

Summary of Findings

Share of Public Expenditure in Gross Domestic Product

1. In the aftermath of the recent war in Lebanon, the plans for a long-term cutback in the defense budget in favor of social expenditure were shelved. Most of the planned increase in government spending will be earmarked for defense.
2. It is important to emphasize that the public sector is not a “burden.” It generates important public goods, such as essential education and health care services. The current size of Israel’s public sector should not pose an obstacle to growth; the rates of public expenditure and taxation are in line with those in other developed countries.
3. Economic growth does not in and of itself narrow disparities and reduce poverty. Israel’s growth in the past two years has benefited mainly the strong social strata; at the same time, the real income and consumption levels of the weak populations have declined. The poverty that has become common among working households was not created by a bloated social service system. By comparing the effect of welfare system size on poverty and disparities in developed countries, one may see clearly that a larger welfare system reduces poverty and narrows economic disparities.
4. It is proposed to increase public social expenditure by raising the maximum allowable annual rate of increase in basic budget expenditure from 1.7 percent to 3 percent in each of the years 2007–2010 while simultaneously stopping proposed tax cuts (see model proposed in Chapter One).
5. The state budget is an immensely powerful tool for reducing social gaps and poverty since the tax system charges the affluent at higher rates than the poor, whereas social expenditure – for

education, health care, and benefits – focuses more on the lower income deciles.

Government Expenditure for Social Services

1. After three consecutive years of growth, it is clear that Israel's pro-growth macro-economic policy is not improving the welfare of weaker population groups. The benefits of this growth are unevenly distributed, as are the improvements in employment and, in turn, in income. Thus, the real income of well educated wage earners has increased while that of the medium and the poorly educated has remained unaffected or even declined.

2. The total number of poor households increased in 2005 by 4.2 percent but the number of working-poor households (those that have employed heads of household) grew by 10.5 percent and the number of poor families headed by wage-earners increased by 15.6 percent. Consequently, creating jobs and joining the labor force, especially in salaried employment, are not enough to lift households out of poverty.

3. In the 1990s, per capita private consumption increased by 31 percent and average per capita government social spending grew by 24 percent. Since then, in 2000-2005, per capita private consumption increased by another 9 percent whereas average per capita government social spending declined by 13 percent. This trend continued again in 2006 and is not expected to turn around in 2007.

4. In the 2006 and in the 2007 budget, the social outlays grew but per capita social expenditure still remained very far behind where it had been before the cutbacks began.

5. The share of national expenditure on education and health care in Gross Domestic Product (GDP) has been declining since 2002. The share of the government funding for education and health care has been decreasing and household expenditure has been rising. This development – the “privatization” of public

service funding – may cause a widening of inequality in the consumption of education and health care services.

6. Government health care expenditure has held steady in real terms for the past decade. Due to a combination of stability in expenditure, population growth, and increases in the relative price of health services, it is estimated that the delivery of government funded health care services to the public has eroded by 25-30 percent since 1997.

7. Investments in the physical infrastructure of the education and health care systems have been insignificant in recent years and are trending downward. A low and declining level of investment suggests that the physical infrastructures in both systems may be declining, and may result in inferior quality service in the near future.

8. In recent years the expenditure trend in social transfer payments to the public by means of the National Insurance Institute has declined but the rates of the cutbacks have varied from one service to the next. The cumulative decrease up to the beginning of 2007 was especially great in unemployment compensation (48 percent), child allowances (40 percent), and income-maintenance benefits (31 percent). As a result of cutbacks, the disparity between the average benefit levels and the general standard of living has widened and the social safety net that transfer payments are supposed to provide for weak population groups has frayed.

The Education System

1. The demographic makeup of Israel's student population has changed in two significant ways: a steady increase in the share of students in the Arab school networks (from 22 percent to 27 percent at the primary and lower secondary school levels in the past decade) and a growing share of *haredi* (ultra-Orthodox) educational settings in the Jewish system from preschool to upper-secondary. (The proportions range from 35 percent to 19 percent of enrollment, respectively.) Although both school

systems have a high percentage of students characterized by low socio-economic status, their budgets were not increased despite government proclamations of a policy of affirmative action.

