TAUB CENTER
FOR SOCIAL POLICY STUDIES IN ISRAEL

Developments in Israeli Social Welfare Policy

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Developments in Israeli Social Welfare Policy

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Abstract

Israeli social welfare policy, as reflected in social spending and service provision, has been very stable over the past decade. Efforts on the part of recent governments to address social ills have focused mainly on reducing the cost of living, especially with regard to housing, by encouraging free market competition and other price-lowering measures. Increased government activity to combat poverty and social disparities and to ensure social security usually comes in response to public or political pressure. The policy measures and social spending data for 2016/2017 indicate that these trends still prevail. Besides continued expenditure stability, two developments of the past year illustrate the manner in which policy change happens. One is the new Savings Plan for Every Child program — an outcome of the Committee for the War Against Poverty in Israel (the Elalouf Committee), and of coalition-agreement commitments. The other is an agreement to increase general disability benefits, reached in the wake of a lengthy public and political struggle. Despite these measures, current policy and the present level of social spending, which is considerably lower than that of other welfare states, are not expected to reduce inequality or poverty in Israel substantially over the coming years.

Introduction

Poverty and inequality levels in Israel remain high, stable, and exceptionally severe compared with those of other welfare states. The years 2016 and 2017 witnessed no major change in the trends that have characterized Israel's social welfare system in recent years — social spending levels that are both consistently lower than those of the comparison countries, and do not meet the needs of the Israeli population. Although the country's economic climate has improved, as reflected in declining unemployment rates and higher

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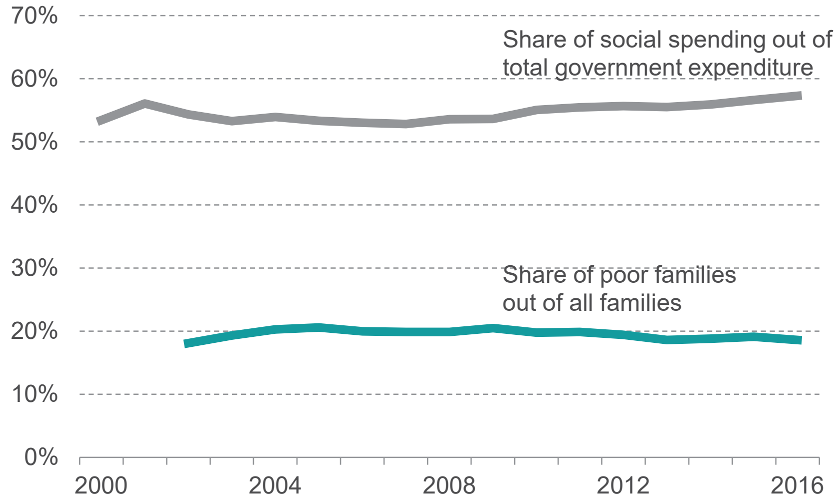
GDP, Israeli policy makers have made no major effort to address social ills, whether through substantially increased social spending or a change in social policy direction.

Aside from maintaining the existing system of social benefits and services, government efforts in the social welfare sphere have focused mainly on addressing the high cost of living through increased competition and a reduced regulatory burden. This approach is particularly evident with regard to housing and other economic sectors, such as retail trade. Of particular note, however, are the attempts to encourage competition through increased government involvement in various economic sectors using legislation, an expansion of the powers vested in the Antitrust Commissioner, and a variety of price-lowering measures, in particular those employing the tax system (for example, taxes intended to lower demand, such as the proposed third-apartment tax, or tax reductions and allowances). A striking example of the Israeli government's efforts to overcome the cost of living are the Ministry of Finance's "Net Gain for the Family" program, which includes tax benefits for working families with children, subsidized after-school programs, an increased work grant, and reduced import tax on baby clothes, footwear, and cellular phones.

Despite the continuity of trends and the emphasis on competition as a means of addressing social gaps and the cost of living, it is worth noting that several new initiatives have also been pursued during this period, in keeping with the government's commitment to implement the recommendations of the Committee for the War Against Poverty in Israel, and in response to political and public pressure. One such initiative is the Savings Plan for Every Child program, which was rolled out in January 2017. Another example is the decision to increase the general disability benefit following a public campaign for far-reaching policy change for individuals with disabilities, and an effort to ensure more generous National Insurance Institute disability benefits.

