

Whither the Defense Budget?

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Every year, the Ministry of Finance and the Ministry of Defense argue over the size and composition of the defense budget, which makes it difficult for the government to reach a decision about the budget. Almost every year, the defense budget that is drafted before the beginning of the financial year is found to be inadequate, and a necessary supplement is granted during the year (table 1). This article describes the current defense budget data for 2016, and examines the many developments that have taken place in the discussion about the budget over the past year.

The 2016 Defense Budget

In November 2015, the Knesset approved the state budget for 2016, including the defense budget.¹ According to the budget proposal, the net defense budget is NIS 56.1 billion, amounting to 16.1 percent of total spending in the state budget (after deduction of the payment of the principal debt).² The gross defense budget is NIS 64.1 billion, and includes approximately NIS 8 billion in “conditional expenditure.”³ The gross defense budget for 2016 is financed by the country’s economic resources in shekels (NIS 45.6 billion), \$3.75 billion in various types of military aid from the United States (including aid in the framework of the 2007 letter of understanding, and special aid for joint projects), and revenues from the defense establishment’s resources.⁴

The defense budget is likely to increase during the year. In talks between the Minister of Defense and the Minister of Finance, a NIS 3 to 6 billion defense budget supplement was agreed upon, to be granted during 2016, in exchange for implementing reforms and reducing expenditure.⁵ In other

words, the net 2016 defense budget is likely to be NIS 59 to 62 billion, and the gross budget NIS 67-70 billion. Furthermore, Israel and the United States are discussing an increase in aid to bolster Israel's military power, following the nuclear agreement with Iran and its accelerated military buildup as a result of the lifting of sanctions. At the same time, the two countries are holding talks to extend the military aid framework to the years 2019-2028.

Table 1: Trends in the Net Defense Budget (including supplements)
(in NIS billions in current prices)

Year	Original Budget	Budget Supplement during the Year	Total Defense Budget
2010	48.6	2.7	51.3
2011	49.3	2.8	52.1
2012	50.5	3.1	53.6
2013	52.5	3.4	55.9
2014	51	*1.1	*52.1
2015	56.9	not final ⁶	not final
2016	56.1	3-6 (forecast)	59-62 (forecast)

* Does not include NIS 7 billion in spending for Operation Protective Edge

Source: Ministry of Finance, "Defense Budget Proposal for 2015-2016" and press reports

The "Defense Burden"

According to the estimates for 2015, the ratio of defense consumption to GDP (the "defense burden") in 2015 is 5.5 percent and the ratio of domestic defense consumption to GDP is 4.7 percent.⁷ These figures are similar to those in recent years and lower than in the previous decade (figure 1). At the same time, they are still very high in comparison with other countries around the world, in view of the exceptional defense threats to Israel.

