

U.S. Military Aid to Israel: Debating an Increase

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Brief Analysis

Instead of allowing persistent bilateral acrimony or domestic politics to delay a sensitive issue, both governments should approach the MOU negotiations as a function of Israel's military and diplomatic needs in a new regional landscape.

When Israeli prime minister Binyamin Netanyahu cancelled his planned visit to Washington recently, many speculated that he was protesting the continued lack of agreement on the amount of U.S. military aid to be embodied in a new ten-year memorandum of understanding (MOU). Vice President Joe Biden, who enjoys a close friendship with Netanyahu, visited Israel last week and urged the prime minister to finalize a deal at the level favored by the Obama administration. Although Defense Minister Moshe Yaalon will meet with Defense Secretary Ash Carter at the Pentagon this week, the MOU talks have been spearheaded by the White House and the Prime Minister's Office, so the Carter-Yaalon talks are unlikely to be a game-changer.

HISTORY OF MILITARY AID TO ISRAEL

U.S. aid rose dramatically in the wake of Israel's 1979 peace treaty with Egypt, yet the first MOU on military aid was not signed until two decades later in 1998, for \$21.3 billion over ten years. The second MOU was signed in August 2007, for \$30 billion over ten years. The mutual advantage of signing such MOUs is that they inject predictability into the process so that aid levels do not have to be negotiated each year. Moreover, Israel is the only country permitted to use cash flow financing for U.S. arms purchases (besides Egypt, which will lose that privilege in fiscal year 2018). This allows it to finance multiyear purchases through installments rather than having to pay the full amount up front; accordingly, it can negotiate major arms deals with U.S. defense suppliers and finance them with future aid payments. In addition, U.S. assistance earmarked for Israel is generally delivered in the first thirty days of the fiscal year, as opposed to most other recipients.

The MOUs have been accompanied by supplementary funding as well. Since 2009, congressional funding for Israel

has exceeded Pentagon budget requests by some \$1.9 billion. For example, the omnibus spending bill passed last December appropriated \$487 million for bilateral missile defense programs, a significant increase from the \$145.8 million requested by the Pentagon. And in summer 2014, Congress responded to Israeli requests during Operation Protective Edge by passing \$225 million in emergency funding for the Iron Dome system. Currently, the U.S. Missile Defense Agency's 2017 fiscal budget forecasts spending \$540 million annually on Israeli cooperative programs over each of the next five years. The MOUs have also allowed Israel to use around a quarter of the U.S. aid it receives to stimulate its own defense industry.

The first MOU set the goal of phasing out economic aid, which eventually happened -- Israel no longer receives such funding from the United States. In addition to the military aid, Israel gets a few million in U.S. funding under various programs, such as cooperative energy research.

THE CASE FOR A SUBSTANTIAL INCREASE

Israel is reportedly requesting \$5 billion per annum over the next ten years, while the U.S. position is between \$3.4 and \$4 billion. In Israel's view, the lower end of that range would actually represent a decrease in aid, since the 2007 MOU would have amounted to \$3.6 billion per year if one factors in inflation.

Although officials in both countries are tight lipped about the process given the sensitivity of the negotiations, published reports indicate that the case for increasing assistance is based on several factors. For one, proponents believe that Israel needs to prepare itself militarily for dealing with the limitations of the Iranian nuclear deal -- namely, the expiration of restrictions on centrifuges and enrichment in ten to fifteen years and the possibility of cheating beforehand. Other factors include the likely increase in Iranian funding for dangerous regional proxies as nuclear sanctions are lifted; the increase in U.S. arms sales to Sunni Arab states in order to offset Iranian activity and win tacit acceptance for the nuclear deal; the growing presence of nonstate actors on Israel's borders; and the region's widening volatility in general.

During the debate over the nuclear deal, President Obama pledged to conclude the MOU negotiations swiftly and factor in these Israeli concerns. At the time, he acknowledged that lifting sanctions would give Iran access to at least \$50 billion in frozen assets. To be sure, the sharp drop in oil prices from \$100 to \$37 per barrel means that Iran has less revenue today than two years ago under sanctions, but even so, the expectation is that it will soon have more funds to bolster Hezbollah. Israel Defense Forces chief of staff Lt. Gen. Gadi Eisenkot recently stated that Tehran already gives the group an average of \$1 billion a year.

As for increased U.S. military sales to the Gulf states, although Israel has (quietly) developed closer ties with these countries in recent years, both Jerusalem and Washington believe that Israel's qualitative military edge should be preserved given the region's chronic instability and weapons proliferation. Some Israelis point to Iraq as an example, noting that Islamic State militants are now armed with American weapons previously provided to the Iraqi army.

More broadly, Israel sees hostile nonstate actors on all of its borders, including Hezbollah in Lebanon, al-Qaeda affiliate Jabhat al-Nusra in Syria, Hamas in Gaza, and an Islamic State "province" in the Sinai. These current and potential threats, coupled with the uncertain situation in the West Bank, have made Israel feel increasingly vulnerable. As such, Jerusalem believes a robust MOU would signal both the Israeli public and regional actors that the policy differences between Obama and Netanyahu will not overshadow America's longstanding commitment to Israel's security.

COUNTERARGUMENTS

Those who believe that the aid increase in the next MOU should be more modest tend to rely on three main arguments. First, while one can debate the long-term merits of the Iran deal, it has reduced the nuclear threat for

at least the next few years. The country's enriched uranium has been shipped out, and a large number of centrifuges have either been mothballed or dismantled. Yet there is no evidence of moderation in Tehran's behavior since the deal was signed, so Israel may not feel comfortable assuming that the United States and other countries will push back sufficiently against potential nuclear violations or other Iranian provocations.

Second, while it is true that the Middle East is awash in arms and that Iran will be able to give more aid to Hezbollah and other proxies, Israel does not face the same threat of conventional war from Arab states that it faced in the past. It holds longstanding peace treaties with some of these states, while others are either consumed with internal conflicts or otherwise unlikely to seek war with Israel anytime in the foreseeable future.

Third, current aid to Israel already represents a sizable portion of all U.S. foreign military assistance. Israel receives \$3.1 billion out of a global pie of \$5.87 billion, while Egypt receives \$1.3 billion and Jordan \$300 million (Amman also receives \$85 million in other forms of military aid as well as hundreds of millions in economic aid).

POLITICAL CONSIDERATIONS

The MOU issue poses political risks for both governments. For the Obama administration, failure to conclude the memorandum could make the issue a political football during an election year, thus politicizing the matter at a very sensitive time in the negotiations. Israel may believe that the next administration will be more sympathetic to its aid request, but there is no guarantee. Given the uncertainty of the primary season and the American electorate's growing anger (albeit on issues unrelated to Israel), Jerusalem cannot be certain that public attitudes toward foreign aid will remain the same over the next year.

The White House should also consider the issue's potential impact on any final initiatives it may hope to pursue in the realm of Israeli-Palestinian peace. If the Obama administration is in fact planning such a move before it leaves office, completing the military aid MOU first could be a political and strategic necessity.

CONCLUSION

Both countries should approach the MOU as a function of Israel's needs in a new regional landscape. This means that the talks should not be influenced by score-settling over the Iran deal -- specifically, U.S. negotiators should not be governed by fears that Netanyahu will depict a large aid increase as validating his confrontational approach on the nuclear deal. At this juncture, Washington should also steer clear of any approach that triggers a deeper reassessment of overall foreign military aid, since Egypt, Jordan, and Israel -- who receive 81.5% of the entire Foreign Military Financing budget -- might then feel compelled to fight each other for their share of the pie.

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