A look at the trends in government social spending as a percentage of total government spending indicates, again, stability, with a slow upward trend since the beginning of the present decade (Figure 1). Government social spending for 2016, covering expenditures on social welfare (including social security), health and education, amounted to NIS 205 billion and constituted 57 percent of total government spending. In contrast, the Ministry of Defense budget for that year accounted for 19 percent of total government spending.

Figure 1. Social expenditure out of all government expenditure and share of families below the poverty line



Source: John Gal and Shavit Madhala, Taub Center | Data: Ministry of Finance, *Budget Execution Data*; NII, *Statistical Quarterly, Poverty and Social Gaps Report*; CBS, *Statistical Abstract of Israel*

Israel's social expenditure stability also finds concrete expression in social spending as a percentage of GDP, and in the internal breakdown of government activity in the social sphere, which has barely changed since the early 2000s (Figures 2 and 3).

Figure 2. Social expenditure

By area, as a percent of government expenditure

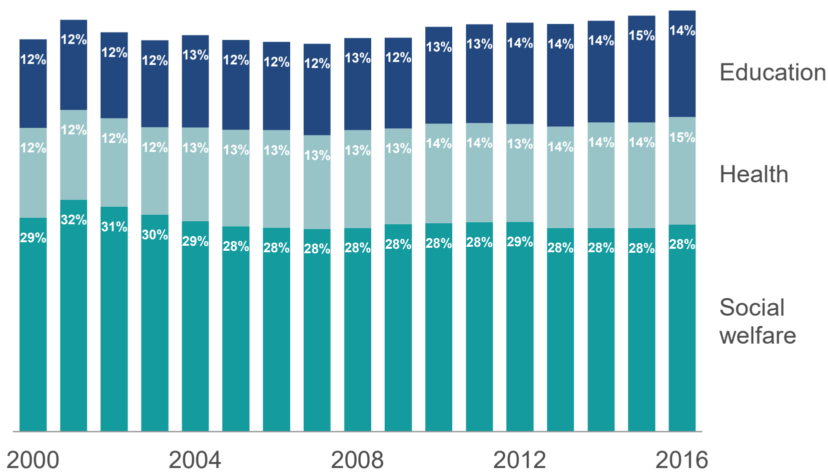
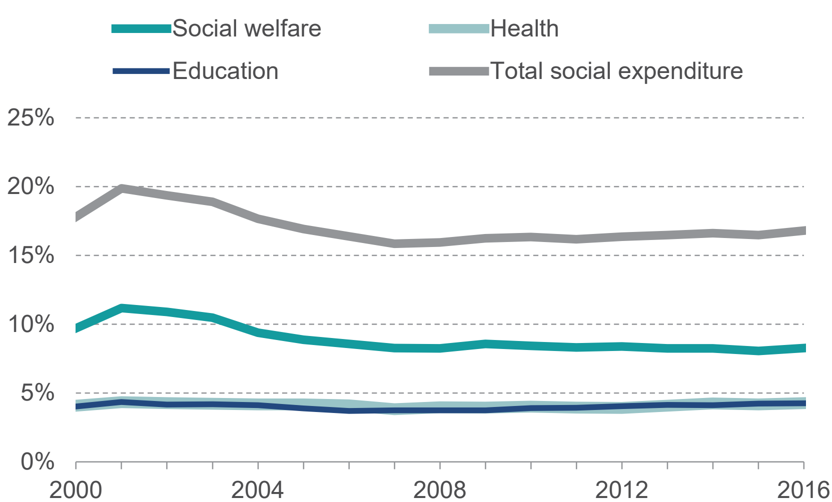


Figure 3. Social expenditure

By area, as a percent of GDP



Source for both figures: John Gal and Shavit Madhala, Taub Center | Data for both figures: Ministry of Finance, *Budget Execution Data*; NII, *Statistical Quarterly*; CBS, *Statistical Abstract of Israel*

Spending on social welfare accounts for half of all Israeli social spending, and for a third of total government spending. In 2016, social welfare expenditure came to NIS 101 billion. The primary component of social welfare is the social security system, whose myriad of programs are operated mainly by the National Insurance Institute, with some administered by the Ministry of Defense (benefits for disabled veterans and bereaved families), and the Ministry of Finance (negative income tax and assistance to victims of Nazi persecution). Social security programs award benefits that provide a safety net for individuals and families in cases where there is reduced or no income from work and/or due to additional expenses resulting from a variety of circumstances. The second component of social welfare is the array of programs that address the needs of individuals, families and communities through a range of social services. These services are intended for very diverse target populations, and are operated by the Ministry of Labor and Social Welfare, the Ministry of Construction and Housing, the Ministry of Immigrant Absorption, and the Ministry of Social Equality.