2. Several obvious trends are observed in regard to the population of teachers: increases in average age, rising average seniority, and higher proportions of academic degree holders at all levels of the system. One result of these trends is that teachers' average wages have been rising.

3. In the next few years, the education system expects to face large-scale retirement of teachers. It is difficult to draw up meaningful forecasts for supply and demand of teaching professionals. Accordingly, national planners must insure an appropriate number of student teachers, along with incentives for teachers to expand their workload, and defer their retirement.

4. Comparisons of the changes in Israel's per pupil expenditure with the OECD average shows that Israel is lagging behind: during the past decade, national per pupil expenditure increased by only 2 percent in Israel and 33 percent on average in the OECD countries.

5. Israel's relative decline is especially distinct at the post-primary level, where its per pupil expenditure fell from 96 percent of the OECD average in 1995 to only 86 percent in 2003. These data should be kept in mind in discussions of Israeli students' achievements on international tests, which in most cases are conducted among the same age groups on which spending has decreased.

6. A comparison of the sums budgeted for education with final expenditure data during the past decade shows an underutilization of the NIS 25 billion budget in the hundreds of millions of NIS each year and more than NIS 1 billion in certain years.

7. The budget proposal in its current form does not allow for an intelligent discussion of the government's education policy. There is good reason to consider an alternative structure that would facilitate better monitoring of inputs in relation to

potential outputs as well as actual implementation of proposed programs.

The Health Care System

1. Israel's national average per capita health care expenditure (standardized for age) approximates the European average and actually exceeds it by several percent. The share of health care expenditure in GDP also resembles the OECD average, at around 8.5 percent.
2. The proportion of government funding in total health care expenditure has been trending down and stands today at 65 percent, as against an OECD average of 70-80 percent. Households cover 22 percent of total health care expenditure in direct out of pocket expenses for medicines and services, a level that most OECD countries consider unacceptable.
3. These developments are definite factors in the growing inequality in the consumption of medical services. Data from the Household Expenditure Survey (Central Bureau of Statistics) point to disparities in households' private consumption of health services on the basis of income quintiles. Even after standardization for household size, the highest quintile spends three times more in direct health outlays than the lowest income quintile.
4. Israel's average infant mortality rate per thousand live births is still higher than the European average – 4.6 as against 4.0. Israel's average actually combines two separate rates: the rate among Arabs is 8.0 per thousand; the rate among Jews is 3.2 per thousand. The rates still differ greatly although the gaps have been narrowing steadily over the years.
5. Israel has 3.5 doctors per thousand population, one of the highest ratios in the world. However, the forecasts show a decline in the years to come, mainly due to an expected decrease in immigrant doctors.
6. The proportion of nurses per thousand population has hardly changed in the past decade (5.2) and is low by the standards of

other developed countries (7-10). The proportion of registered nurses among them, however, has risen.

7. The debate over health care services in the aftermath of the recent war in Lebanon revealed and underscored the significance of the disparities in health and health care services between and within different parts of the country. In evaluating the working of the health care services during the recent crisis, two main problems stood out: one relating to the organization of services and another regarding groups of service recipients with special health needs.

Personal Social Services

1. The share of expenditure for personal social services in total government outlays for in-kind social services has been climbing steadily since the beginning of the decade and is now at 9 percent. The upward trend has been gradual – from 5.8 percent in 1995 to 7.7 percent in 2001 and 9.0 percent in the past two years.

2. In recent years, many local authorities have been reducing their participation in welfare budgeting significantly. This coupled with an increase in the number of individuals and households that apply for assistance to the welfare services, has led to a drop in the average per client and per household expenditure. The reduced quantity of resources available is especially notable in community services for children, adolescents, and families. Due to the cutbacks, staff, programs and services have been downsized or eliminated, especially in socially and economically weak localities.

3. Nearly half of government expenditure for personal social services in 2006, NIS 2.6 billion, was channeled to services for the elderly. About 94 percent of this expenditure was earmarked for the provision of services to some 120,000 seniors under the Long-Term Care Insurance Law. The number of recipients has multiplied six-fold since the law went into effect.

