

*Government Expenditure
on Social Services*

Government Expenditure on Social Services

The current global economic crisis has not spared Israel's economy, which is now in a state of transition from rapid growth to recession. The last three years were characterized by impressive economic expansion, following on the heels of a slowdown during the period 2001-2003, one to which the Israeli government itself contributed by implementing a severely restrictive fiscal policy that curbed public consumption. This curtailment of public consumption had ramifications for various sectors of the economy. During the following years, from mid-2003 on, there was a significant upturn, as reflected in several economic indicators. This change in direction included an awakening in the labor market: in 2002 the number of those employed grew at an annual average rate of 0.9 percent, and since then the rate rose to 3.2 percent. At the same time the rate of unemployment declined by 3.4 percentage points and 2008 is expected to end with an average unemployment rate of 6.3 percent. Employment rates for the 25-64 age group have been trending upward since 2003, reaching 70 percent in 2007. Wages have also been rising steadily in real terms since 2003, in both the private and public sectors.

This brisk economic activity led to a rise in tax revenues and to a consequent reduction in the deficit from a high of 5.3 percent in 2003 to one percent in 2006 and to a balanced budget in 2007, with a decline in public debt as a percentage of GDP. Unfortunately, this improvement in the economic situation was not nearly as extensive

in the social realm. The various chapters of this year's *Report*¹ point to deficiencies in a number of areas of social concern and highlight the state budget's failure to adapt to changing social needs. The report proposes various options for improvement in the social arena while also encouraging economic growth – taking into account time constraints and difficulties posed by the global and local crises.

1. *Summary*

The allocation for social services as a percentage of the gross domestic product (GDP) reflects governmental priorities for resource allocation, in light of current economic developments. In recent years there has been a continued decline in social service expenditure as a percentage of GDP. During the last two years, social services expenditure as a percentage of disposable government expenditure (after debt servicing) has been the lowest since the early 1990s – this during a period of exceptional economic growth, when measurable goals have been set by the government for the first time in the social sphere (for 2008-2010).

The macroeconomic achievements of the last few years led to a rise in the average standard of living, both in terms of per capita income (adjusted for household size) and in terms of increased per capita consumption – as well as a rise in employment figures, a decline in unemployment and an increase in real wages. However, these developments have had only a minimal effect on the weaker segments of society, particularly those outside the labor force. For

¹ The chapters on trends and developments in the social services – the Education System, the Health System, Personal Social Services, The Income Security System, Employment, Unemployment and Wages – are not included in this English edition of Israel's Social Services 2008. The main findings are summarized in the Summary of Findings included in this English version of the report. The full Hebrew edition is available on-line (www.taubcenter.org.il) or by request.

example, the real increase in per capita disposable income (adjusted for household size) between 2002 and 2007 was 18.6 percent for the highest quintile of the population, versus 8.5 percent for the lowest quintile. In 2007 the rise in the incidence of households living in poverty leveled off, and a certain decline in the share of individuals and children living in poverty was registered. At the same time the relative situation of the families under the poverty line worsened, as they fell further below the poverty line. Also: while the disparity in income distribution narrowed slightly in 2007, inequality as measured by the Gini index continued to rise in 2008, reaching a level of 0.3834 – one of the highest figures in the Western world.

Despite the decline in unemployment, the disparity in unemployment rates between those with higher education levels and those with only basic education is widening. The poverty rate for two-wage-earner households held steady at four percent, while the incidence of poverty among households with five or more children reached 67 percent, even after accounting for the impact of transfer payments and taxes. The beneficial effect of social transfer payments, in terms of lowering poverty rates and narrowing disparities, is eroding; this highlights the need to address the problem's structural nature and to rely less on transfer payments.

Recent years have witnessed a decline in the government's share of funding for education and health care services. In the area of personal social services the trend toward increased expenditure continued and even intensified in 2007, due mainly to the funding of long-term care benefits.

Alongside the reduced share of social transfer payments as a percentage of total government expenditure for social services, 2007 witnessed a real increase in transfer payments, particularly in the area of general disability and old age and survivor pensions.

With regard to unemployment benefits and income support benefits, as well as child allowances, the decline continued.

Since 2004 the National Insurance Institute (NII) has had a budgetary surplus. Over the last few years there has been a rise in the government's share of funding for the National Insurance Institute budget, and a decline in direct public contributions to NII funding. This trend is promoting dependency on the state budget, and diminishing the fiscal autonomy of the National Insurance Institute.

Israel entered the global crisis in a relatively good macroeconomic state. However, forecasts predict a major downturn in growth. For example, in 2009 the GDP is expected to increase by only 1.5 percent (according to preliminary estimates), while the business sector product is expected to decline sharply, from 4.5 percent in 2008 to 1.8 percent in 2009. The government deficit is expected to rise to 2.3 percent of the GDP, while the unemployment rate is expected to increase to 7 percent. The situation as reflected in the data of the last few years indicated numerous difficulties for the weaker segments of society, even during periods of relative economic prosperity. In light of next year's projected decline in tax revenues and the anticipated increase in transfer payments resulting from the rise in unemployment, it would be desirable to let the budget deficit grow beyond the anticipated level. This increase will enable a relatively high level of allocation to the social ministries charged with coping on a day-to-day basis with poverty and its consequences – ministries whose activity both in the short term (as the crisis peaks) and in the long term may keep disparities from widening and poverty from intensifying.

The period of recession that is being predicted for Israel as elsewhere may prove to be an opportune moment for increasing investment in educational and health-service infrastructures that have long been neglected. This would be consistent with a much needed policy of increasing public investment in economic

infrastructures and human capital. At a time like this, when the economy is expected to enter a recession, with rates of unemployment and poverty expected to rise, not only is there a need for preparation on the economic front, but also on the part of the social ministries themselves. The current crisis affords an opportunity for a re-assessment of current policy, for reorganization focused on the needs of the weaker populations, and for redoubled efforts to put available funds to optimal use. Preliminary proposals in this regard may be found in a separate document prepared by the Taub Center in 2008, in the framework of a Presidential Task Force on strategies to narrow socioeconomic disparities in Israel.

2. The Benefits of Economic Growth and their Distribution

A. Economic Developments

Economic growth slowed in Israel during 2008 and is expected to continue decelerating significantly. In 2007 Israel's GDP rose by 5.4 percent while the business sector product rose by 6.2 percent; based on the first half of 2008, the rise in GDP is expected to level off at 4.3 percent, while forecasts for business sector product call for a 5.0 percent increase (see Table 1). Although it is too early to predict the degree to which recent developments in Israel and abroad will affect these indicators, a more recent (November 2008) Bank of Israel forecast estimates that Israel's GDP will rise by 1.5 percent in 2009.