When social welfare spending in 2016 is examined, we find that, despite the apparent stability in expenditure relative to total government spending and GDP, there was actually a NIS 7.7 billion increase, in real terms, compared with the previous year, that is, an 8 percent increase in a single year. This is a large increase relative to the average annual increase since the beginning of the decade — 4 percent. Social security spending accounts for 85 percent of total social welfare spending. Trends in the development of this system over the past year show that, in real terms, there was a rise of NIS 4.5 billion in government spending, from NIS 82 billion in 2015 to over NIS 86 billion in 2016. Most of the increase is due to National Insurance Institute benefit expenditures. These grew by NIS 3.9 billion, due in large part to a rise in expenditure on old age pensions and child allowances. Social welfare showed an increase of NIS 3.1 billion in 2016 — most of it resulting from government expenditures on housing, amounting to NIS 2 billion per year.

The National Insurance Institute

The largest share (87 percent) of Israeli social security spending goes toward National Insurance Institute benefits, which amounted to NIS 75 billion in 2016 (Figure 4a). In real terms the growth trend for this expenditure, which began in the mid-2000s, has continued. By contrast, the trend in spending relative to GDP has remained stable — 6 percent over all the years of the past decade. The largest component of this spending goes to Old Age and Survivors pensions. This component is trending upward and currently amounts to 42 percent of total spending (Figure 4b). The component's share is expected to continue growing in the coming years due to the aging of the population and anticipated additions to pensions for seniors living in poverty, in accordance with the Elalouf Committee recommendations.

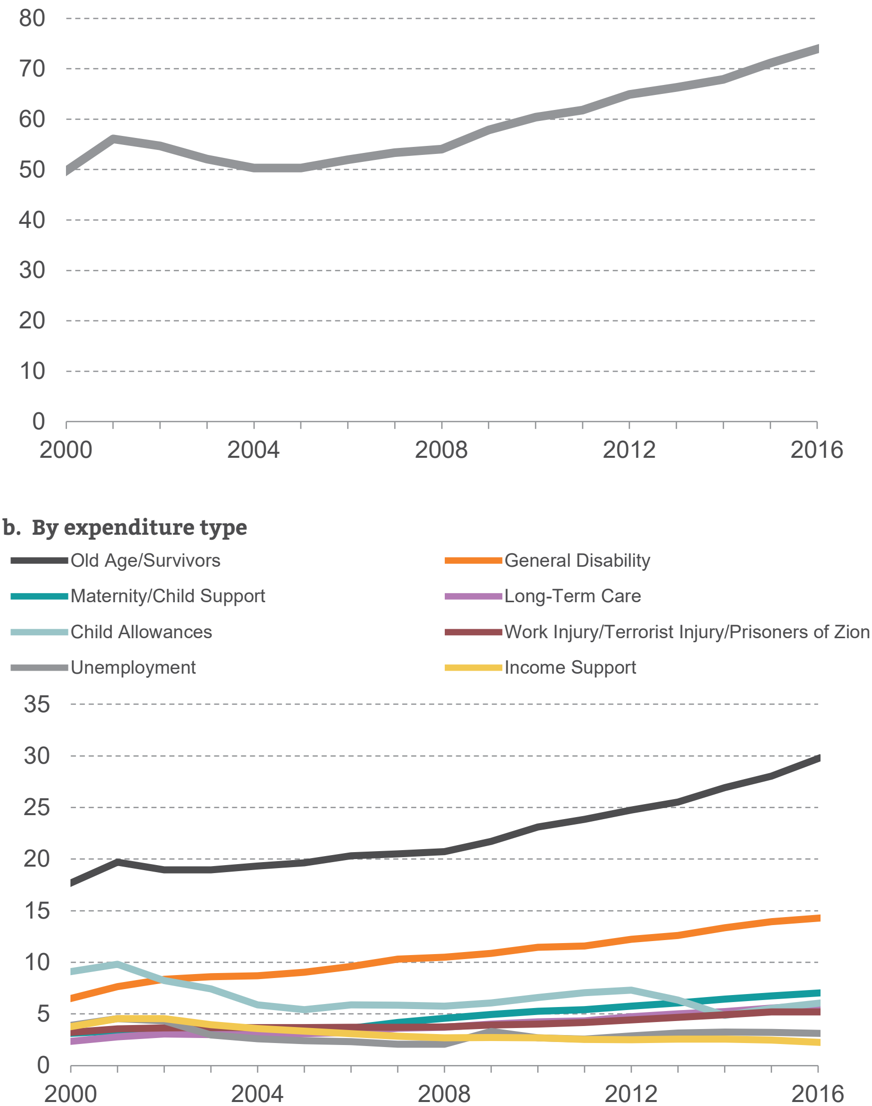
The second-largest component is the expenditure on general disability benefits, which accounts for 20 percent of total expenditure. Most of the spending increase over the years on this component was due to continued growth in the number of eligible recipients. The general disability benefit expenditure is likely to rise substantially in the next few years due to a change in social security policy, responding to a public and political struggle by people with disabilities to increase their benefits. This effort began with a social media campaign launched by Alex Friedman in early 2015, using the slogan "Disabled Is Not Half a Person." The struggle continued in the Knesset, and, in December 2016, MK Ilan Gilon succeeded, with both opposition and coalition support, in getting preliminary approval for legislation that would equalize disability benefits with the minimum wage. A hunger strike by people with disabilities, an extended public campaign and intensive political activity resulted in a decision by the Minister of Finance to create an advisory committee on benefits for people with disabilities, headed by Professor Yaron Zelekha. The committee's main recommendation was to increase the general disability benefit significantly.