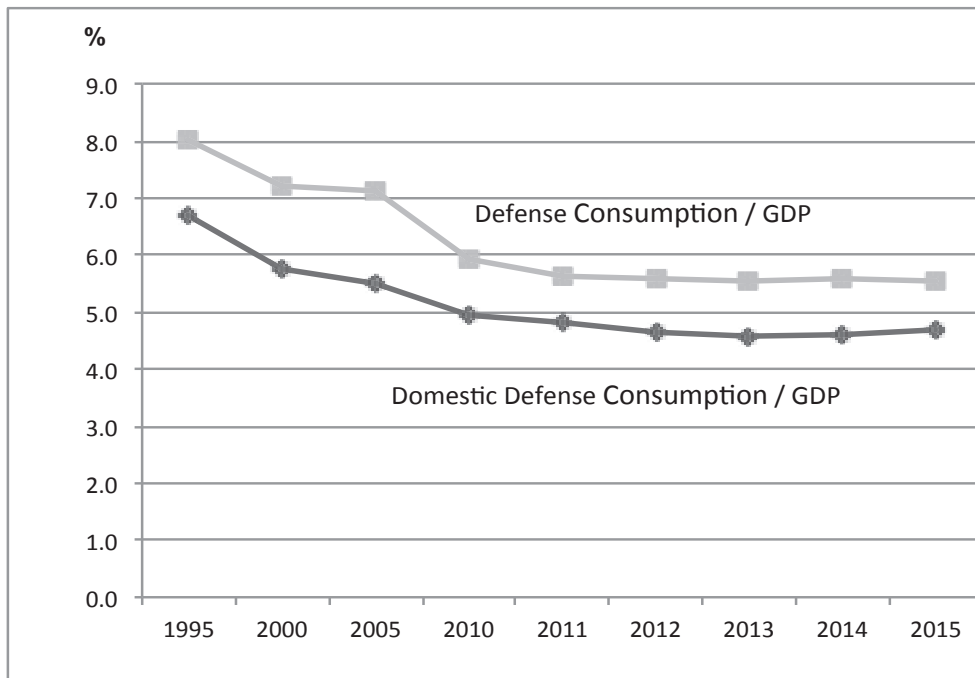


Figure 1: The Ratio of Defense Consumption to GDP in Israel

Source: The Central Bureau of Statistics (2015 – estimate from December)

The Discussion about Determining the Defense Budget

The discussion about the defense budget changed in 2015. In the second half of the year, four official documents were published about the subject. Notwithstanding the chronology of their publication, the documents should be read in the following order: (a) the report of the State Comptroller's Office,⁸ which points out the gap between the recommendations of the previous committee for examining the defense budget (the "Brodet Committee") in 2007 and the current situation; (b) The Chief of Staff's document, "IDF Strategy,"⁹ which sets forth the goals and activities covered by the defense budget; (c) the report of the Committee to Evaluate the Defense Budget ("Locker Committee"),¹⁰ which contains recommendations for determining the 2016-2020 defense budgets; (d) the Memorandum of Understanding on the 2015-2020 defense budget, signed by the Minister of Finance and the Minister of Defense, and which contains a summary of the discussion on the defense budget up to the present time.¹¹

The following commentary relates to these documents within the context of discussing the defense budget:

The State Comptroller's report: Reducing expenditures in the defense budget was only partially achieved. The State Comptroller's report from August 2015 found that the defense establishment had achieved NIS 3.8 billion in savings in 2008-2012, compared to the aim of NIS 10 billion as recommended by the Brodet Committee. The State Comptroller found that the defense and political echelons paid little attention to streamlining and reducing expenditure. The State Comptroller noted that only one presentation in May 2011 was given to the cabinet about reducing expenditure in the defense establishment. Nevertheless, the final report stated that, "The Office of the State Comptroller takes a positive view of the decisions and measures recently taken towards reducing expenditure, including actions to instill a cost-cutting culture at all levels of the defense establishment."¹²

In addition to the underperformance in reducing expenditure, other reasons, such as the changing security situation, contributed to the gap between the Brodet Committee's recommendations and the current situation. One month after the Brodet Report was published in May 2007, Hamas gained control of the Gaza Strip; in the following years, the number of rockets acquired by Hezbollah exceeded ten times the number of rockets it had during the Second Lebanon War (2006); cyberspace became a new battlefield; and the IDF invested resources in building an independent attack capability against Iran. The State Comptroller was told that, "The maximum increase in the personnel in the standing army in 2008-2012 in the IDF was approved by the Chief of Staff, and took place in essential areas in which additional manpower was required, such as in unmanned aerial vehicle units, submarines, the fields of intelligence, aerial defense, cyberspace, and the home front."¹³

According to the State Comptroller's report, since the end of the Tefen multi-year budget (2008-2012), "the IDF is making multi-year decisions in various areas, but without a comprehensive and integrative multi-year outlook."¹⁴ The lesson from the report is that a budgeted multi-year plan is important for the army; but anticipating and planning an accurate long-term outline for the defense budget, is unrealistic, because variables affecting the budget cannot be predicted so far in advance, particularly the security threats.