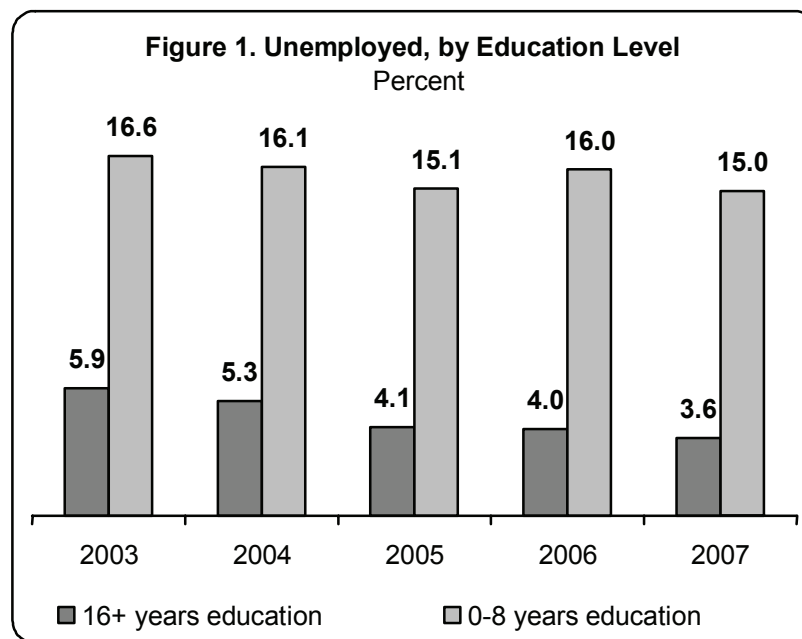
In recent years economic growth was accompanied by an increase in Israel's economically-active population. The labor force participation rate rose steadily, while the unemployment rate fell from two-digit figures to about 6 percent. However, it should be emphasized that the decline in unemployment was experienced mainly by the more highly educated population, not by those with low educational levels.

Table 1. **Economic Developments – Positive and Negative Indicators (Percent)**

	2003	2004	2005	2006	2007	2008
<i>Economic growth</i>						
• GDP	1.8	5.0	5.1	5.2	5.4	4.3 ¹
• business sector product	2.2	6.8	6.2	6.4	6.2	5.0 ¹
<i>Improvement in employment</i>						
• Labor force participation rate	54.5	54.9	55.2	55.6	56.3	56.4 ²
• Unemployment rate	10.7	10.4	9.0	8.4	7.3	6.3 ³
• Increase in employment	2.0	3.0	3.9	3.2	4.2	4.0 ⁴
• Social expenditure as percentage of GDP	18.8	17.3	16.4	15.9	15.7	16.1
• Social expenditure per capita (NIS thousand, 2007 prices)	16.2	15.2	14.8	14.6	14.7	15.3
<i>Rise in incomes and living standards</i>						
• Change in real wage per employee position	-3.0	2.5	1.8	1.6	1.6	0.0 ³
• Change in per capita private consumption	-1.5	3.5	2.0	2.1	4.8	2.5
<i>Economic disparities and poverty rates</i>						
• Unemployment rate among those with:						
▪ Higher education levels	5.9	5.3	4.1	4.0	3.6	–
▪ Lower education levels	16.6	16.1	15.1	16.0	15.0	–
• Gini index before transfer payments & direct taxes	.5265	.5234	.5225	.5237	.5134	–
• Gini index after transfer payments & direct taxes	.3685	.3799	.3878	.3857	.3834	–
• Incidence of poverty among households	19.3	20.3	20.6	20.0	19.9	–
• Poverty gap	30.5	33.3	33.1	33.8	34.0	–

¹ Bank of Israel forecast.² Second quarter, seasonally-adjusted data.³ Annual calculation based on data from the first half of the year.⁴ First half, versus the same period the year before.

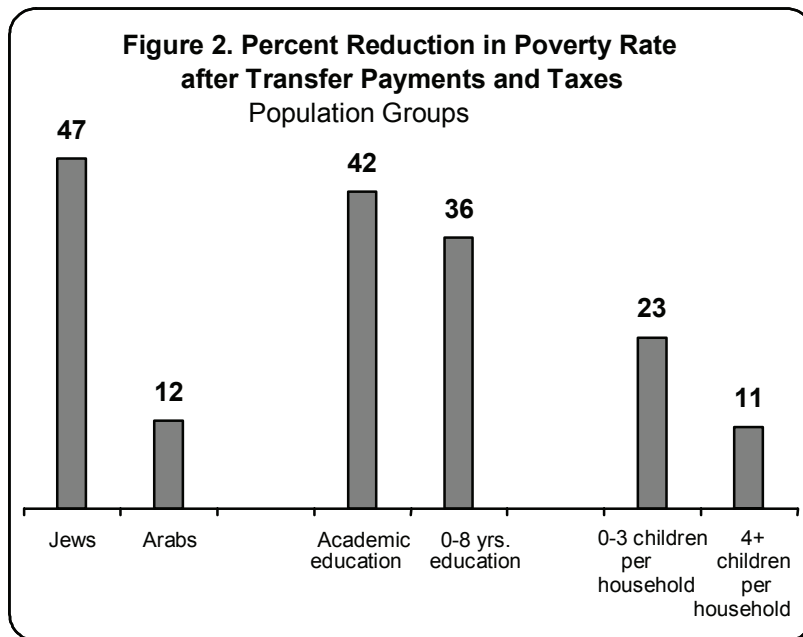
The unemployment rate differential between the two groups is still relatively large and has actually been increasing from year to year – in 2004 the low-education group's unemployment rate was three times that of the highly-educated group, and it rose to four times that of the highly-educated group over the past two years (Figure 1).



Data on income distribution indicate that the benefits of economic growth have not been enjoyed equally by all. Israel's poverty rate is high despite a certain improvement from 2006 on; the incidence of poverty, particularly among children, is exceedingly high compared with that of other developed countries. The situation is the same with regard to overall income distribution: the Gini index values used to measure inequality of income distribution are very

high, while the overall impact of transfer payments and taxes on inequality has declined over the years – in 2002 the adjustment was 31.5 percent, while during the last two years it fell to just 25 percent.

Inequality of income distribution is also reflected in the ratio between the per capita income (adjusted for household size) of the highest quintile of the population and that of the lowest quintile, based on the quintiles' share of the total income. This ratio comes to 22.4 prior to transfer payments and direct taxes. After transfer payments the ratio declines to 9.7, while the impact of direct taxes brings it down still further to 7.8. It should be emphasized that in 2007, as in previous years, 4 percent of two-income households were under the poverty line, while half of households under the poverty line had at least one wage-earner.



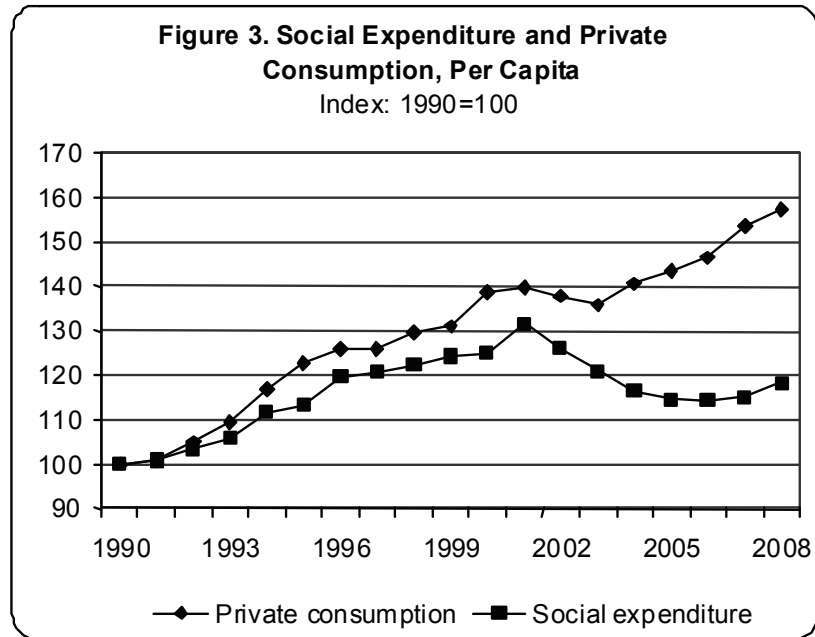
The fact that the poverty rate has stabilized at a high level, the trend toward intensification of poverty, and the declining power of transfer payments and direct taxes to ameliorate the situation, point to the existence of a structural problem requiring solutions that address its root causes. One cannot rely solely on transfer payments, which address the problem's consequences rather than preventing it – even though these payments, in certain years, have had an impact in terms of income distribution.

