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## **Israel: Recommendations for the Defense Budget Debate**

**Shmuel Even**

### **Background**

The Israeli government and the Knesset are responsible for the defense budget, but their ability to hold in-depth deliberations on the issue is limited. The debate is conducted against the backdrop of the traditional dispute between the Finance Ministry and the Defense Ministry concerning the size of the defense budget, with each side attempting to bolster its arguments by highlighting particular data. For this reason, a decision was made to establish a new committee to examine the defense budget, headed by Major General (res.) Yohanan Locker.

This article, written in the framework of the work on the national security concept by a team at the Institute for National Security Studies, presents ten recommendations for a discussion on shaping the defense budget.

### **Recommendations**

1. Define the topic for discussion and the roles of those involved. The defense budget represents, inter alia, the level of the security risk that the political leadership is prepared to take, in the context of other national needs. The role of the professional staff – in the defense establishment, the National Security Staff (NSS), and the Ministry of Finance – is to present the political leadership with clear data, alternatives, and assessments, so that the decision will be made in as optimal way as possible.
2. Establish a common language, which includes clear concepts, accounting rules, and one data base. These will be put in writing and will be open to the public to the extent possible. In the 2013-2014 state budget book, data is presented based on non-uniform parameters, such as the (planned) defense budget, the (actual) government defense consumption expenditure, and the actual implementation of the defense budget (see Appendix). A comparison between these categories does not provide basic understandings, such as whether the defense establishment exceeded or remained within last year's budget, what the cost of defense is, and the like.

3. Define the content of the defense budget. In order to determine the budget necessary for the security forces in Israel, all state security organizations should be included: the IDF, General Security Services (GSS), Mossad, and others (the “defense establishment”). The actual implementation of this budget should be similar to the government defense consumption expenditure, published by the Central Bureau of Statistics (CBS) (see Appendix).
4. Prepare a procedure that describes in detail the process and criteria to determine the defense budget. The government will base its decisions on a national assessment of the security risks and the ways and costs to reduce them (see “defense baskets” below).
5. Present “defense baskets.” The defense establishment and the NSS will present the government with options in the form of possible defense baskets in terms of outputs – for example, defensive and offensive capabilities on a number of fronts at the same time, dimensions of the “long arm,” and so on. For each basket, there will be clarification concerning which defense scenarios it addresses, which it does not, and what it costs. Each basket will represent a different level of security or different solutions for a particular level of security. From the “defense menu” (the assortment of baskets), the government will choose the basket that matches the level of risk it is prepared to take. This method is designed to bridge the gap between the levels of security, which are subjective, and the concrete decisions on the size of the budget. It allows for a discussion on questions such as what resources are required to maintain or raise the current level of security and what risks are involved in choosing a less expensive basket.
6. Choose accepted indices for a discussion on the relative cost of security at the expense of the civilian sector. An example would be the ratio between the net domestic defense budget (without US aid and without revenues from the defense establishment itself) and each of the following: Gross Domestic Product (GDP), the state budget; and the state budget without debt payments, interest, and fees. In recent decades, there has been a significant drop in these indices as a result of economic growth. The indices can help determine the delineation of the defense budget for the coming years.
7. Be cautious about making comparisons with other countries. Israel has a small population and an exceptional level of threats, and therefore, the ratio between defense expenditures and GDP in Israel cannot be compared to many other countries. Nevertheless, it is appropriate to investigate defense expenditures in relation to the threats and the effectiveness of the defense establishment in Israel compared to other countries.
8. Discuss the issue of efficiency separately. The issue does not require a choice between defense baskets, but rather, processes of planning, implementation, and control for each basket chosen. Discussion should focus on how to achieve the desired level of security with the minimum of resources, or how to obtain maximum

security within a given budget. It is not possible to rely in advance on achieving targets for increased efficiency as a sure source for the upcoming defense budgets. Therefore, it is better to aim for increased efficiency reflected in an increased level of security in the next multi-year plan and for it to serve as a basis for the following multi-year plan. There is also a need for profound improvements in efficiency in the civilian public sector, responsible for most state expenditures.

9. Examine both the indirect contribution and the additional costs of the defense establishment to the economy. Take into account that beyond the realm of defense, the defense establishment makes a major contribution to the economy and society in several areas: technology, education, work routines, entrepreneurship, and social integration. To the extent possible, the impact of these contributions to the economy should be estimated. At the same time, there are additional defense costs to the economy that are not included in the defense budget, such as the value of work done by soldiers in compulsory service. These costs are estimated occasionally by the Central Bureau of Statistics, etc.
10. Take into account the cost of war. When making a decision on a "war of choice," the political leadership must also take into account the direct and indirect costs to the economy.

#### Appendix: Main Concepts

| Concept  | Comprising  | Data for 2013  |
|--|---|--|
| <b>Defense Ministry budget</b><br>(presented by the Finance Ministry)  | Budget for IDF and Defense Ministry branches. Also includes expenditures for rehabilitation for disabled soldiers, support for bereaved families, and memorials for IDF, GSS, Mossad, police, prison service, South Lebanese Army, etc.<br>Does not include budgets of other security organizations, such as the Mossad and GSS, etc.               | Original gross budget (in budget book): 58.3 billion NIS. <sup>1</sup> The figure constitutes 5.5% of the GDP (1,053 billion NIS), 14% of the state budget (417 billion NIS).<br>Updated gross budget: some 60 billion NIS. <sup>2</sup> Constitutes 5.7% of the GDP, 14.4% of the state budget. Net domestic budget: <sup>3</sup> some 40 billion NIS. Constitutes 3.8% of the GDP, 10.4% of the net state budget, 16% of the "free state budget." <sup>4</sup> |
| <b>Government defense consumption expenditure</b><br>(presented by the CBS, based on international criteria) | Total of actual direct expenditures for defense in Israel (Defense Ministry, GSS, Mossad, etc.). Does not include components of the Defense Ministry budget that are not direct defense expenditures, such as expenditures for pensions for defense establishment retirees, rehabilitation of disabled soldiers, and support for bereaved families. | 58.6 billion NIS. Constitutes 5.6% of the GDP.<br><b>Domestic defense consumption expenditure</b> (not including procurement, which is mostly funded by US aid): 48.4 billion NIS. Constitutes 4.6% of the GDP; 21% of the total public consumption (not including defense procurement).   |

| Concept  | Comprising  | Data for 2013  |
|--|---|--|
| <b>Actual defense budget</b><br>(presented by the Ministry of Finance) | Total of implementation of a number of budgets, including Defense Ministry, Mossad, GSS, etc. Does not match the planned composition of the defense budget in the state budget. | 67.7 billion NIS. <sup>5</sup> Constitutes 6.4% of GDP, 16.2% of gross state budget. |

<sup>1</sup> Also includes expenditures based on US aid and expenditures dependent on Defense Ministry revenues.

<sup>2</sup> The budget was updated in December 2013 because of the transfer of 1.82 billion shekels (US aid) from the 2012 budget due to a delay in supply of some of the purchases from the United States.

<sup>3</sup> The Defense Ministry budget without US aid ("domestic") and without expenditures dependent on Defense Ministry revenues ("net").

<sup>4</sup> After subtracting debt payments, interest, fees, and defense aid.

<sup>5</sup> The Budget Branch, online query system. The figure does not reflect deviation from the planning because it also includes components that are not in the Defense Ministry budget.