The committee submitted its recommendations in May 2017, at which time the Prime Minister appointed another team to consider the issue, led by Professor Avi Simhon. This team recommended a much more moderate benefit increase. Large-scale opposition by disability organizations to these new recommendations, and public demonstrations that featured road-blocks, political activity and Histadrut (General Organization of Workers in Israel) intervention ended with an agreement between government representatives, Knesset members and representatives of the disability organizations. The agreement was signed in late September 2017 and contained a number of provisions including: a disability benefit increase to NIS 4,000 monthly for people whose degree of incapacity is 100 percent, a substantial increase in earning capabilities before benefits are reduced, and linkage of benefits to the minimum wage. The agreement is supposed to go into effect in January 2018, and the sum allocated to its implementation through early 2021 is NIS 4.2 billion.

Figure 4. NII expenditure on benefits

NIS billions, 2016 prices

a. Total expenditure



Notes: Without military reserve duty.

Source: John Gal and Shavit Madhala, Taub Center | Data: NII, *Statistical Quarterly*

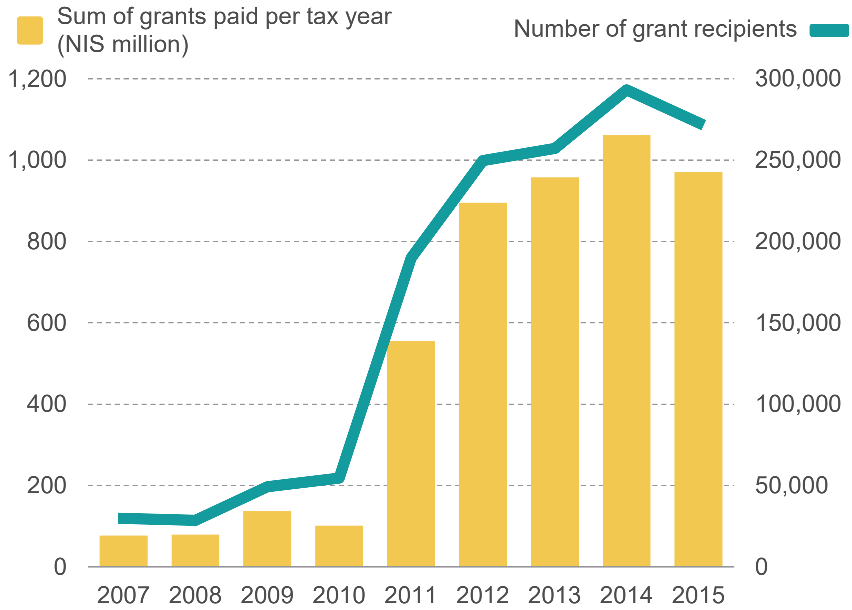
Another striking example of major policy change in the social security sphere is the Savings for Every Child program operated by the National Insurance Institute. In contrast to the child allowances paid to parents to fund the costs of child care, this program gives each child a regular monthly sum (NIS 50) until adulthood. The sum is paid from state funds (parents have the option of adding another NIS 50 from the child allowance they receive) and is saved in an interest-bearing account chosen by the parents. The final sum will be transferred to the child upon reaching age 18 or 21, as they so choose. The estimated annual cost of this program is NIS 2 billion per year. However, National Insurance Institute data from September 2017 indicate that the total expenditure on payments and grants in the framework of this program came to NIS 3.66 billion. This was probably due to retroactive payments from the year and half preceding the law's implementation as well as the large share of young adults over the age of 18 who chose to withdraw their money rather than wait until age 21 for a larger sum (Government Decision 362, Appendix 4). The program, which was recommended by the Elalouf Committee and adopted as part of a coalition agreement between the Likud and the Haredi (ultra-Orthodox) factions, is based on an "asset-building" approach to combating poverty (Gal, Madhala-Brik, Greenstein-Weiss, and Covington, 2016).

