Main Findings

Government Expenditure for Social Services

1. Economic developments over the past two years followed opposing trends: while the overall economic situation has been improving, the economic situation of weaker population groups is continuing to deteriorate. This is not yet adequately reflected in the government's expenditure policy – in either the 2005 budget or the 2006 draft budget.
2. The turnaround in the business cycle has resulted in an improvement in the employment picture. At first, unemployment remained high despite the expansion of economic activity: the unemployment rate in 2004 stood at 10.4 percent as against 10.7 percent in 2003. By the fourth quarter of 2004, however, the rate had fallen to 10 percent and in the course of 2005 it dropped to 9 percent.
3. Economic growth has been uneven, focusing on industries that are intensive in skilled labor. This trend, coupled with the government's tax and transfer payment policies, has resulted in a continuous increase in poverty and a steady widening of economic gaps despite overall economic improvement in Israel.
4. Social expenditure in 2005 was NIS 100 billion – NIS 62 billion for in-kind service provision and NIS 38 billion for social transfer payments. This represents a NIS 2.5 billion increase over the previous year. From a long-term perspective, however, it is a decline of NIS 9 billion relative to expenditure in 2001. In per-capita terms, expenditure fell by 14.8 percent during this time – from NIS 16,970 in 2001 to NIS 14,461 in 2005.
5. Without a real change in the composition of the budget, it seems unlikely that a policy that limits the growth in

government outlays to a rate that is lower than the rate of population growth can strengthen the country's social fabric. Transfer payments are a main component of the income of the weaker population groups, and the in-kind services that the government provides figure prominently in the consumption of these population groups.

Education

1. The education system has done its part for much of the Israeli public, teaching language, basic skills, and essential knowledge. Many young people, upon reaching adulthood, successfully integrate into higher education and various industries. For others, though, it has not provided enough of the necessary skills for successful functioning in a modern society.
2. Success and failure as measured in the education system are not equally apportioned. Success is typical of certain social groups and sectors; failure belongs to others. There can be no doubt that the potential talents of many individuals amongst those who fail to achieve satisfactorily in the education system are not being realized.
3. These and other developments lead to several conclusions about the educational policies that are called for:

With respect to teaching personnel, teachers should spend more hours actually teaching than they do today and should receive higher wages for their work.

With respect to curricula, a compulsory core curriculum for the entire system, including all subjects that are crucial for the success of graduates in a modern and technologically advanced society, should be established.

With respect to the budget, funding should be sufficient to assure the implementation of these two tasks and should be apportioned in an equitable, fair, and efficient way.

4. Developments in the education system have resulted in a continuous decline in enrollment in the State system and, at the

same time, the percent of those enrolled in the *haredi* (ultra-Orthodox) school system has been rising. Taub Center studies have found that these shifts take place in the early grades and are not followed by continuing transfers among school systems. In a study of inter-system transfers by level of education it was found that the net number of transfer students does not exceed several hundred. Thus, the large increase observed in *haredi* education can be traced mainly to natural increase.

Health Care

1. National health care expenditure, in current prices, was NIS 46 billion in 2004, some 8.3 percent of the GDP. This indicates a continuation of the decline that began in 2003, following peak expenditures for health care of 8.6 percent of GDP in 2002. In previous years, there had been an upward trend that became especially steep after 2000.
2. In 1990-2002, the increase in real average per-capita health care expenditure slightly outpaced the increase in per-capita GDP. In the OECD and EU countries, the same trend was evident but with an even higher increase relative to per-capita product than in Israel.
3. The share of public funding for the health care system continued to decline in 2004 and the proportion of private funding rose to 30 percent of total national health care expenditure. This is one of the highest rates of private funding among developed countries characterized by public entitlement to medical services.
4. Israel has one of the highest levels of life expectancy among developed countries and may be able to improve this further mainly by dealing with two parameters: lowering infant mortality, especially among the Arab population, and improving women's health.
5. The number of doctors per capita has been declining in recent years. This is liable to become a long-term trend as the potential

sources of immigrant doctors thin out. Therefore, a rethinking is needed in the planning of the most basic resource of the Israeli health care system.