The Chief of Staff's "IDF Strategy" document: The "IDF Strategy" document, signed by Chief of Staff Gadi Eisenkot, provides what is "missing" in the discussion of the budget. Even though it contains no financial data,

the document details the needs of the army within an appropriate defense budget that is presented to the public, officials in government ministries, and many elected officials who are not exposed to classified documents. The document outlines a specific range of security capabilities and outputs¹⁵ that the IDF seeks to achieve within the defense budgets for 2016-2020 within the framework of the five-year Gideon Plan. As part of the plan, the IDF also decided on major streamlining measures and budget cuts, although these were significantly less than those proposed by the Locker Committee.

According to the Chief of Staff, “The IDF strategy document presents the necessary changes required of the Israeli military – given the future challenges and changes in the characteristics of the enemy – such as bolstering and improving the effectiveness of land-based maneuvers, diversification of operational capabilities in the campaign between wars, strengthening the cyberspace dimension, and maintaining a clear superiority in aerial and naval intelligence.”¹⁶ In the document, the Chief of Staff clarifies how he regards the division of responsibility between the military and political echelons, which also affects accountability for the budget. The role of the political echelon is to define the goals and constraints for the IDF, while the Chief of Staff’s role is to carry out the instructions of the political echelon – to build up the IDF and operate it accordingly. In the absence of clear instructions, the Chief of Staff presented his opinion of the necessary capabilities that should be budgeted.

The Locker Committee: The Locker Committee was established in 2014 to examine the defense budget as a follow-up to the 2007 Brodet Committee. The report of the Locker Committee, issued in June 2015, presents a long list of recommendations in accordance to the letter of appointment signed by Prime Minister Benjamin Netanyahu.¹⁷ The committee recommended setting the net defense budget at NIS 59 billion (a gross defense budget of approximately NIS 67 billion – including conditional expenditure), linked to the Consumer Price Index, for the next five years. This constitutes an increase in the budgetary basis, in comparison with recent years (table 1).

The most significant and controversial set of recommendations concerns IDF personnel, primarily the recommendations to eliminate the bridging pension for most soldiers in the standing army, and to shorten the compulsory service for men to two years. At the same time, the committee recommended

that any soldier in the standing army who is not promoted to the rank of lieutenant colonel by age thirty-six should be compelled to end his service with increased compensation (meaning that the IDF would not have any officers with the rank of major or lower above the age of thirty-six). It also recommended that a soldier in the standing army aged forty-two and up who ends his service should receive a one-time only capital grant instead of a pension.¹⁸ In comparison to the current situation, the scenarios of service and lay-offs under the proposed model make it less advantageous for a highly capable population to serve in the standing army, because of its reduced remuneration and increased employment uncertainty within the standing army.¹⁹

The Locker Committee Report does not include a comprehensive picture of the army's resources, combat scenarios, and tasks, which are detailed in the IDF's strategy document. If the recommendations are implemented, the result would be a much younger and smaller army, with fewer soldiers in both the compulsory and standing army service as well as reserve duty; it is doubtful that they would be able to perform the tasks required of the army. Even though the committee recommended increasing the basis of the defense budget, it is difficult to see how all these recommendations can contribute to the IDF's ability to perform its tasks. At the same time, the Locker Committee Report does contain criticism and recommendations that are known to the defense establishment, and which deserve specific and in-depth investigation. Examples include recommendations that link contribution to security with salary in various IDF positions,²⁰ reducing the number of senior positions, cutting back on headquarters and staff agencies, and so forth.

After the report was published, Minister of Defense Moshe Ya'alon said that its implementation "will not allow the IDF and the defense establishment to deal with the threats against Israel and its people, and would detract from our ability to provide security to Israeli citizens . . . Anyone who wants to deal successfully with ISIS, Hamas, Hezbollah, Iran, and dozens more unscrupulous terrorist organizations armed with advanced weapons, as we have been doing up until now, cannot afford a mediocre army with mediocre people. Unfortunately, the Locker Report will lead Israel and its people into exactly this position."²¹

It is doubtful whether the weighty and specific tasks with which the Prime Minister charged the Locker Committee in his letter of appointment were appropriate for a committee of this type, mainly due to time considerations and resources at its disposal.²² Former Director General of the Ministry of Finance Dr. Yaacov Lifshitz, currently a senior researcher at the Begin-Sadat Center for Strategic Studies, said, “External probes like the Locker Committee are a poor substitute for rigorous internal staff work and for tough governmental decision-making.”²³ On such a broad subject, it would have been better for the Locker Committee to provide principled recommendations for determining the defense budget, and detailed recommendations for arranging governmental staff work to formulate, streamline, approve, and oversee the defense budget, rather than to elaborate on the severance grants to be given to various ranks.