4. Institutional services represent 64 percent of the total expenditure on services for children, less than in recent years (71 percent in 2000). The change reflects the policy of the Ministry of Social Affairs to locate these services in the community, i.e., to place fewer children in away-from-home settings and to develop community services instead. Indeed, the number of children who live away from home has been cut back to around 8,500 in recent years, and among them a larger share are in foster care as opposed to residential settings.

5. The recent war in Lebanon highlighted many personal social service problems and needs among residents who did not evacuate their homes. Prominent among them were weak population groups with special needs, such as seniors and other persons with disabilities. Some of these citizens were left without nursing care, mainly due to the departure of family members or caregivers, and found it difficult to obtain essential medicines, food, and other necessities.

The Social Security System

1. Public expenditure on social security programs added up to NIS 44.5 billion, 42 percent of total social spending. This expenditure item has been drastically reduced in recent years due to government policies that aim to cut total public expenditure and encourage benefit recipients to join the labor force.

2. The ability of programs in the National Insurance system to attain two of its major goals – reducing poverty and redistributing income – has been badly damaged. Regarding the third goal – encouraging benefit recipients to return to the labor force – some progress has been made.

3. Average per capita benefits continued to erode in 2005; since 2001, the cumulative real decrease is 18 percent. The cumulative decline was steepest in child allowances, which fell to around 50 percent of their 2001 level.

4. Some 27 percent of recipients of old-age benefits also receive income supplements. Although the incidence of poverty among seniors declined slightly in 2005, the fact that about one-fourth of Israel's elderly are poor points to the very limited success of the social security system in coping with the problem.

5. The lack of a compulsory pension law and the fact that most employees are not covered by collective agreements are also clearly reflected in the incidence of poverty among the elderly. Beyond the necessity to guarantee the level of benefits, due to the income differences between elderly who receive pension benefits and those who do not, there is a clear need for legislating compulsory cumulative pensions, to insure that upon retirement, all salaried employees would receive their accumulated pension benefits.

6. An average of 170,000 persons with disabilities received monthly disability benefits in 2005. This is the third largest group of recipients of National Insurance benefits – 4.5 percent of the relevant population group (aged 18+) and 6.8 percent of total benefit recipients in 2005. The growth rate of the recipient population slowed in the years 2003-2004 relative to 2000-2002 but increased again by 5 percent in 2005 and is expected to increase by 4 percent in 2006, outpacing the absolute increase in the recipients of other benefits.

7. The disparities that exist in benefits for persons who suffer a disability due to different circumstances (civilians versus soldiers, for example) are so large that one wonders whether they are acceptable. It may be time to rethink the social security system for the entire population of persons with disabilities.

The 2006 Social Survey

1. The most noteworthy finding in the Center's social survey is the public's strong conviction that the government must spend much more on social goals than it is spending today. Even after the Second War in Lebanon, 88 percent of respondents believe that the social service budgets should be increased. Thus,

despite recent developments in the security, economic, and political domains, the public still believes it more important to tackle social issues than to deal with the defense issues. There is almost no difference between income groups in their attitude on this issue.

2. The **Taub Index of Social Confidence**, which is a more comprehensive indicator of the public's sense of social confidence, shows an improvement between 2004 and 2006. Confidence increased for all population groups, even though the level of confidence varied widely among them.

3. The survey findings show that respondents felt that their standard of living has risen in the past three years. There was wide variance among the population groups and the reported improvement was much greater among those who were at higher socio-economic levels.

4. In the field of health care, a troubling phenomenon recurred: refraining from using essential medical services due to the required individual co-payment. The proportion of respondents who said they had to forgo a medical service that they needed at least once during the past year has been over 20 percent for the past few years. The share of elderly and immigrants who gave this response was even larger – about one-fourth among these groups.

5. According to the survey findings, 13 percent of the public reported having suffered severe economic damage as a result of the recent war in Lebanon. Predictably, the effects were much worse on residents of the North; 48 percent of people who lived in the “shelter zone” and 28 percent of residents in the wider “protected-space zone” reported having been badly affected. It was also found that the Arabs suffered greater economic damage than Jews did and that the self-employed paid a higher price than salaried employees.