Personal Social Services

1. Personal social services are not reaching all persons in need, leaving some groups and individuals in distress and without assistance from the state. Although various initiatives have appeared at the local and national levels (donations in cash and goods, soup kitchens, etc.), they cannot substitute for the professional aid that is provided by government welfare services and social workers.
2. Almost half of total government expenditure on personal social services is earmarked for the elderly – 42 percent for long-term care and 8 percent of the remainder (net of long-term care) for other services. This represents NIS 2.2 billion for long-term care and NIS 220 million for other services (in constant 2004 prices).
3. Among services for children and youth in distress, current policy gives priority to community based services. In the past two years a special effort has been made to refer fewer children to institutional care, to return institutionalized children to the community, and to strengthen relations between children in institutions and their families.
4. The extent and quality of social services varies considerably from one locality to the next. A number of factors are responsible for this inequality: uneven participation of central and local government in local welfare budgets; differences in the number of volunteer organizations in different localities and the extent of their activity; and, different local attitudes toward the development of social services. The inequality is especially visible in the large discrepancies that exist between Jewish and Arab localities, but it also persists among localities in the Jewish sector.

Transfer Payments – National Insurance Benefits

1. In recent years, benefits have been eroding due to the government's attempts to reduce its budget and, in particular, its social budget. The most conspicuous cutbacks were in benefits for those of working age: child allowances, income maintenance, and unemployment compensation. Disability benefits were hardly affected during the review period.
2. The three main benefit categories – old-age and survivors, children, and general disability – account for about two-thirds of the total benefit expenditure, down from around 70 percent in the middle of the previous decade (1995). An especially pronounced decline occurred in the share of child allowances, from one-fifth of total National Insurance payments in 1995 to about one-tenth in 2005. In contrast, the share of disability benefits increased consistently and substantially during the decade.
3. Growing public awareness regarding the needs of persons with disabilities led to the passage of the Access to Public Places for the Disabled Law in 2005, which became effective at once for most public buildings. Another development in the advancement and integration of persons with disabilities in employment and the community was set in motion by the government's decision to approve the recommendations of the Laron Committee (June 2005). Pursuant to this decision, legislative changes meant to encourage persons with disabilities to join the labor force will be enacted.
4. The abrupt and across-the-board cutbacks in child allowances within the framework of the Emergency Economic Plans (since 2002) have exacerbated poverty among children and especially in households in which the head of household does not participate in the labor market.
5. Economic growth and the toughening of the terms of eligibility for unemployment compensation have caused the unemployment rate to fall slightly while severely reducing, by

more than one-third (36 percent), the share of unemployment-compensation recipients – from one-half of all registered unemployed in 1998 (before the rules were changed) to about one-fifth in 2004.

The 2005 Social Survey

1. The widespread belief among those surveyed is that economic polarization is increasing and socio-economic gaps are widening. The economic improvement in the past two years did not change the respondents' perceptions of the intensity of the gaps. In fact, the strong groups in society felt that they were getting stronger and the weak groups felt that they were continuing to get weaker.
2. The Taub Index of Social Confidence combines survey responses to a series of questions that reflect and pertain directly to the most basic elements of the public's sense of social welfare. The main items concern changes in standard of living, the sense of being exposed to violence, basic economic security, and fear of unemployment.
3. A brief presentation of the survey findings over time shows the following: in 2001 (the first year for which the index was calculated), the Taub Index score was 58 (out of 100). In 2002-2003, the index score declined to 48 points, reflecting the public's growing lack of social confidence as the recession and unemployment intensified. In 2004 and 2005, the index score rose to 53 and 55 points, respectively.
4. The index score for those with an income level "far above average" stood at nearly 70 points in 2005 while the figure for those with "far below average" income came to only 44 points. The index score for the population with a "slightly under the average" income level was also below 50 points this year.
5. The improvement in the feeling of job security first observed in 2004 continued in 2005 after a rather lengthy period when the fear of unemployment was very acute. The percent of

respondents who were totally unconcerned or only slightly concerned about themselves or a close family member becoming unemployed rose to 46 percent in 2005 as against 40 percent last year and 30 percent in 2003.

Selected Issues*

Privatization of Social Services: A Framework for Discussion

1. One of the most important conclusions from studies of privatization is that the issue of ownership – whether public, NPO, or business – has little effect on the efficiency of production and distribution of social services at large. Therefore, there is little to be gained by the mere act of *switching* ownership from public to private business within the framework of a privatization policy.
2. The main contribution to greater efficiency in social services is made by establishing real competition among service providers, first among public providers and then, between them and for-profit business providers who operate on the fringes of the public providers. Such competition hinges on a government policy that will create the requisite basic conditions.
3. Privatization is not meant to absolve the state of its responsibilities, which include: control of public budgets to assure efficient use and guarantee quality of services; regulation of the providers' advertising of the quality of their service; and setting rules of eligibility for public subsidies, in cases where the consumer wishes to improve the public service by paying for it privately through a business-type provider or through the facilities of the public provider by its employees.