The Memorandum of Understanding signed by the Minister of Finance and Minister of Defense regarding the 2015-2020 defense budget: In the end, it was decided not to implement the Locker Committee recommendations as a whole, with the Gideon Plan of the Chief of Staff to remain the basis for IDF activity and force building for the next five years, on the assumption that it will be approved soon. Nevertheless, at the urging of the Prime Minister, who had appointed the Locker Committee, the Office of the Prime Minister, Ministry of Defense, and Ministry of Finance discussed suggestions for compromise, taking into account the Locker Committee’s recommendations.

In this framework, a one-page memorandum signed by the Minister of Defense and the Minister of Finance was published on November 18, 2015. This document presented the following points of agreement on the 2015-2020 defense budgets:²⁴

- a. Agreement to a realistic multi-year budget outline that will provide budgetary certainty for the defense establishment and facilitate the implementation of the Gideon Plan.
- b. A change in the standing army and pension model that preserves the IDF’s high-caliber personnel and significantly reduces the retirement quotas and spending on salaries and pensions.
- c. Shortening compulsory military service to two and a half years, and increasing the stipend for IDF soldiers doing compulsory service (which is slated to be substantially increased as early as January 2016).

- d. Implementation of the Goren Committee recommendations concerning the Rehabilitation Department budget.
- e. Increasing the research and development budget.
- f. Establishing joint cost-cutting teams, joint work, and full transparency between the Ministries of Defense and Finance.

These principles were elucidated in discussions between the Ministry of Finance and the defense establishment. The most significant recommendation by the Locker Committee – elimination of the bridging pension for most soldiers serving in the standing army – was not accepted. Nevertheless, it was agreed to lower the pension expenses by reducing the number of soldiers in the standing army who serve until the age of eligibility for a bridging pension; raising the retirement age for non-commissioned officers; and hiring civilians for certain posts.²⁵ In addition, the Locker Committee recommendation to shorten compulsory military service to two years was not accepted; instead, service will be shortened to two and a half years. The recommendation for implementation of the Goren Committee recommendations for the rehabilitation budget was accepted.

Despite the gaps in the Locker Committee Report, the report appears to have considerably influenced the understanding reached by the Ministers of Defense and Finance. The extreme views expressed in the report led the Ministry of Defense to be more flexible; it agreed to carry out reforms and deeper budget cuts than originally planned. In this way, the committee may have served the purposes of the Prime Minister who had appointed it.

Summary and Recommendations

Once again, the process of determining the defense budget for 2016 did not take place in an orderly manner. The budget, which the cabinet approved only in August 2015, was, in effect, reopened in November 2015, and it now appears that some of the items in the Memorandum of Understanding signed by the Ministers of Defense and Finance are being interpreted differently by their ministries.

Increasing efficiency and cutting costs, both a focus of the Locker Committee and the State Comptroller, requires professional handling, and cannot be solved solely through external committees that convene once every eight years and ad hoc joint teams. It is therefore best to establish a cost-cutting

administration in the Ministry of Defense to deal regularly with cost-cutting projects, including the participation of representatives from the Ministry of Finance and the National Security Council. The administration should address concerns of inefficiency, such as the situation in the maintenance system of the ground forces, as cited by the State Comptroller. This agency will measure and monitor cost-cutting in the different units.