B. Income and Standard of Living

In 2007 the standard of living rose in terms of per capita income (adjusted for household size) at a real rate of 3.6 percent. The median income per capita (adjusted for household size) rose by 4.6 percent. This rise mainly reflects an increase in work-based income, which in turn stemmed from an increase in the number of those employed and in real wages. National Insurance Institute data indicate that economic income – which includes income from work and capital markets only and does not include either government transfers or deduction of direct taxes – rose in real terms by 5 percent. This rise primarily reflects a rise in wage-based income, and a modest increase in income from self-employment, as well as a decline in pension and capital-based income. The period 2002-2007 witnessed a real, 17 percent increase in per capita disposable income (adjusted for household size), though the benefits of this increase were not enjoyed equally across the board: the lowest quintile experienced a rise of 8.5 percent, while the highest enjoyed a rise of 18.6 percent.

As noted above, the recent economic growth was characterized by an expansion of employment, a reduction in unemployment and a rise in real wages. The labor force appears to have been the prime factor in the rise in standard of living; thus the status of the population that participates in the labor force improved compared

with that of the non-participatory population. Indeed, poverty rates among the non-participatory (working age) population rose from 67 to 70 percent over 2006-2007, while the incidence of poverty among working households remained stable at 12 percent.



In an additional breakdown by population group, between 2006 and 2007, per capita economic income (adjusted for household size), rose by 9 percent in the Arab population sector. This contributed to a decline in the incidence of poverty within this group – from 54 to 51 percent.

The unequal distribution of the benefits from economic growth and the decline in the impact of transfer payments are not coincidental; they can be explained by changes in policy. For example, in early 2006 several policy changes were instituted that had opposing effects: on the tax side, marginal tax rates were

decreased, affecting primarily the middle and higher income levels; tax brackets were adjusted in accordance with rising prices, while the value of tax credit points remained unchanged and eroded in real terms. Changes were also made to National Insurance and health insurance contributions – changes intended to lower the burden on the lower and middle income wage-earner groups without, however, affecting the overall scope of payments. At the same time, on the transfer payment side, National Insurance benefits were updated by 2.7 percent (for the first time since 2002), reflecting the rise in prices.

3. Government Expenditure – Policy and Priorities

A. Restricting Government Expenditure

In recent years, real increases in total government expenditure were constrained to a fixed rate. This restriction was intended to encourage economic growth by freeing up resources for use by the business sector. The outcome was a steady annual decline in the ratio of government expenditure to GDP. In 2001, disposable government expenditure after debt servicing amounted to 35.4 percent of the GDP. It fell to 30.8 percent by 2007, a decline of 13 percent (Table 2). This reduction in the share of government expenditure was achieved mainly by reducing the ratio of social spending to GDP by one fifth during the period in question.

Table 2. **Government Expenditure as a Percentage of GDP, 2001-2008 (Percent)**

	Total Government expenditure	Government expenditure excluding debt servicing	Social expenditure
2001	50.7	35.4	19.8
2003	51.1	34.8	18.8
2005	46.5	31.8	16.4
2006	46.2	31.3	15.9
2007	45.6	30.8	15.7
2008	46.3	31.7	16.1

Social services delivered or funded by the government are meant to be an important factor in preventing poverty, narrowing socioeconomic disparities and coping with the consequences of these disparities. This policy of reducing the share of social expenditures in GDP is not compatible with the government's declared goal of advancing social objectives. It should be stressed that the estimate for 2008 given in this table and in those presented below was arrived at on the basis of figures for the first half of 2008. In light of the significant difference between the two halves of 2008, the estimate for this year should be treated as preliminary and with caution.

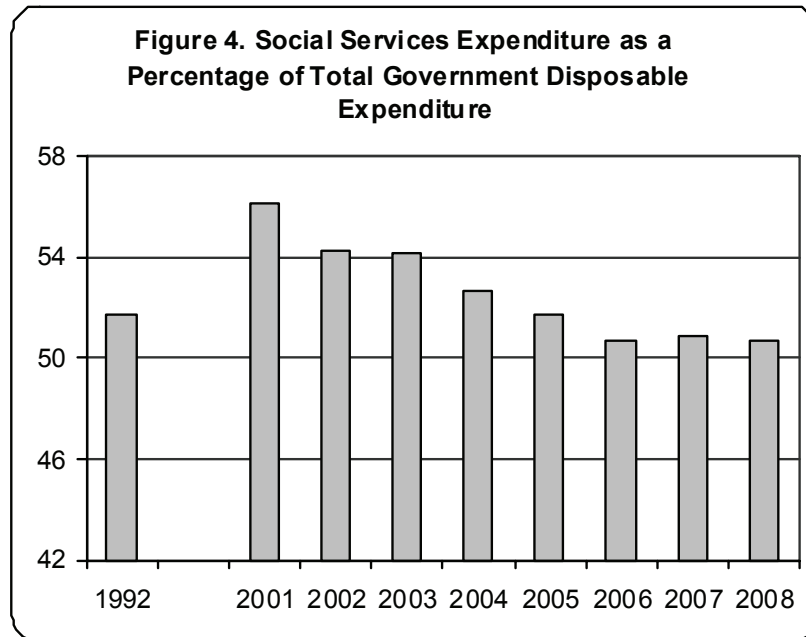
B. *Priorities*

Data on the distribution of government expenditure by main areas indicate that a third of this expenditure is directed toward debt servicing, while the disposable budget (after debt servicing) is divided between social outlays (51 percent), defense (26 percent) and economy and administration (23 percent) (Table 3). 2001 was a watershed year with regard to the share of social spending as a

percentage of disposable government expenditure. After two straight decades of a rise in its share it peaked in 2001 at 56 percent of total disposable expenditure. However, from this year on, the rate of social service expenditure declined as a percentage of the disposable budget, reaching a level below 51 percent. The figure for recent years is particularly low compared with that of the early 1990s (see Figure 4). By contrast, since 2002 there has been a rise in the share of defense spending, to 26 percent in the last two years. Outlays for economy and administration, which fund a wide variety of activities from incentives for investment, research and development, and exports to maintaining public order and environmental protection, have risen modestly since the beginning of the present decade (2001-2004) to a level of about 23 percent.