National Insurance Institute data show that the program encompasses 3 million children. As of June 2017, two-thirds of the parents had chosen a savings plan, and the remaining plans are decided by the state. The majority, 65 percent of the savings plans, are managed in the framework of provident funds that offer relatively high-risk savings and relatively high expected rates of return, while the other plans are managed in the framework of bank savings accounts. Centralization in this sphere is obvious: of the 21 financial institutions that manage the plans, the one that is currently preferred is the Altschuler Shaham provident fund (24 percent of all of savings plans), followed by Bank Hapoalim (12 percent) (Ministry of Finance, 2017).

Work grants

One tool developed in recent years to address poverty and inequality among employed people is the work grant. This grant, which functions as a kind of negative income tax, is meant to increase the income of eligible low-wage workers through direct grants from the state. Over the last few years a number of changes have been made to this program, in order to increase take-up of the grant and enhance its contribution to the income of low-income working families. However, an analysis of the budget indicates that the program's scope has remained small, both in terms of the grant itself and in terms of the number of those who actually receive it. Only 70 percent of the total potential target population exercises its right to receive the grant, and there was a slight drop in the percentage of those eligible and in the sum total of grants paid in 2015 (the last year for which data are available) (Figure 5). The average grant has remained stable since 2012, when the law was first implemented: NIS 3,500 per year. In 2017, grant eligibility expanded to include single parents, which increased the pool of potential recipients by 50,000 (Israel Tax Authority, 2016). Moreover, the Net Gain for the Family program includes a decision to increase the sum of the work grant and equalize the amounts paid to men and women; the income limit for eligibility was raised as well (Ministry of Finance, 2017). These expansions will be implemented by the 2017 annual reports, meaning that their outcomes will be discernible in 2018.

Figure 5. Expenditure for work grants and number of recipients



Notes: Grant eligibility is determined by a means test in the eligibility year and the grant is given retroactively. The data relate to sums of payments and number of recipients in the eligibility year. Data for 2015 are not final and are correct to February 2017.

Source: John Gal and Shavit Madhala, Taub Center | Data: Israel Tax Authority, 2016

Ministry of Labor and Social Welfare

The largest of the social welfare-providing ministries is the Ministry of Labor and Social Welfare. The Ministry's activity centers around funding and regulating social services provided by the local authority social service departments and by institutions and systems based in the community and outside of it. Recent years have witnessed a continual increase in this Ministry's budget, which in 2016 amounted to NIS 43.6 billion (10 percent more than the 2015 budget). In 2016, there was an especially large rise in Ministry expenditures on children in out-of-home frameworks.