* Selected Issues appear as chapters in the full Hebrew report and have not been included in this English translation.

Education: On Privatization and Education

1. Due to a long standing tradition in the organization of education in Israel, almost all pre-schools are privately owned, almost all primary schools are public, and most post-primary schools are private. This distribution is based on a narrow definition that disregards the fact that most educational institutions at all levels (pre-school, primary, and post-primary), even when defined as private, are run by public not-for-profit organizations (*ORT, Amal, Amit, WIZO, Naamat*, the Independent school system, *Ma'ayan Torah Education*, etc.) that are fully funded by the state and function in the framework of regulations set by the state.
2. Even though most Israeli education institutions are public, be it by formal or informal definition – in the sense that most of their funding, curricula, and terms of employment are determined by the state – they maintain funding mechanisms that sometimes evolve into student selection systems that undermine and may at times even defeat any policy that aims to enhance equality in the education system.
3. No substantial differences were found among schools on the basis of their organizational affiliation as private or public institutions. Accordingly, the state has several main duties to perform: assuring a level of budgeting that permits good education for all pupils, including those from the socially and economically weakest strata, and applying meaningful affirmative action for this purpose; establishing rules for the sound management and operation of schools; establishing certification and dismissal rules for teachers (threshold requirements in training and education, periods of internship, terms of dismissal for teachers, etc.); and, negotiating national labor accords in teaching occupations (in regard to wages and other working conditions).

Welfare: Efficiency and Quality in Nursing Homes – NPOs versus Business Entities

1. One of the characteristics of this industry is that some nursing homes are run as businesses that aim to maximize their profits and others are nonprofit organizations that are prohibited from distributing profits and work on the public behalf. This chapter discusses the question of which type of organization is more efficient, which provides a higher quality of service, and which is more reliable.
2. The empirical findings indicate that while not for profit (NPO) homes incur a higher cost per day for inpatient care than business-owned nursing homes do, they also provide better service. Therefore, the differences in cost may be attributed to differences in quality and does not imply a difference in efficiency.
3. Two factors explain the finding that NPOs provide higher quality service, on average, than businesses. First, NPOs tend to act on the public behalf, which is reflected in a higher quality of care. Second, as a result of Ministry of Health policies in setting the cost per day of nursing home care, the rates for NPO nursing homes are higher than for the business-run homes. The findings show that the institutions in the industry adjust the quality of service that they provide to the rate paid them by the Ministry of Health.
4. The government is a dominant player in this industry because it pays for some 70 percent of long-term care beds. It also sets the rates that the institutions are paid and the standard by which the institutions are run. Finally, it is responsible for their licensing and supervises the quality of the care that they provide.
5. The study found no difference between NPOs and businesses in terms of economic efficiency. Furthermore, the study's findings indicate that NPOs that operate in the nursing home industry contribute to the public welfare by elevating quality

and lowering price. Therefore, it is not clear whether forcing the NPOs to run their homes on a "business" basis would be to the public's benefit.

Health Care: Relations between Community-Based Medical Services and the Inpatient System

1. The authors propose that action be taken to improve relations between the community-based medical system and the inpatient system. This must be done at both the clinical and the administrative levels, by excluding the patient from disputes between insurers and service providers.
2. The following measures are recommended: (a) The sick funds and the hospitals should reach an agreement for the establishment of a medical liaison office in each hospital to resolve disputes without patient involvement and to divide the risk. (b) Every inpatient should have a personal medical representative who would serve as an advocate in respect to inpatient care and who would also be responsible for establishing contact with the physician in the community, where necessary. (c) Continuity of care should be improved by establishing regional or sick fund "parent departments". (d) There is a need to advance the national project that aims to establish an online interface among the various health care organizations' information systems to assure the availability of relevant, concise information about the patient at all junctures of the public health care system (a computerized personal medical file).
3. Due to the random development of the health care system, the country's hospitals are not optimally dispersed. Thus, there are three comprehensive medical centers in greater Tel Aviv, only a few minutes away from each other, whereas Israel's fourth largest city, Ashdod, has no hospital at all. The lack of horizontal coordination among these centers results in severe waste of resources and fierce competition.