Table 3. Distribution of Government Expenditure by Main Areas, 2001-2008

	Total	Debt servicing	Disposable expenditure	Social services	Defense	Economics and Administration
2001	100.0	30.2	100.0	56.1	23.6	20.3
2002	100.0	29.2	100.0	54.2	25.4	20.4
2003	100.0	32.0	100.0	54.1	24.3	21.6
2004	100.0	29.1	100.0	52.6	24.6	22.8
2005	100.0	31.6	100.0	51.7	25.3	23.0
2006	100.0	32.1	100.0	50.7	25.7	23.6
2007	100.0	32.5	100.0	50.9	25.8	23.3
2008	100.0	31.6	100.0	50.7	26.0	23.3



4. *Government Social Expenditure – In-Kind Services and Transfer Payments*

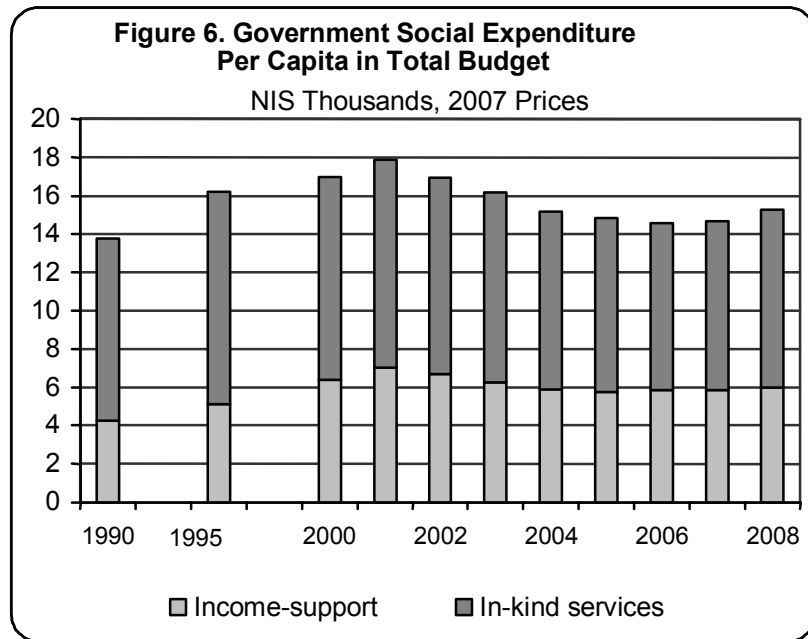
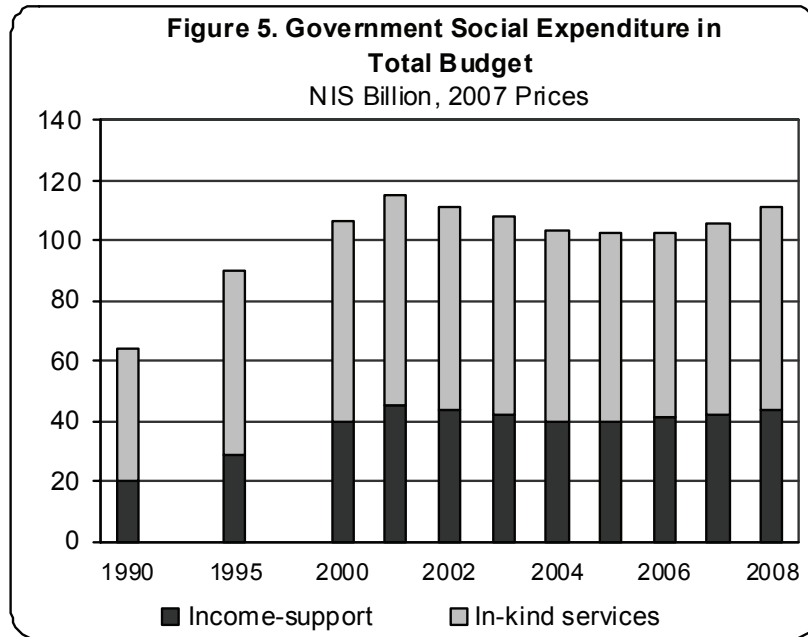
In 2007 actual expenditure on social services came to NIS 105.4 billion, 95 percent of it in the current budget framework and the remainder from the development budget. In retrospect, the period 2002-2005 saw a steady erosion of the social expenditure level, and a real cumulative decline of 7.5 percent; however, in 2006 this decline halted. Between 2006 and 2007 there was an increase of 2.4 percent in social spending, with an additional 6 percent increase by 2008 (according to budget estimates) (Figure 5).

A more complete picture regarding the level of service provided is obtained when population size is taken into account and data presented in per capita terms and in constant (2007) prices.

Figure 6 shows that overall spending per capita rose during the early 1990s to a level of NIS 16-17 thousand, versus NIS 12 thousand during the 1980s. From 1992 the level remained stable until the early 2000s; since then there has been a gradual decline, to NIS 14-15 thousand.

Social spending can be divided into two basic types – in-kind services and transfer payments. In-kind services are delivered directly to the public by the government or by public and private institutions receiving full or partial state funding; government agencies are responsible for their delivery, and outlays for them are included in the state budget. The areas in which these services are provided include education, health, personal social services, public housing, and assistance to new immigrants. The second type of social spending, transfer payments falls mainly within the purview of the National Insurance Institute, whose responsibility for the social security of the population is embodied in a network of programs that address needs of various kinds. This network includes old age and survivor benefits, child allowances, disability pensions, and an array of unemployment and income-maintenance benefits intended to ease poverty, etc. Transfer payments are funded partially by public contribution (National Insurance payments), while the state budget makes up the difference between total transfer payment expenditure from the NII to the public and the insurance receipts obtained from the public.

In-kind services amounted to NIS 63.5 billion in 2007, 60 percent of the total social expenditure, while transfer payments came to NIS 42 billion. The relative share of in-kind services has, by and large, remained stable over the current decade at around 60 percent. When the period of comparison is extended, it can be seen that during most of the 1990s, the average share was 65 percent – except for the mass immigration years of 1991-1992, when the share of in-kind services jumped to 71 percent (due in great part to



the need to fund housing for immigrants from the FSU). If the comparison period is extended even further back, it shows that the 1970s were characterized by levels of 70 percent and higher which leveled off to 65 percent in the first half of the 1980s, and then to 60 percent during the second half of the 1980s.

Table 4. **Distribution of Social Expenditure, by Main Components, 1980-2008 (Percent)**

	Total	In-kind services	Transfer payments
1980	100.0	69.3	30.7
1985	100.0	59.0	41.0
1990	100.0	64.0	36.0
1992	100.0	71.1	28.9
1995	100.0	65.9	34.1
2001	100.0	59.6	40.4
2007	100.0	60.2	39.8
2008	100.0	60.9	39.1

Data on average per capita expenditure for the two components – transfer payments and in-kind services – show that in-kind services (particularly in education and health) experienced a significant decline during the first decade of the 21st century, from NIS 10,500 per capita at the beginning of the decade to NIS 8,800 (in constant prices) by 2007. With regard to transfer payments, per capita expenditure has declined since the beginning of the decade. Taking a longer view, since the early 1980s, per capita spending rose, on average, from nearly NIS 3 thousand in 1980 to NIS 4 thousand in 1990 and NIS 7 thousand in 2001; from this point there has been a decline to less than NIS 6 thousand per capita in 2008 (see Appendix Table 4).