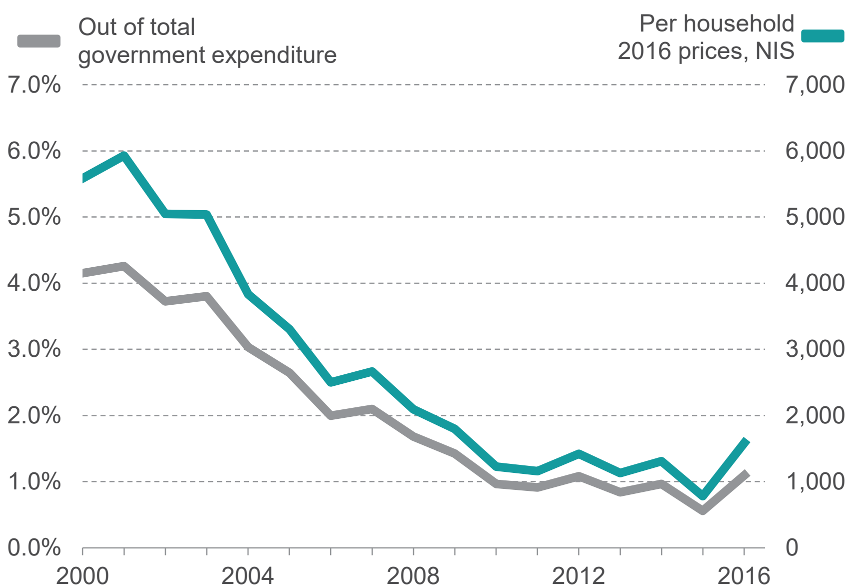
A key feature of the Ministry's activity is the emphasis it places on outsourcing of social services. The findings of an earlier study (Madhala-Brik and Gal, 2016) show that, over time, systems operated directly by the state have contracted, while the share of Ministry funding transferred, either directly or via the local authorities, to non-profit agencies — voluntary associations or commercial entities — has grown. This share now amounts to 80 percent of the Ministry's total budget.

A look at Ministry activity also suggests that most of the budget (77 percent) is transferred to local authorities, which use the money to fund the work of their social service departments and of external entities that provide local residents with a variety of social services, whether in the community or through outside agencies. Budgeting is based on a matching system that makes Ministry funding conditional on the local authority providing 25 percent of service/activity costs. As discussed in *Social Service Budgeting in Israeli Local Authorities* in this report (Gal, Madhala and Bleikh, 2017), there are large gaps in local authority social welfare spending — that is, the per-client expenditure is not equal between local authorities. Disparities between affluent and weaker local authorities are especially marked, as are those between Jewish and Arab Israeli local authorities. This is due to local authority budgeting patterns stemming from budgetary limitations, client population/care framework differences, and access to external care systems. Another factor is the ability of local authorities to increase social service budgeting beyond the funding provided by the Ministry and their obligatory 25 percent share.

Ministry of Construction and Housing

An examination of government housing expenditures in 2016, reflected in the Ministry of Construction and Housing budget, shows that the Ministry's budget doubled relative to 2015 — from NIS 1.8 billion to NIS 3.9 billion. This increase stands in contrast to the continuous downward trend that has characterized the Ministry's budget since the early 2000s (Figure 6). In 2016, there was a major increase in the public housing component of the budget. In accordance with the Public Housing Law (1999), public housing apartments are sold to the tenants living in them at large discounts of up to 80 percent of their value. Revenues received from the sale of dwellings to those eligible are intended to help in the purchase of new apartments to add to the public housing stock. From the time the law was implemented through to August 2015, 3,450 apartments were sold to their tenants, while 120 new apartments were acquired (Ministry of Finance, 2015). In 2016, there was a substantial increase in apartment sales, and an even larger increase in apartment purchases for those entitled to public housing: as of late 2016, 5,000 apartments were sold and 900 new ones purchased with the sale revenues. One factor behind the 2016 upsurge was a legislative amendment aimed at making it easier for eligible people to buy public housing apartments. Also, an additional NIS 150 million beyond the fund revenues were allocated that year for the acquisition of apartments for the public housing supply (Ministry of Finance, 2017).

Figure 6. Expenditure on housing as a percent of government expenditure and per household



Source: John Gal and Shavit Madhala, Taub Center | Data: Ministry of Finance, *Budget Execution Data*; CBS, *Statistical Abstract of Israel*

