

The Balance of Israel's National Security

2- 4 December 2002

A Plan for Fiscal Consolidation in Israel 2003-2012

Executive Summary

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A plan for fiscal consolidation in Israel, 2003-2012

Executive Summary

The plan determines *fiscal consolidation* as the main goal for Israel and proposes an economic policy, designed for the achievement of its objectives over the next ten years. The main objectives of the consolidation are: reduction of government expenditure relative to GDP; reduction of government intervention in the economy and a general enhancement of efficiency in the provision of public services; reduction of the public debt relative to GDP; reduction of the employment share in the public sector; maintenance of economic stability by means of a low fiscal deficit in the state budget; and reduction of the tax burden. The goals of the plan were determined on the basis of analysis of existing parameters in the countries, which Israel aspires to emulate. The goal set for the main parameters of the economy is convergence with the European average, subject to appropriate adjustments.

The consolidation plan provides an over-all, quantitative economic framework for reform of the public sector in Israel and presents a comprehensive budget proposal including expenditure, revenue and deficit over a ten-year period. The plan defines national priorities and provides a budget framework for the security, social and economic areas. This is done while making allowances for the constraints on the State of Israel in all spheres – especially those relating to national security needs and to its role as a national home for the Jewish people.

The main results of the consolidation plan are presented in Tables A-D (below). These tables show the point of departure (year 2002) and the final goal (year 2012). Table A presents the principal governmental data; Table B shows the distribution of government expenditure on security, social, economic fields and on debt service; Table C depicts the distribution of expenditure on social services; Table D the distribution of expenditure on economic services.

The major findings are:

- Achievement of the consolidation goals. (Table A)
- A balanced distribution of the reduction of government expenditure. (Table B).
- Convergence of the security expenditure (not including foreign aid) to 5 per cent of the GDP.
- A change of priorities in the field of social expenditure: an increase in areas of education health and culture and decrease in direct transfer payments to households. (Table C)
- An increase in investments in infrastructure and a reduction in direct financial support to the business sector, together with a reduction in the remaining economic services, utilizing the economies of scale and improved efficiency.

Table A. Central Government Indicators¹

The existing situation 2002 and consolidation objectives 2012

Indicator	Existing situation² 2002	Consolidation objectives 2012
Expenditure ³	55.0	47.8
Debt ⁴	89.0	72.9 ⁸
Over-all deficit ⁵	5.4	3.0
Tax burden ⁶	39.7	36.0
Employees ⁷	30.0	26.2

¹ General government

² Estimate

³ Percent of GDP

⁴ Percent of GDP

⁵ Percent of GDP

⁶ Percent of GDP

⁷ Percent of total employees

⁸ Conservative estimate for reduction of debt. Privatization of state assets and predicted changes in relative prices might reduce the debt considerably

Table B. Distribution of Government Expenditure¹
The existing situation 2002 and consolidation objectives 2012

	Existing situation 2002 ²		Consolidation objectives 2012	
	Percent of GDP	Weight in Total	Percent of GDP	Weight in Total
Security services³	9.0	16.4	6.9	14.4
Social services⁴	29.6	53.8	27.4	57.4
Economic services⁵	10.3	18.7	8.3	17.4
Funding	6.1	11.1	5.2	10.8
Total	55.0	100	47.8	100

¹ General government

² Estimate

³ Goss

⁴ Includes: education, health, culture, entertainment, sports, religious services and social services.

⁵ Includes economic administration, agriculture, afforestation, fishing, mineral resources, industry, construction, electricity, gas, water, roads, transportation. Communication, housing, community services, other, mortgage subsidies, the subsidy component of government loans to the private sector and general research

Table C. Distribution of Social Expenditure¹

The existing situation 2002 and consolidation objectives 2012

	Existing situation 2002 ²		Consolidation objectives 2012	
	Percent of GDP	Weight in Total	Percent of GDP	Weight in Total
Education	8.2	27.7	8.1	29.6
Health	6.1	20.6	6.0	21.9
Culture³	1.8	6.1	1.7	6.2
Social security⁴	13.5	45.6	11.6	42.4
Total	29.6	100.0	27.4	100

¹ Expenditure of each article includes current expense and investments.

² Estimate

³ Includes culture, entertainment, sports and religious services.

⁴ Includes transfer payments to house holds and special services.

Table D. Distribution of Economic Expenditure¹**The existing situation 2002 and consolidation objectives 2012**

	Existing situation 2002 ²		Consolidation objectives 2012	
	Percent of GDP	Weight in Total	Percent of GDP	Weight in Total
Housing³	1.9	18.4	1.5	18.7
Economy⁴	1.3	12.6	1.1	12.8
Direct Subsidies of Production⁵				
Transfer Payments,	0.8	7.8	0.5	6.3
Capital Account⁶	1.1	10.7	0.8	9.1
Transportation investments⁷				
Government⁸	1.0	9.7	1.1	13.3
	4.2	40.8	3.3	39.9
Total	10.3	100.0	27.4	100

¹ Expenditure of each article includes current expense and investments.

² Estimate

³ Includes community services and mortgage subsidies

⁴ Includes economic administration, agriculture, afforestation, fishing, mineral resources, industry, construction, electricity, gas, water, roads, transportation. Communication, housing, community services, other, mortgage subsidies, the support component of government loans to the private sector and general research

⁵ Main expenditure components of this article are financial support to public transportation and agriculture, the research fund for industry and support of the fuel supply industry.

⁶ Includes credit benefits. Does not include mortgage subsidies.

⁷ Includes investments in roads, trains, ports and airports infrastructure.

⁸ Includes general administration, foreign affairs, public order, police and the justice department.

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