5. *In-Kind Social Services*

In 2007, expenditure on in-kind social services came to NIS 63.5 billion. This sum represents a real increase of 3 percent over 2006, after a continuous decline in real expenditure during the period 2001-2006, amounting to a cumulative decrease of 9 percent. Within the in-kind social services category, education accounts for the largest share – NIS 33.5 billion in 2007, or 53 percent of the overall expenditure on in-kind services.

A. *Composition of Government Expenditure on In-Kind Social Services*

Over the years there have been changes in the way spending on in-kind social services has been distributed, and its composition was strongly affected by the immigration wave of the early 1990s (Table 5). The rise in spending on immigrant integration, particularly with regard to state investments in housing, was reflected in a concomitant rise in the relative share of “other social services” category – which includes, among others, the Ministry of Housing and Ministry of Immigrant Absorption budgets. In recent years the impact of immigrant integration has lessened. Education's relative share of in-kind services expenditure has been noteworthy over the years for its stability: it accounted for half of the total expenditure throughout the 1980s and the first half of the present decade.

In 2007 there was a discernible rise in the share of education and of personal social services, and a decline in the share of health. It should be noted that in the past (during the 1980s and early 1990s), health spending amounted to two-thirds of education spending. Since then, this ratio has fallen to half. With regard to “other services” (e.g., the Housing and Absorption ministry budgets), the current decade has witnessed a continuous decline,

from 17 to 11-12 percent during the last two years. Utilization estimates for 2008 anticipate a rise in the relative share of personal social services and of “other social services,” and a decline in that of education and health.

Table 5. Development of Main Components of In-Kind Service Expenditure, 1985-2008
(Percent, Current Prices)

	Total	Education	Health	Personal social services	Other services
1985	100.0	48.5	33.7	5.2	12.6
1989	100.0	49.4	33.1	6.8	10.7
1992	100.0	32.3	19.1	4.2	44.4
1995	100.0	43.5	26.3	5.8	24.4
2001	100.0	50.0	24.8	7.7	17.5
2002	100.0	49.8	25.4	8.7	16.1
2003	100.0	50.4	25.0	8.6	15.9
2004	100.0	50.2	27.3	8.9	13.6
2005	100.0	50.5	28.2	9.1	12.3
2006	100.0	51.0	28.9	9.4	10.7
2007	100.0	52.7	26.7	9.8	10.8
2008	100.0	51.2	26.6	10.1	12.1

B. The Government's Share in National Education and Health Spending²

National education expenditure includes the outlays of all public and private institutions of education from pre-primary to higher education; household expenditure on private tutoring, textbooks, etc.; and expenditure for the construction and equipment of new educational institutions. National health care expenditure includes outlays for all health care services provided at clinics and hospitals, services of private physicians and dentists, outlays for medicines and medical instruments, government research and administration in the field of health, and investments in physical facilities and equipment. Funding of national expenditure for education and health care is divided between the public sector, including government municipal authorities, and households.³

According to Central Bureau of Statistics estimates, the share of national education and health care spending in gross national product hovered around 17 percent during the second half of the 1990s and declined during the 2000s to 16 percent in 2007. The government sector's share in financing national expenditure in these areas declined.

The decline in the government sector's share in financing of national education and health expenditure led to a significant rise in household spending in these areas. It appears to have contributed to a widening of social disparities, both in terms of service consumption and in terms of health outcomes, and influenced educational attainments among the weaker populations, those

² Figures in this section are based on Central Bureau of Statistics estimates.

³ Donations covered about 1 percent of national education expenditure, mostly for universities. About 3 percent of national health care expenditure was not funded by government or households; in the main, this reflects the deficits of the Sick Funds (the Israeli HMOs) which, in the past, were largely covered by the government.

unable to afford privately-funded services. In the health sector, for example, the Taub Center's *Social Survey* as well as surveys carried out by the Brookdale Institute and other organizations indicate that a large segment of the Israeli public refrained from using essential medical services during the preceding year, due to their cost. Studies also point to undesirable health outcomes stemming from the failure of weaker populations to use medications. A portion of the private funding within the health system stems from the rise in number of holders of supplemental insurance. This phenomenon may be taken to indicate an erosion of faith in the public health system and the basic "basket" of health services. The education system is also experiencing a trend toward more parental spending. Part of this increase in private educational spending may be attributed to the higher education system's expansion (colleges, etc.). On the one hand, this reflects a widening of the circle of those pursuing higher education in Israeli society; on the other hand, it points to a trend toward increased private funding of basic education systems. It also emphasizes the fact that, as in the health sector, the more affluent population groups are able to purchase enhanced private education services for their children.

C. Government Expenditure on Education

Education spending constitutes the largest portion of government spending on in-kind social services. In 2007 the government spent NIS 33.5 billion on education. Taking a long-term view, from the 1980s on education expenditure rose steadily, reaching a peak in 2001. Since 2001 there has been a decline in real terms; only in 2008 is education expenditure expected to slightly exceed its 2001 level.

The distribution of current expenditure between the education system's various components, and the changes that have occurred in distribution trends, could be expected to be indicative of

priorities in government education spending. In fact, over the past decade and a half (including estimates for 2008) there have been no major changes in expenditure distribution. The most striking changes have been related to a rapid and consistent increase in the share of outlays for kindergartens. This change reflects an extension of the Compulsory Education Law to the 3-4 year old age group. Another notable change took place in the secondary education sphere: the rise in share of this sector that characterized the 1990s gave way to a decline during the first half of the present decade and continued through 2007. Another change, one reflecting a change in policy, is the decline in share of spending on *yeshivas* (non-State religious high schools) that began at the beginning of the current decade. This change appears to stem from an elimination of funding redundancies with the transfer of part of the budget from the Ministry of Religious Affairs to the Ministry of Education. The last two years have witnessed stability in the *yeshiva* expenditure share. At the same time there has been a rise in the share of primary education and a decline in spending on vocational training. Estimates for 2008 hint at a potential rise in the share of vocational training, which may have a major impact on work force participation.

When pupil population growth is factored into the analysis of governmental resource allocation it turns out that, during the course of the past decade (1998-2007), overall spending per pupil declined by about a tenth (in constant prices), although this outlay is still higher than what it was during the early 1990s. In 2007 the downward trend reversed to a slight increase, although the level is still 9 percent lower than in 1998. Regarding this development there is a clear distinction between various sectors of the education system: expenditure on pre-primary education grew by 12 percent during the past decade (1998-2007), while spending on primary education seemingly remained stable over most of this period, with one exceptional increase of 12 percent toward the end, in 2007.

Estimates for 2008 predict a continued rise in per pupil expenditure, though at a much lower rate. The stability of the period in question can be explained mainly by an increase in special education budgeting; budgeting for regular primary education actually declined. With regard to post-primary education the cutback is particularly striking; per pupil expenditures declined by 18 percent over the past decade. This decline was paralleled, during the same period, by a significant drop of nearly twenty percent in per-student spending in higher education. 2007 witnessed an increase relative to 2006 (in constant prices), but estimates for 2008 point to a spending level some 10 percent lower than at the beginning of the decade. The sharp drop in average outlays per higher-education student may reflect, in part, a rise in the number of students enrolled in Israel's academic colleges (within the overall higher-education population); state spending per student in these institutions is lower than the outlay per university student.

