

Israel's war budget points to a deepening economic, social and military crisis

Jean Shaoul

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Prime Minister Benjamin Netanyahu's fascist cabinet has approved a budget for 2025 with some of the biggest spending cuts and tax increases to finance the war that Israel has ever seen.

With the war, already the longest and most expensive Israel has ever fought, now expanding to Lebanon and Iran, the proposed tax hikes and spending cuts will likely deepen before the Knesset approves the budget in three months' time.

According to the Finance Ministry, by the end of last September the direct cost of the war had reached \$29 billion. Since then, it has soared with the assault on Lebanon, the heavier fighting in Gaza and the strikes on Iran. Tens of thousands of reservists have been called up and ammunition is being used up at an immense rate. The daily costs have risen from \$110 million to \$135 million, a sum that would build a dozen much needed schools.

The ratings agencies have downgraded Israel's credit rating, while foreign investors have reduced their exposure to Israeli debt. The economy, which has still not recovered from the collapse suffered during the first months of the war, when some 350,000 reservists were called up, is now smaller than it was on October 7, 2023. Israel's much vaunted high-tech sector is struggling. Intel Israel is to lay off hundreds of workers. Investment in plant and equipment is down. The travel and tourism industry is at a standstill as flights are cancelled due to the war.

Last month, following Iran's missile attack, Chevron, which operates Israel's Leviathan gas field, announced it was suspending work on a \$429 million expansion project due to the "security situation." Further Israeli attacks on Iran, particularly its oil facilities, could trigger a far wider war, creating a global oil shortage and raising the cost of imported petroleum with ripple effects throughout the economy.

The 2025 state budget at \$163 billion is about \$4.8 billion more than this year and includes a massive \$27.2 billion increase for the military that could rise to \$40.1 billion. It follows the 2024 budget that, despite the war, contained no

tax increases or significant spending cuts, ran up a big budget deficit and postponed the bill till later.

Finance Minister and Religious Zionist leader Bezalel Smotrich is proposing steep spending cuts as well as tax increases to finance the war—currently estimated to cost \$66.8 billion by the end of this year—and plug a \$10.7 billion deficit in 2025. Nevertheless, the budget deficit will reach 4.4 percent of GDP, higher than the planned 2.25 percent due to the rising cost of the war.

The measures to be borne by the working class include a freeze on public sector wages and welfare benefits for the elderly, people with disabilities and Holocaust survivors. Even wounded soldiers and the families of fallen soldiers will not be spared. As consumer prices rise by nearly 4 percent a year, Israelis will pay more taxes—VAT is set to rise and workers in the lowest income tax band will see their tax rate rise from 10 percent to 14 percent—while the value of welfare benefits will fall in real terms.

With Israel one of the most unequal countries in the OECD group of advanced countries, the budget will have a devastating impact. According to the National Insurance Institute, even before the war poverty had risen with 1.98 million Israelis (around 21 percent of the population) in poverty in 2022, of whom 949,000 were working. This particularly affects children, of whom almost one in every three lives in poverty. Food prices have risen, with vegetable prices jumping by 18 percent and fruit prices by 12 percent, due to agricultural shortages, making it especially hard for those struggling with food insecurity.

Every ministry except defence will see its funding cut, with education and public transport taking the biggest hits. But Smotrich is also taking \$73 million from the health budget and \$26.7 million from the welfare budget and closing five ministries he considers superfluous.

Arnon Bar-David, the leader of the Histadrut, after spending hours talking to the Ministry of Finance and Smotrich, said that the corporatist trade union federation would support the proposed budget—having secured two days additional paid leave in return for a freeze on public sector

wages.

The austerity budget follows the ever-rising cost of the now 13-month-long war in Gaza, near daily mass raiding operations in the West Bank, escalating fighting in Lebanon and the strikes on Iran, with no end in sight. The Israel Defence Forces (IDF), having mounted a ground invasion of Lebanon with the aim of pushing Hezbollah back to the Litani river, has been unable to hold ground more than two kilometres from the border and had to stage frequent retreats when casualties became too high.

Netanyahu has insisted he will defy global pressure and continue pursuing Israel's war goals—"total victory" against Hamas and the degradation and defeat of Hezbollah—while warning Iran that "there is no place" in the Middle East that "the long arm of Israel cannot reach."

According to reports from a committee examining future defence needs, the military will need nearly \$100 billion extra over the next decade, meaning higher taxes to finance it and more regular and reserve army service, reducing economic output. This is for a country that even in 2022 had the world's 15th-largest military budget, far higher than countries with a much larger population and economy.

The army is desperately short of manpower. According to a recent study by the Institute for National Security Studies, the IDF will need about 20,000 combat soldiers and other personnel. This is fuelling the furious debate that threatens Netanyahu's coalition over ending the exemption of ultra-orthodox Jews (known as Haredim) from compulsory military service if they are studying in religious seminaries (yeshivas).

Last June, the High Court ordered an end to the Haredi exemption by November this year, with Attorney General Gali Baharav-Miara later ruling that draft evaders would not be entitled to government allowances and day-care subsidies. This would be a serious blow to the ultra-Orthodox, who do not work and rely on the allowances negotiated by the ultra-religious parties as the price for keeping Netanyahu in power. The IDF has done little to respond to the Court's ruling and to recruit the ultra-orthodox, thereby allowing the Haredim to avoid conscription without losing their allowances.

But in a war that has cost the lives of at least 772 soldiers and security personnel, injured at least 12,000 more—figures opposition leader Yair Lapid said were a vast underestimate—and forced tens of thousands to do months of reserve duty, this has provoked fury and disgust among secular Israelis already alienated by the dominance of the religious authorities over everyday life.

Now the religious parties have put forward a bill that has government support to subsidize day care for children of full-time yeshiva students who dodge the draft at a cost of \$54

million and made approval of the law the condition for their support for the 2025 budget.

Other divisions are opening up. According to *Haaretz* military correspondent Amos Harel, Israel's defence establishment believes that the war in Lebanon and Gaza has exhausted the troops and risks heavy losses if the IDF is required to remain there. The military would prefer a deal to secure a ceasefire and the release of all hostages still held in Gaza.

While the majority of Jewish Israelis support the defeat of Hamas, the toll of the war—for both Israelis and Palestinians—is driving some Jewish Israelis to leave the country. Of those who left in October 2023, 12,000 had not returned by last June, according to official statistics. One in four Jewish Israelis and four in 10 Arab Israelis say they would emigrate if given the opportunity, according to a survey by the Jewish People Policy Institute. Its president, Professor Yedidia Stern, said, "The findings indicate a deep crisis of trust between the public and the security and political leadership. This is a significant challenge at any time, but particularly crucial during a crisis."

Middle East Eye cited a report showing that an increasing number of Israeli soldiers are becoming disillusioned with the fighting, with some refusing to return to the battlefield. One soldier told *HaMakom* that missions were being "done halfway" due to the lack of manpower. "The platoons are empty; those who aren't dead or physically wounded are mentally broken. Very few come back to fight, and even they aren't fully okay," the soldier said.

Last month, 130 Israeli soldiers and reservists signed an open letter addressed to Netanyahu conditioning their continued service on the signing of a deal for the release of hostages and an end to the war, the first mass wave of Israeli soldiers refusing service in protest of war and occupation in recent years.



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