



Making Sense of Israel's Judicial Reform Crisis

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For months now, Israel's politics have been roiled by an acrimonious internal debate over a series of judicial reforms proposed by its new government. At its core, the dispute hinges on an effort by religious elements within the Israeli ruling coalition to "rebalance" the composition and authorities of Israel's supreme court to bring it more in line with, and make it more subservient to, the country's Executive Branch. Such a step is vehemently opposed in many quarters of Israeli society, albeit for a variety of different reasons. The resulting political crisis now engulfing the country is the most consequential in Israel's 75-year existence.

The issue is both sudden and surprising. An overhaul of the judiciary did not rank as a significant priority for the current government when it took office late last year. Moreover, virtually all Israelis agree on the notion that Israel's supreme court should be reformed in some fashion. However, a distinct trust deficit between the country's political Left and Right, together with a strong undercurrent of opposition to long-serving Prime Minister Benjamin "Bibi" Netanyahu, have made the question of how, precisely, the Israeli supreme court should be adapted into a political lightning rod that has brought hundreds of thousands of Israelis into the streets on a weekly basis since the reforms were first floated in January 2023.

Under this intense pressure, Netanyahu temporarily tabled the judicial overhaul, pledging to take up the issue once more later this Spring or Summer. Negotiations between the government and assorted Israeli opposition factions are now underway under the auspices of the country's President, Isaac Herzog. However, massive protests against the measures have continued, and the country is currently riven by intense internal divisions that have launched Israeli society into an identity crisis unprecedented in its history.

These fractures have come with real-world costs. Strategically, observers are adamant that the recent political unrest has emboldened Israel's adversaries, who are now actively testing whether the country remains as capable, resolute and focused on its national security as it was before. In this context, Israel's limited retaliation to recent rocket attacks by the Hamas terror group, and the recent infiltration of a Hezbollah operative into the country, constituted something of a mixed message. It is still unclear whether Israel's decision not to launch a large-scale military campaign in response will be sufficient to reestablish Israeli deterrence. If it isn't, the country is likely to face more such provocations.

The turmoil has also had an adverse effect on what is arguably Israel's most important contemporary foreign policy achievement: the Abraham Accords. Now some two-and-a-half years old, the normalization agreements signed in the Fall of 2020 between Israel and the United Arab Emirates, Bahrain and Morocco have reaped enormous dividends for the Jewish state, among them a surge in regional economic activity, ramped up tourism, and closer political contacts with once-inaccessible neighbors. Publicly, Israeli officials and observers have maintained an optimistic outlook about this "new era" of ties, and of the prospects of future partnerships (including with Saudi Arabia). Nevertheless, Israel's judicial crisis is starting to have a marked impact on the vibrancy and dynamism of its ties with the Arab world, and behind the scenes Israelis seem to be revising their expectations of future progress downward.

The country's political upheaval is also having a significant—and growing—impact on Israel's economy. In mid-April, credit rating agency Moody's downgraded Israel's economic outlook from "positive" to "stable" as a result of the ongoing political turmoil associated with the planned judicial overhaul. In and of itself, this shift is not decisive; the country had only been upgraded to "positive" some eighteen months prior, and last year Israel's economy grew by over 8%, suggesting that the fundamentals of Israel's economic performance remain sound. However, the trendline is ominous. The country has received virtually no foreign direct investment since the start of the year, as skittish investors have held back from pouring their money into the Israeli economy. At the same time, capital flight is increasing, with an estimated \$4 billion departing to date—prompting the Israeli central bank to increase its rate of reporting on capital outflows from a monthly to a bi-weekly basis. This mounting financial instability is expected to increase if the two other major credit rating agencies, Standard & Poor's and Fitch, follow Moody's' lead and also downgrade Israel's status.

The operative question has now become whether Israel's opposition, having achieved a modicum of success in forcing Netanyahu to temporarily table consideration of the judicial reform package, will be willing to take "yes" for an answer if the ruling coalition puts forth some sort of compromise on the issue. If they are not, or if more left-wing elements in the Israeli body politic gain greater prominence, then the current protests are likely to continue, and may even expand into a more fundamental upheaval within Israeli society.

Meanwhile, the protests—and growing outrage over the overreaches of Israel's current right-wing government—have significantly impacted the domestic standing of Netanyahu and his ruling Likud party. Recent polls show the once-dominant Likud in third place, trailing both the Yesh Atid party of former foreign minister (and temporary prime minister) Yair Lapid and the National Unity party of former defense minister Benny Gantz. This trendline, moreover, can be expected to continue the longer a durable compromise is not reached over the judicial reform issue.

This state of affairs makes a collapse of the current ruling coalition a distinct possibility. It also hardens the resolve of Israel's Left, which—having forced Netanyahu to pull back from the political brink on judicial reform—is inclined to press its advantage on other societal issues, among them rescinding the current, controversial exemption from compulsory military service enjoyed by the country's orthodox community. Should that happen, more domestic volatility, with all that that implies, is a likely result.