Another priority-related issue is that of how expenditure is distributed between the current and the development budgets. The development budget covers expenditures aimed at adapting the education system's physical infrastructures to anticipated needs of the coming years. In 2007 development expenditures came to NIS 600 million – an increase of 6 percent over 2006 in real terms. During the last few years the development budget has accounted for 2 percent of the total government expenditure for education, but a longer-term analysis shows that a period of relatively intensive investment in the early 1990s (due mainly to the need to integrate immigrant children) was followed, starting in the mid-1990s, by a downward trend.⁴

⁴ A more detailed discussion of the education system is presented in the Hebrew version of this report in "the Social Services and their Development" section.

D. *Government Expenditure on Health*

In recent years current government expenditure on health has stood at NIS 17.5 billion. Estimates for 2008 foresee a similar level. During the years just preceding the National Health Insurance Law (the first half of the 1990s), there was a rapid rise in state spending on health. After the law was enacted there was a continued slight increase overall, though it should be remembered that the health service price index tends to rise more quickly than that of the price index for other public services. Moreover, the total expenditure data do not take population growth or aging into account (population aging is associated with increased utilization of health care services). Expressing outlays in terms of average per capita expenditure corrects for the second of the two deficiencies noted – the demographic impact – and it turns out that, during the period 1996-2006, there was a 15 percent erosion in real terms of average per capita government expenditure on health. This decline reflects a 20 percent drop in budget outlays for health insurance funding, alongside relative stability in spending on in-kind health services.

It should be emphasized that these findings refer to government spending on health care services funded by the state budget (not including the health tax); they do not reflect trends in national expenditure on health.

Government spending on the health system may be broken down into two main components: funding for the insurance system as mandated by the National Health Insurance Law (primarily payments to the Sick Funds (the Israeli HMOs)⁵, and funding of services delivered directly by the Ministry of Health, as well as outlays for health service delivery by the National Insurance Institute (inpatient maternity care and treatment of workplace

⁵ This does not include the portion of funding that is based on the health tax paid by the population and transferred to the Sick Funds by the National Insurance Institute.

injuries). Compared with past years, there has been a decline in the relative share of government health expenditure directed to health insurance funding, and a rise in the share of the expenditure on delivery of in-kind services (Table 6).

Changes have occurred in the composition of expenditure on services delivered directly by the government (primarily by the Health Ministry): there has been a decline in the share of expenditure on general inpatient care. With regard to long-term and psychiatric care there has been an increase over time, while expenditure on “other services” has been stable through most of the period in question, after a decline at its beginning.

Table 6. **Distribution of Current Government Health Care Expenditure – Main Components, 1990-2007 (Percent)**

	1990	1995	2000	2005	2006	2007
Total	100.0	100.0	100.0	100.0	100.0	100.0
• Participation in health insurance	71.2	70.0	66.0	67.3	67.4	64.6
• In-kind expenditure	28.8	30.0	34.0	32.7	32.6	35.4
In-Kind expenditure - Total	100.0	100.0	100.0	100.0	100.0	100.0
• General inpatient care	10.0	11.9	3.4	3.1	3.1	2.3
• Psychiatric care	21.9	23.2	22.6	27.3	25.7	25.8
• Long-term care	17.1	17.2	20.8	21.8	22.6	21.8
• Public health	14.0	17.2	22.1	18.6	18.8	17.3
• Other services*	37.0	30.5	31.1	29.2	29.8	32.8

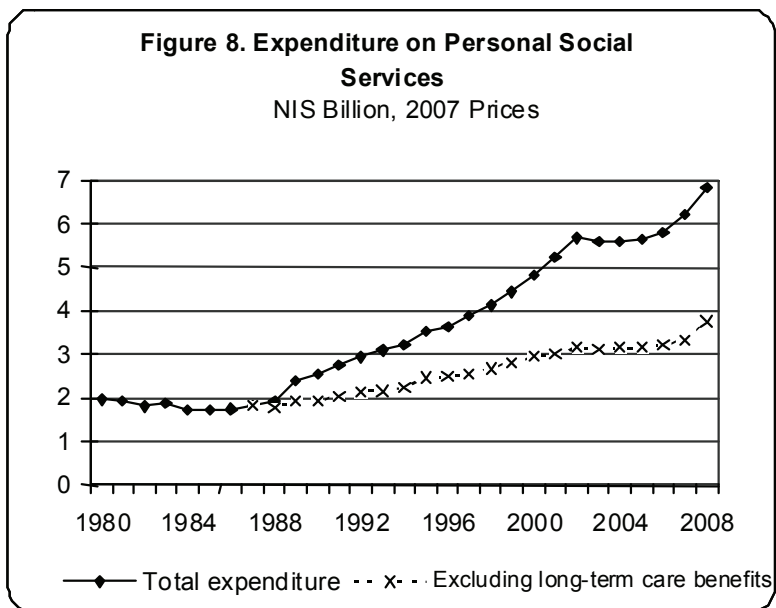
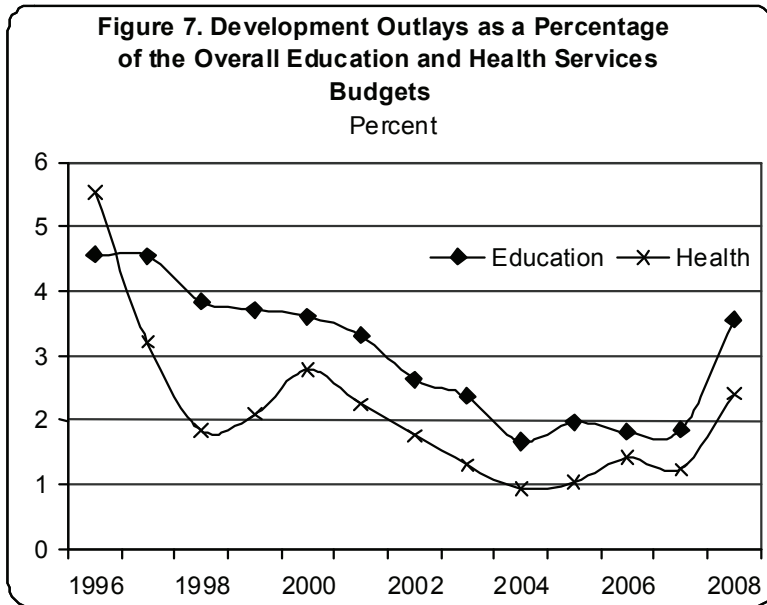
* Includes health care expenditure outside the Ministry of Health budget, mainly National Insurance outlays for inpatient maternity care, treatment of workplace casualties, etc.

Government health spending also encompasses investment in buildings and equipment, in addition to current expenditure. In recent years development outlays in the health system accounted for 1 percent of total government health expenditure – NIS 220 million per year, on average (in constant 2007 prices). The overall scope of investment in this area suffered a steep decline after the enactment of the National Health Insurance Law, a decline that continued until 2005. In 2006 there was a rise in investment expenditure, followed in 2007 by another decline in real investment in buildings and equipment, from NIS 260 million to NIS 211 million (constant prices).

These findings should be viewed in the context of certain trends that have characterized building and equipment investment in other social service systems – the education system, for example. From 2001 to 2007 there was a 53 percent decline in overall investment in buildings and equipment in these two areas. In the health system, as in the education system, insufficient investment is eroding the systems' physical infrastructures and threatening a deterioration of service quality in the future (see Figure 7).

