perception of the project is described in great detail in Dov S. Zakheim, *Flight of the Lavi*, (London: Brassey's, 1996).
- 4 Saul Bronfeld, "IDF's Reserve Forces – A Problematic Discourse between Economists and the Military," *Ma'arachot (IDF Publishing House)* No. 390, July 2003. The tensions portrayed in this article are relevant to this very day.