

APPENDICES

Appendix 1

Appendix 2

Appendix 1

Definition and Methods of Calculating Components of Additional Defence Costs

A. Value of compulsory service

In public defence consumption, the value of compulsory service is measured according to the actual cost to the defence establishment which mainly includes the cost of the token wages and the cost of living. The total cost of compulsory service is measured as the total expenditure for conscripted soldiers if their wages had been determined in the free market - this cost is identical to the civilian product that could have been produced by this labour force. Hence, the cost addition for compulsory service is calculated using the following formula:

$$Y = (W * A) * N - C$$

Y - the additional imputation of the cost of compulsory service;

W- the average cost of labour in the economy;

A - the average rate of participation in employment during the life of a representative conscripted soldier, which takes into account the army's contribution to human capital on one hand, and the loss which stems from postponing a professional career on the other hand. This is measured separately for men and women;

N - the number of conscripted soldiers;

C - the actual cost of conscripted soldiers.

B. Value of Reserve Service

Military reservists received their salary through national insurance (as of 1995, these payments are included in the defence budget). The value of reserve service is measured in defence consumption according to actual payments by the National Insurance Institute. These payments do not include supplementary payments paid by the employers (such as pension contributions, training funds, parallel tax, payroll tax, etc.).

The calculation of supplementary payments for reservists' wages is based on the Labour Force Survey data on absence from work due to reserve service and average rates of additional wage costs by economic activity.

C. Imputation for personal risk

Imputation for personal risk insurance (“risk premium”) is an addition to the cost of labour which expresses the relatively high personal risk associated with military service. Medical treatment and rehabilitation are assured to military personnel free-of-charge as are disability payments, i.e., insurance for injury and loss of earning ability which may occur in the future. The value of the insurance is calculated according to the following formula:

$$A * B * (W1 + W2 + W3)$$

- A - the probability that military personnel will be injured is measured as a moving average of the rate of persons injured over the last 15 years;
- B - The average benefit for disabled persons, widows and orphans that were added during this period, as a percent of the average cost of labour in the army;
- W1 - the cost of labour of conscripted soldiers (item A);
- W2 - the cost of labour of reserve service soldiers (item B);
- W3 - the cost of labour of career soldiers.

D. Sheltering

This item includes the expenditure on construction and maintenance of shelters and the cost of building protected areas (APA) in residential dwellings and in public buildings (the private sector finances this directly).

Expenditure on shelters which is financed out of public budgets, mainly includes building the shelters and the security rooms in localities on the confrontation line. The expenditure does not include expenditure for sheltering provided by the Ministry of Defence, which is included in defence consumption.

Expenditure for building APA is obtained by multiplying the number of new dwellings built during the year of the estimate by the cost of building a protected room as opposed to a regular room. The expenditure on a APA in public institutions is calculated in a similar way.

E. The cost of Maintaining Emergency Stocks

This item includes the cost of maintaining and refreshing stocks of fuel, medicines and foodstuffs for a time of emergency. The expenditure on emergency stocks is funded by civilian ministries’ budgets - mainly from the budgets of the Ministry of Energy and Infrastructure, the Ministry of Health and the budget for basic commodities subsidies.

In estimating the expenditure for fuel stocks, it was assumed that half of the government fuel stocks stored by fuel companies is intended for emergency use.

F. Defence expenditure in the civilian ministries

In addition to expenditure on shelters and emergency stocks the civilian ministries’ budgets includes additional items of defence expenditure as detailed below:

Israel Police force - border patrol units (including the special anti-terror unit and the Settlement Guard), the Civil Guard and women soldiers unit attached to the police force.

In some cases, it was not possible to distinguish between police expenditure on defence activity such as “interior security” and expenditure on maintaining public order, which is considered civilian expenditure, since most police units are involved to some degree in both kinds of activities simultaneously. For example, border police are involved in providing security and fighting terror as well as dispersing demonstrations and preventing theft. Therefore, as a compromise, those police units whose activities concentrate mainly on internal security have been included in defence expenditure.

Ministry of Interior - expenditure on financing defence services at local authorities, including expenditure on the Civil Guard, regional defence and emergency time provisions, establishment of centres and warehouses for civil defence and construction of armouries.

Ministry of Education, Culture and Sport - financing of guards at educational institutions and the Youth Corps pre-military training.

Ministry of Finance - financing of the multi-national forces in the Sinai.

APPENDIX 2

Definition of Defence Expenditure from:

United Nations, Department of Economic and Social Affairs Classification of the Functions of Government, Series M no. 70, New York, 1980.

02 DEFENCE AFFAIRS AND SERVICES

02.1 Military and civil defence administration and operation

02.11 Military defence affairs

Administration, supervision and operation of military defence affairs and forces: land, sea, air and space defence forces; engineering, transport, communications, intelligence, materiel, personnel and other non-combat forces and commands; and reserve and auxiliary forces of the defence establishment. Provision of equipment, structures, supplies and so forth. Offices of military attaches stationed abroad but not military aid missions, which are classified to group 02.2 (Foreign Military Aid). Administration and operation of military schools and colleges where curricula resemble those of civilian institutions are classified to the appropriate subgroups of major group 04 (Education Affairs and Services) even though attendance may be limited to military personnel and their families. Base hospital administration and operation are classified to the appropriate subgroup of group 05.1 (Hospital Affairs and Services) but field hospitals are included here. Pension schemes for military personnel are classified to subgroup 06.12 (Government Employee Pension Schemes).

02.12 Civil defence affairs

Administration, operation and support of civil defence forces. Support for the working out of contingency plans and the carrying out of exercises in which civilian institutions and populations are involved. Materiel and equipment for civil defence are included but not for emergency peace-time use, which is classified to major group 06 (Social Security and Welfare Affairs and Services).

02.13 Military and civil defence administration and operation n.e.c.

Military and civil defence administration and operation that cannot be assigned to one of the two preceding subgroups of 02.1 (Military and Civil Defence Administration and Operation).

02.2 Foreign military aid

02.20 Foreign military aid

Offices, bureaus and other program units administering military aid. Military aid missions accredited to foreign governments or attached to international military

organizations or alliances. Grants in military aid whether in cash or in kind. Loans for the same purpose regardless of interest charged. Loans of equipment. Contributions to international peace-keeping forces including assignment of manpower.

02.3 Defence-related applied research and experimental development

02.30 Defence-related applied research and experimental development

Administration and support of research and experimental development related to the armed forces and civil defence. Investigations leading to the development of new and improved equipment; to better tactics and strategies; to the utilization of space and the deep sea for defence; and other research and experimental development related to defence. Fundamental research is classified to the appropriate subgroup of 01.3 (Fundamental Research Affairs and Services).

02.4 Defence affairs n.e.c.

02.40 Defence affairs n.e.c

Administration, operation and support of defence affairs that cannot be assigned to one of the three preceding groups of 02. Among the offices, bureaus or program units that may serve the entire defence establishment in addition to general administration are those engaged in disseminating information, compiling statistics, preparing budgets etc. The administration of war veterans' affairs is classified to subgroup 06.25 (Welfare Services not Delivered through Residential Institutions).