E. Personal Social Services

Government expenditure on personal social services may be divided into two main categories: long-term care benefits provided by the National Insurance Institute, whose share has risen over the years since the enactment of the Long-Term Care Insurance Law in 1988 (these benefits are translated into in-kind services). The other category includes all other service categories, including social services for children and youth, care of the elderly, special population groups (marginalized youth, persons with mental and physical disabilities), and personal and family welfare services in centralized locations and in the community.



Personal social services are provided by the Ministry of Social Affairs and Social Services and by the social service bureaus of local authorities, or by service providers with whom they have contractual arrangements. In 2007 government expenditure for all personal social services, including long-term care, came to NIS 6.2 billion, constituting a real increase of 7.6 percent over 2006. This rise is particularly significant in light of the more modest increase of recent years that did not exceed 2 percent per year. The coming years will tell whether the accelerated growth of the last two years has been a one-time occurrence or a return to the trend of sharp increases that characterized the development of personal social service expenditure during the previous decade.

Outlays in the framework of the Long-Term Care Insurance Law amount to 45 percent of total expenditure on personal social services, and they also constitute the main factor affecting expenditure growth. As noted above, the Law provides benefits to people with functional disabilities who have been declared eligible for home-based long-term care or other services. Once the Long-Term Care Insurance Law was enacted and awareness of the rights provided under it grew, numerous requests for assistance were made. An increase in the proportion of the elderly in Israel's population, particularly those aged 75+, made its own contribution to the increase in those availing themselves of the benefits available. As a result, there has been a steep rise over the years in expenditure related to the Long-Term Care Insurance Law, and this has had an impact on overall government expenditure on personal social services.

Although outlays for personal social services account for only 6 percent of overall social spending and 10 percent of spending on all in-kind services, these services themselves are nevertheless highly important, inasmuch as they are intended for the weakest

members of society – those who are helpless or unable to function independently.⁶

6. Transfer Payments - The Social Security System

For over two decades, until 2001, social transfer payments to the Israeli public via the National Insurance Institute increased steadily. In 2002 a decision was made to cut benefits, modify eligibility rules and tighten enforcement in payment execution – all of which led to a decline in payments. This trend continued through 2005; in 2006 there was a real increase of 3 percent, a trend that continued in 2007 as well. In 2007 transfer payments came to NIS 42 billion and are expected to reach nearly NIS 44 billion in 2008. In real terms there was a 2 percent rise relative to the previous year, but this still translates into an expenditure level 7 percent lower, in real terms, than that of the peak year of 2001. When calculating transfer payments as a percentage of overall government expenditure, a downward trend is discernible from 2002 on. The share of social transfers as a percentage of GDP has also dropped, from 8 percent in 2001-2002 to 6 percent in 2007.

The decline in expenditure on social transfer payments is particularly evident with regard to child allowances, unemployment compensation and income-support benefits. Since 2001, general disability benefits have increased significantly (35 percent). Old age benefits, which until 2005 were trending slightly downward, also increased in recent years, reaching, in 2007, a level 4 percent higher than that of 2001. Expenditure estimates for 2008 predict a halt to the downward trend in expenditure on income-support, unemployment and child allowances. With regard to general

⁶ For a fuller discussion of this topic, see the Hebrew report chapters devoted to specific personal social service areas, their composition and target populations. See also the discussion of long-term care insurance in the chapter on the social security system.

disability and old-age/survivor benefits the growth trend is expected to continue.⁷ Table 7 shows the development of social transfer payments in the aggregate and their breakdown by main areas. The following is a concise review of trends in the development of the National Insurance Institute's major transfer payment programs.

Table 7. **Distribution of Social Transfer Payments – Main Components (Percent)**

	1990	1995	2001	2005	2006	2007	2008
Total (NIS billion)	20	28	45	40	41	42	44
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Old-age and survivor	44.6	40.5	37.0	41.8	41.9	41.5	40.8
Child allowances	22.2	22.8	18.5	11.5	12.1	11.9	11.6
General disability	11.3	11.6	14.4	19.3	19.8	20.9	21.6
Unemployment and income-support	10.6	12.6	17.1	12.2	11.2	10.0	9.5
<i>Thereof:</i>							
• Unemployment	7.3	6.7	8.6	5.1	4.8	4.2	4.0
• Income-support	3.3	5.9	8.5	7.1	6.4	5.8	5.5
Other	11.3	12.5	13.0	15.2	15.0	15.7	16.5

A. Primary Social Transfer Payment Programs

1) *Old-age and survivor benefits* are the largest component of the NII's transfer payments and are currently paid to some 730 thousand senior citizens. The proportion of these benefits in the transfer-payment total exceeds 40 percent; the size of the actual expenditure is dictated by the size of the elderly population that

⁷ An in-depth discussion of benefits, recipient populations, eligibility and other changes in this area may be found in the Hebrew version of this annual report in the chapter on the social security system.

receives the universal pension and the proportion of those among them receiving low-income supplements. During the 1990s expenditure grew due to the arrival of elderly immigrants, many of whom were also in need of income supplements due to the lack of other old-age savings arrangements. However, in accordance with policies adopted in 2002, a decision was made to reduce pensions overall, to raise the age of eligibility for them, to make income testing more stringent and to link the pensions to the consumer price index, rather than to the average wage. In the wake of this decision, 2002-2003 witnessed a 4 percent decline in these payments as compared to 2001 – despite a rise in the number of pension recipients. In 2004, pension expenditures rose by 2 percent, in 2005 by another 2 percent, in 2006 by 3.3 percent, and in 2007 by just one percent. In 2005 contributing factors to the increase in pension spending were a rise in income supplement benefits, a drop in the overall pension reduction rate from 4 percent to 1.5 percent, and a CPI adjustment. In early 2006 another 1.8 upward adjustment was made to the pensions, while in mid-year the general reduction was rescinded. Taking an overall view, since 2000 old-age benefit spending has increased by 2 percent per year on average.

The basic individual old age benefit rose by 0.9 percent in 2007, while the individual benefit including income-support rose by 1.6 percent. The level of pensions relative to average wages remained stable at the 2006 level.

2) In most years, *child allowances* ranked second in terms of social transfer-payment expenditure. However, general disability benefits replaced them in this ranking. The child allowance cutbacks were striking compared to the overall array of changes in National Insurance benefits. In retrospect, child allowance expenditure rose during the 1990s due to three main factors: a repeal of the allowance freeze on first and second children; the extension of full eligibility to families whose parents did not serve in the IDF; and

the Large Family Law. However, government decisions since 2002 have included, among other things, a 15 percent allowance cutback, as well as phased equalization over seven years of the benefits for each child irrespective of birth order (and, for children born after 2003, immediately). Due to this, by 2005 child-allowance outlays had declined in real terms by 45 percent. At the beginning of 2006, the *ad hoc* provision concerning the fixed-sum cutback expired and the allowances were adjusted for inflation. However, the cutback under the policy of standardizing the benefit rate for all children remained in effect. As a result of these changes, payments in 2006 were 8.6 percent higher in real terms than in 2005.

