



Effects of the War on Israel's Haredi Society

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This is a short summary, for the full paper (in Hebrew) see

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The vision of the Aaron Institute for Economic Policy in the Tiomkin School of Economics is to support sustainable economic growth and social resilience, along with poverty reduction. To achieve these goals, the institution strives to design a strategy based on measurable goals, which can be subjected to international comparison, and propose detailed plans for economic policies based on the most updated international knowledge. We focus primarily on reforms towards economic growth stemming from increasing employment and raising the GDP per hour worked (labor productivity) in Israel.

The key measure of sustainable economic growth – GDP per capita – is still low in Israel compared to leading developed countries, and so is labor productivity. Through its economic studies, the Aaron Institute presents goals, innovative policy tools, and reforms to promote growth, high-quality employment, and labor productivity.

The Institute's mission is to help shaping the socioeconomic policy in Israel through the development of long-term plans that address the full range of economic and social issues facing the Israeli economy. Our main focus is families with less than median income, who comprise significant parts of the Arab and Haredi (ultra-Orthodox) populations. In these groups specifically, increasing employment and productivity would greatly contribute to achieving the goals of growth, social resilience, and poverty reduction. In addition, our studies aim to influence the professional discourse, and to stimulate discussion based on reliable information and socioeconomic research that offers practical tools to achieve these goals.

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Effects of the War on Israel's Haredi Society

The war which broke out on October 7 has had a considerable economic impact on the Israeli economy, including the mass deployment of IDF reserve soldiers, evacuation of residents of frontier communities, restrictions imposed by the Homefront Command, and a decrease in the consumption of goods and services. Defense expenditure has risen substantially due to the necessity of financing the war effort, compounded by compensation for property damages and the allocation of civilian emergency funds towards the financial support of evacuees, relief for businesses and furloughed workers, and reconstruction of communities which were destroyed during the attack and the ensuing warfare.

The aim of this paper is to present an economic analysis of the effects of the war on the Israeli economy, as well as the effects of the macroeconomic changes on Israel's Haredi society.

To estimate the impact of the war on the national economy, we assume two scenarios. According to our Base Scenario, which assumes fighting in the Gaza front along with targeted military activity along the northern border and in the West Bank, as we have seen unfolding in the last four months, the forecast made by Aaron Institute predicts that GDP growth in 2023 will be 1.5%, compared to the forecast issued prior to the war which was 3%. As for 2024, our forecast is that the economy will grow at a rate of just 1%. In a severe war scenario, which assumes escalation on the northern front as well, Aaron Institute's forecast predicts a GDP growth of minus 2% in 2024.

The effects of the war on Haredi society were examined in light of the macroeconomic analysis, while also recalling the security crisis during the Second Intifada (2000-2005) and the economic crisis of that time. According to our analysis findings, the decrease of inflation rates back to the range prescribed by the Bank of Israel (1%-2%), along with forecasts for the financial markets both in Israel and globally predicting interest rate cuts, indicate that the interest on mortgages is also expected to decrease. This reduction is expected to ease the burden on mortgage-paying households, many of whom are Haredi. However, disruptions in the construction sector, mostly due to the shortage of workers, may disrupt housing supply and lead to a price increase – a trend which will negatively affect new homebuyers.

Analysis of the labor market shows that Haredi people are not employed in sectors which have been damaged by the war (such as construction and tourism), however the impact of the war may be manifested in increased pressure to enter the labor market. The scrapping of the proposed military draft bill may increase pressures to promote equality in the burden of service and to encourage participation of Haredi men in military or national-civic service. Curtailment of transfer payments and social services, as well as a reduction in distributive funds allocated directly for Haredi causes and an increase in taxes, are also expected – insofar as they are enacted – to harm Haredi society and cause a significant increase in poverty rates. We discuss these changes and repercussions with due caution, considering that some of these changes will be implemented or take effect only in years to come, once the war ends and its outcomes and economic implications are fully grasped.