One result of the titanic struggle between the Ministries of Finance and Defense over the defense budget is an escalating debate over the defense budget, which is not free of power struggles; as a result, the overall purpose of the state budget discussion – to effectively adapt the government's goals to the expenses and resources at its disposal in all spheres of activity – is sometimes forgotten. In the current situation, the public discourse about the defense budget is disproportionate to the defense budget's share of the state budget, which is primarily civilian. The government should institute an in-depth discussion of spending by all the ministries, instead of settling for a discussion of budget supplements to their spending (in comparison with the preceding year), as has been the practice up until now. It is therefore proposed here to establish a permanent committee within the Prime Minister's Office, with the purpose of examining and promoting streamlining in the civilian public sector, and that the government should conduct a thorough examination of a different government ministry each year in an area affecting multiple ministries (such as salary expenses). The discussion of the defense budget will thereby be kept in the correct proportion to its weight in the state budget.

The public criticism of defense spending goes beyond the financial aspect and detracts from the image of those serving in the standing army. This is liable to affect the willingness of those with the greatest capabilities to serve in the standing army. Therefore, it is proposed that professional language be used in the discussion on the defense budget. In his speech opening the winter session of the Knesset on October 12, 2015, President Reuven Rivlin stated, "We cannot give backing to the public narrative that paints them [soldiers in the standing army] as if they were 'parasites' or a 'burden on the economy.'" Addressing all Knesset members, he observed, "Repair what requires repair [in streamlining] as is needed. But stamp out the defamation; repel the dismissive discourse that harms the spirit of the IDF and its soldiers."²⁶

Notes

- 1 Ministry of Finance, "State Budget Proposal for the 2015 and 2016 Financial Years," Jerusalem, October 2015, http://mof.gov.il/BudgetSite/statebudget/BUDGET2015_2016/Pages/default.aspx.
- 2 The NIS 56.1 billion net defense budget constitutes 16.1 percent of the "state budget for calculation of the spending constraints" (NIS 347.7 billion). This figure is the total net state budget for 2016 (NIS 424.8 billion), minus the payment of the principal debt (NIS 88.8 billion), except for payment of debts to the National Insurance Institute (NIS 11.7 billion). See Ministry of Finance, "State Budget Proposal," pp. 20, 111.
- 3 "Conditional expenditure" relies on additional American aid (beyond \$2.4 billion a year), and on defense establishment revenues. See Ministry of Finance, "State Budget Proposal," pp. 114, 118. The two figures do not, inter alia, include the cost of the project for moving IDF bases to the Negev and an American aid supplement with respect to the nuclear agreement with Iran.
- 4 Ministry of Finance, "State Budget Proposal," pp. 114-18.
- 5 The additional NIS 3-6 billion consists of a supplement of up to NIS 3 billion (contingent upon implementation of reforms), a supplement of up to NIS 1.7 billion (contingent upon cost-cutting), and about NIS 1 billion with respect to increased costs. See Moti Bassok, "Netanyahu and Kahlon Know that the Budget is a Bluff – That Is How You Will Pay for the Additional Billions for Defense," *The Marker*, November 18, 2015.
- 6 The Ministry of Defense may receive a retroactive supplement to its 2015 budget from the state budget surpluses for 2015.
- 7 Estimates from December 31, 2015, based on data from the Central Bureau of Statistics database. Defense consumption is total actual defense spending, as defined by the Central Bureau of Statistics (including spending on the Mossad and the Israel Security Agency). Domestic defense consumption does not include overseas procurement (purchased mostly with American aid).
- 8 State Comptroller's Office, "Report on Processes of Streamlining and Convergence for the Defense Budget Framework," August 5, 2015, <http://www.mevaker.gov.il/he/publication/Articles/Pages/2015.08.05-Taktziv-Bitachon.aspx?AspxAutoDetectCookieSupport=1>.
- 9 Office of the Chief of Staff, "IDF Strategy," August 13, 2015. The document published was an unclassified version of the classified document, the multi-year Gideon Plan, http://www.idf.il/SIP_STORAGE/FILES/9/16919.pdf.
- 10 "The Report of the Committee to Evaluate the Defense Budget," June 26, 2015 (released to the public on July 21, 2015). The committee was established in May 2014 as a follow-up committee to the Brodet Committee, in the wake of disputes

between the Ministry of Finance and the Ministry of Defense over the size of the defense budget and the difficulty experienced by the cabinet in reaching a decision on the matter. The head of the committee was Major Gen. (res.) Yohanan Locker, former military secretary to the Prime Minister.