Implementation of the Elalouf Committee recommendations

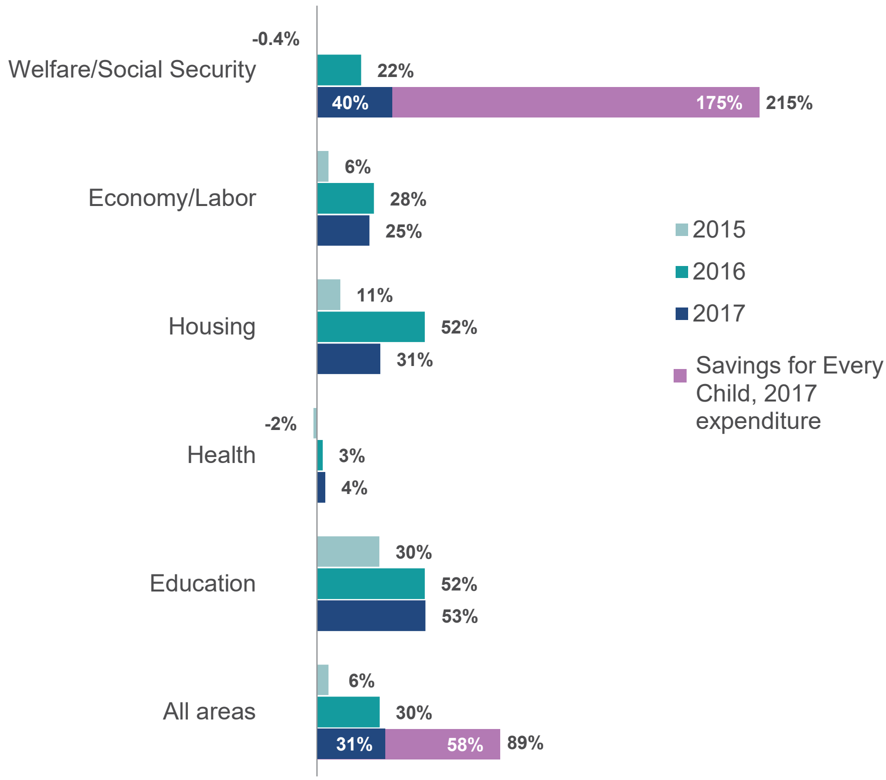
In 2014, a comprehensive framework for addressing poverty in Israel was proposed by a state committee created by a government directive. The committee was headed by MK Eli Elalouf, Chair of the Knesset Labor, Welfare and Health Committee. The Elalouf Committee recommended a number of measures spanning an array of activity areas that could potentially reduce the incidence and depth of poverty — the aim being to reduce poverty rates to the mean level in other welfare states within a decade (i.e., 11 percent of all families living under the poverty line). This would translate into reducing the poverty incidence in Israel by nearly half. In August 2015, the Israeli government approved the committee's recommendations.

Taub Center studies have been tracking implementation of the Elalouf Committee recommendations from the beginning (see Gal and Madhala, 2016). In 2016, there was an increase in expenditure on income security allowances for the elderly, expenditures of the Ministry of the Economy in employment and expenditures on pubic housing. That year, the expenditure for implementation of the Committee's recommendations was about 30 percent of the recommended amount (NIS 7.4 billion per year), compared with 6 percent in 2015. Estimates are that, in 2017, the actual expenditure will again reach about 31 percent of the recommended amount. Implementation of the the Savings for Every Child program appeared in the Committee recommendations but was not budgeted out. Thus this program is not included in calculations of the recommended expenditures. Including this program increases the total implementation expenditure substantially to about 90 percent of the recommended amount. Nevertheless, as indicated previously, this expenditure is particularly high in 2017 due to retroactive payments for 2016 and part of 2015 as part of the program launch and are not anticipated for future years.

In other areas — particularly in healthcare and in efforts to raise the status of poor workers — government progress in implementing the committee's recommendations has been slow. One major recommendation that has not yet been implemented is that of increasing the sums awarded by the income support program, which provides a safety net for those living in poverty. The committee recommended raising the safety net for eligible families to a level of two-thirds of the poverty line, and allowing these families to increase their income from work without losing their allowance entitlement. Given the current slow progress toward implementation of all of the Elalouf Committee recommendations, it is doubtful that the incidence of poverty in Israel will indeed be reduced by nearly half by 2024.

Figure 7. Additional expenditure for implementation of the Elalouf Committee recommendations for the War Against Poverty

As a percent of the budget recommendations of the committee



Notes: 2017 data are the expected share on the basis of the budget recommendation for this year.

Source: John Gal and Shavit Madhala, Taub Center | Data: Ministry of Finance, *Budget Execution Data*; CBS, *Statistical Quarterly*; *Report of the Committee for the War Against Poverty*

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