1. Summary and Conclusions

On October 7, Israel awoke into a nightmare of horrendous terrorism. That was the onset of a war whose objectives are releasing those kidnapped into Gaza and destroying the offensive capabilities of Hamas. The aftermath of the massacre and the destruction caused by the attack, alongside the ongoing war, have had a significant economic impact on the Israeli economy, including the mass deployment of around 260,000 reserve soldiers, evacuation of around 200,000 residents from communities in the Gaza Envelope area and along the northern border, restrictions imposed by the Homefront Command and disruptions to the school system, a general decline in personal safety, and decreased consumption of goods and services. At the same time, expenditure has risen significantly due to the defense expenses required to maintain the war effort; the payment of compensation for property damages; and the allocation of civilian emergency budgets to cover financial relief for evacuees, additional funds for the healthcare, education, and welfare systems, financial support for businesses and furloughed employees, and the reconstruction of communities destroyed by the attack.

The aim of this paper is to present an economic analysis of the effects of the war on the Israeli economy, as well as the effects of the macroeconomic changes on Israel's Haredi society. Any economic estimate regarding the economic effects of the war is subject to great uncertainty, as it is not clear how the war will further develop in terms of intensity, duration, and outcomes, and whether it will expand to additional fronts. To estimate the impact of the war on the national economy, we assume two scenarios: a Base Scenario and a Severe Scenario. These scenarios were devised by a team of researchers in Mind Israel Ltd., headed by Amos Yadlin and Giora Eiland. The Base Scenario assumes fighting in the Gaza front, along with targeted military activity along the northern border and in the West Bank. The Severe Scenario adds full-blown escalation on the northern front as well.

The economic analysis indicates that the war will have far-reaching economic effects. These include damage to domestic activity within Israel, as well as international activity such as exports and foreign investments. At the same time, the war has caused a significant increase in defense expenditure while also requiring increased emergency budgets to support evacuees, casualties, and economic activity across the economy. This implies a reduction in government revenue alongside increased spending, constituting a threat to the economic stability of the Israeli economy.

Economic forecasts made by Aaron Institute and other institutions reflect a substantive change in Israel's economic situation, with growth rates dropping below their potential and a marked increase in the deficit and the debt-to-GDP ratio. This will impact Israeli citizens in general, and Haredi citizens in particular.

The effects of the war on Haredi society were examined in light of the macroeconomic analysis, while also recalling the security crisis during the Second Intifada (2000-2005) and the economic crisis of that time. Despite the differences between the condition of the national economy then and now, it may be instructive to examine the significant policy measures taken at the time in order to overcome the crisis – measures such as cuts in allowances and welfare budgets, alongside dramatic reforms in the labor market, which had been conducive to economic recovery as well as a dramatic increase in employment rates, resulting in a significant increase in income from labor and a decrease in the rates of poverty and inequality in Israel.

In this paper we discuss six areas in which changes that have already taken place, or may take place in the wake of the war, might affect Haredi society: (1) the housing market; (2) the labor market; (3) military conscription; (4) cuts in services and transfer payments; (5) reduction of budgets and distributive funds directed to Haredi society; and (6) tax increases.

The new social and economic situation following the war may bring about pressures to increase the integration of Haredi men in employment and vocational training, remove the proposed draft bill from the public agenda, promote equality in military or national-civic service, increase taxation, curtail services and transfer payments, and slash distributive funds directed to Haredi society. All these measures might increase economic hardship, particularly for the weaker strata of society, and raise poverty rates.

Thus, for example, cuts in the budgets allocated to Haredi education or to religious and Haredi-cultural affairs, alongside tax hikes which would encompass taxes in which Haredi society has a significant stake, such as VAT, may increase the expenditure of Haredi households while reducing their income. At the same time, curtailing transfer payments and reducing payments which do not require full utilization of earning capacity, such as grants for *kolel* students, yeshiva budgets, and housing subsidies, will deal a significant economic blow to Haredi households and may serve as catalysts for the integration in employment of greater numbers of Haredi men. These effects may also help strengthening the education of Haredi boys in core subjects, which large swathes of Haredi society have so far refrained from adopting, and this development in turn may contribute to the integration of growing numbers of men in high-quality employment in the coming years.

The threats posed by the war to the Israeli economy require the government to act responsibly and professionally, in order to minimize the damage to the national economy, restore the sense of personal safety, and strengthen economic and social cohesion. We consider the expected changes an opportunity to bring about improvements in the economic situation of Haredi households, whereby they will come to rely more on income from labor and less on allowances and transfer payments. This requires recognition and understanding that major economic changes are impending, which therefore should be accommodated and prepared for as much as possible, both in the short and the medium-to-long terms.