- 11 At the signing, Minister of Finance Moshe Kahlon said, "I am completely unwilling to accept the violent criticism in recent years against those serving in the standing army. It is shortsighted to hug them only during wars; they have to be hugged all the time." See Amiram Barkat, "Finance, Defense Agree Defense Budget," *Globes*, November 18, 2015, <http://www.globes.co.il/en/article-finance-and-defense-ministers-agree-defense-budget-1001082238>.
- 12 State Comptroller's Office, "Report on Processes of Streamlining and Convergence," p. 8.
- 13 Ibid., p. 14.
- 14 Ibid., p. 24.
- 15 For a further discussion, see Shmuel Even, *The Cost of Defense in Israel: Defense Expenditures and Recommendations for Drafting the Defense Budget*, INSS Memorandum No. 146 (Tel Aviv: Institute for National Security Studies, 2015).
- 16 See the Chief of Staff's preface in "IDF Strategy."
- 17 According to the Prime Minister's letter of appointment, "It is the committee's job to examine and formulate recommendations about the desirable size and composition of the defense budget, taking into account the reference scenarios and the response derived from them required from the Ministry of Defense and the IDF." The committee was charged, inter alia, with making recommendations about the following topics: establishing a detailed process for formulating and approving the defense budget and formulating a multi-year plan for the IDF; the size of the defense budget and its principal components for each of the next five years; the model for the standing army; salaries and pensions; cost-cutting measures for the next five years; and more. See "The Report of the Committee to Evaluate the Defense Budget," p. 6.
- 18 For example, an officer with a rank of colonel and a great deal of experience (seven years in combat roles, five years in combat support roles, five years in professional roles, or ten years in staff roles) will be released from the IDF after twenty-seven years of service with a total grant of NIS 1.46 million. See "The Report of the Committee to Evaluate the Defense Budget," p. 68.
- 19 In general, it appears that the ability to maintain an army service model without a pension is likely to require a sharp rise in salary or severance grants (more than what the committee proposed), or a very risky compromise on the composition of personnel and military capabilities.
- 20 "The Report of the Committee to Evaluate the Defense Budget," p. 39.

- 21 Ya'alon also said that "the Locker Report is shallow, extremely unbalanced, and completely disconnected from reality." See Hezi Shternlicht, Zeev Klein, Lilach Shoval, "Locker Report: Shallow, Unbalanced, Completely Disconnected from Reality," *Israel Hayom*, July 21, 2015, <http://www.israelhayom.co.il/article/299919>.
- 22 According to the report, the full committee met for a total of 160 hours, including only two hours with then-Chief of Staff Lieutenant General Benny Gantz and Deputy Chief of Staff (and current Chief of Staff) General Gadi Eisenkot (Appendix B of the Report of the Committee to Evaluate the Defense Budget). It is hard to believe that the limited time was sufficient to complete both in depth and detail all of the tasks listed in the Prime Minister's letter of appointment (see above).
- 23 Yaacov Lifshitz, "The Locker Committee: A Preordained Failure," *BESA Center Perspective Paper* No. 312, October 14, 2015, <http://besacenter.org/perspectives-papers/the-locker-committee-a-preordained-failure/>. In Lifshitz's opinion, "We cannot seriously expect that a group of external individuals, whose daily work – and in many cases, whose expertise – lies in different fields, can within a limited time frame uncover previously unknown data, or use familiar data to create some new perspective, or analyze an existing perspective and reach meaningful insights that have never occurred to those involved on a day-to-day basis."
- 24 Barkat, "Finance, Defense Agree Defense Budget."
- 25 Amiram Barkat and Yuval Azulai, "Pension and Budget Total Unaffected," *Globes*, November 15-16, 2015.
- 26 President Reuven Rivlin, speech at the opening of the Knesset winter session, http://www.president.gov.il/English/ThePresident/Speeches/Pages/news_1201015_01.aspx.