In 2007 there was an additional half-percent drop in child allowance outlays, reflecting a continuation of the process of reducing child allowances that began in 2002 (in which a uniform allowance lower than the earlier one is paid for children born after June 2003 who are number three or above in the family birth order). These changes created a situation in which the child allowance paid to families with two children eroded between 2002 and 2007 by 22 percent, while the allowances paid to families with four and five children eroded by 48 and 50 percent, respectively. In 2007 the number of families eligible for child allowances rose by 1.2 percent, consistent with the natural growth rate.

3) *Disability pension* expenditures grew rapidly over the entire period under review, particularly from the mid-1990s. These pensions are currently paid to some 200,000 persons with disabilities and account for a significant share (over 20 percent) of the social transfer payment total, making them the second-largest component after old-age pensions. This is the only type of transfer payment that the 2002 cutback policy left untouched. In fact, a special benefit was added for persons with severe disabilities, another for disabled persons of especially low earning capability, another for disabled children, etc. Moreover, since 2005 expenditure for general disability payments has increased, due, in

part, to the rise in retirement age, which leaves persons with disabilities in the disability benefit system longer than before (until they reach the age of eligibility for an old-age pension). In 2007 disability expenditure increased in real terms by 7.7 percent relative to 2006; in recent years it has enjoyed an overall annual increase of 7 percent on average.

4) Expenditure on *unemployment compensation* and *income-support benefits* – programs intended for people of working age who do not participate in the labor force – has undergone a turnaround in recent years. During the 1990s spending in these areas grew more rapidly than did expenditure for the other major forms of transfer payment. The steep rise reflected not only the economic deterioration and spreading unemployment that characterized that period, but also greater public awareness of eligibility for these benefits. Unemployment expenditures increased during the 1990s despite various restrictions applied to eligibility. However, decisions taken from 2002 onward have reversed this trend and brought about a steep expenditure decline. The new policy lengthened the qualifying period for unemployment compensation, limited the maximum term of eligibility for younger unemployed persons, and reduced compensation for the chronically unemployed and for participants in vocational programs.

In 2007 there was an additional 9 percent decline in payments to the working-age population, including unemployment compensation; this was also reflected in a drop in the unemployment benefit/average wage ratio. The drop may be explained primarily as a continuation of the trend toward a decline in the share of unemployed persons receiving unemployment benefits at a level above half the average wage in the economy, and a rise in the share of those who received benefits lower than half the average wage. 2007 also saw a continuation of the trend toward declining numbers of unemployment benefit recipients – a drop of

11 percent versus the previous year. Since 2001 the number of unemployment-benefit recipients has dropped by 52 percent. The decline of the last two years may be attributed mainly to changes in the overall employment situation, while that of the period 2002-2003 is attributable primarily to a tightening of eligibility criteria. Income-support benefits were reduced by 4 percent, with additional maximum benefit reductions ranging from 10-23 percent, in accordance with household size. Moreover, eligibility for the higher benefit rate was eliminated for certain age groups of new applicants, the income-test parameters were modified, exemptions from the employment test were cancelled in certain cases, and various discounts (on municipal property tax, public transport fares, etc.) were reduced or cancelled for the newly unemployed. Taken together, these changes led to a cumulative expenditure decline of 21 percent by 2004, and an additional 20 percent decline during 2004-2007. The drop in expenditure seen during the last two years also reflects an improved employment situation, manifested in smaller numbers of income-support and unemployment benefit recipients, as well as shorter periods of participation in the unemployment compensation system.

B. Policy Changes and Their Significance

The increase in transfer payments since the early 1980s may be traced to the enactment of the Income-Support Laws in 1982, to an increase in Israel's population size, to population aging, to a generous interpretation of eligibility parameters, and to growing public awareness of eligibility. One may also point to labor-market fluctuations that occurred over the years, as well as to changes in benefit policy. The cumulative outcome is that the share of social transfer payments in overall government expenditure rose from 7 percent in 1980 to 11 percent in 1990 and to 16 percent in 2001. A slowdown in economic growth and a decline in employment figures caused transfer payments to be regarded as a disincentive to

work force participation, particularly within the low-income population. In light of this, a 2002 policy decision sought to trim the benefits, as a means of encouraging greater participation in the work force.

The Economic Recovery Program passed in 2003 stipulated that all benefits paid by the National Insurance Institute, except for old-age and survivor benefits, be frozen through December 2005, and that in 2006 they be linked to the consumer price index (rather than to the average national wage, as had been customary up to that time). Accordingly, the benefits were updated by just 2.7 percent in 2006. The impact of these measures may be seen in the fact that between 2002 and 2006 the average wage rose by 6 percent, while benefit recipients received 3.2 percent points less. During 2007 benefits were not updated at all, because the CPI dropped slightly. By contrast, had the benefits been adjusted in accordance with changes in the average national wage, benefit-recipients would have enjoyed a 3.4 percent increase. The cumulative loss to benefit recipients during these years amounted to 6 percent, and the erosion is expected to continue in the coming years. In addition, the across-the-board reduction of benefit levels at a rate of 4 percent enacted in June 2002 continued. The cutback was slated to end in 2006 but was extended to 2007 as well (again, excluding the old-age and long-term care benefits). National Insurance Institute data indicate that the burden of these reductions have not been distributed uniformly among the various populations. The data point to a steady decline since 2003 in the share of the lower-income deciles (first to third) in total transfer payments, and to a rise in the share of the middle-income deciles (fourth through seventh).

These policy changes have exacted a heavy socioeconomic price. As noted earlier, over the last few years taxes and transfer payments have had less and less of an impact on the incidence of poverty and on inequality of income distribution in Israel. In 2002

the contribution of transfer payments to reducing inequality, as measured by the Gini index, was 32 percent, while in 2007 it had dropped to only 25 percent. Similarly, the effectiveness of transfer payments in reducing the incidence of poverty has also waned – in 2002 the number of poor households as measured by disposable income (after adjustment for transfer payments) was 47 percent lower than the number of poor households as measured by economic income. In 2006 the discrepancy was just 39 percent, while in 2007 transfer payments succeeded in raising only 38 percent of those households defined as poor in terms of economic income out of poverty.

Appendix:
Tables,
Definitions and Sources

**Table 1. Indicators of Social Service Expenditure:
Total Budget and Current Budget**

	Social service expenditure as percentage of:		
	Government expenditure		GDP
	Total	Excl. debt servicing	
1. Total budget (current and development)			
1980	23.9	31.7	17.8
1985	18.2	32.1	15.5
1989	26.1	42.0	16.4
1996	36.8	53.2	19.9
2000	38.5	55.0	18.3
2001	39.2	56.1	19.8
2002	38.4	54.2	19.4
2003	36.8	54.1	18.8
2004	37.3	52.6	17.3
2005	35.4	51.7	16.4
2006	34.4	50.7	15.9
2007	34.3	50.9	15.7
2008	34.7	50.7	16.1
2. Current budget			
1980	26.4	30.4	15.1
1985	24.6	32.3	14.4
1989	34.0	42.8	15.6
1996	43.3	51.3	17.0
2000	46.0	54.3	16.6
2001	47.5	55.4	18.0
2002	46.4	54.0	17.8
2003	45.5	54.2	17.2
2004	44.9	53.3	16.2
2005	43.9	52.2	15.5
2006	43.4	51.4	15.1
2007	43.7	51.5	14.9
2008	44.6	51.7	15.1

Table 3. Expenditure on Social Services, by Main Item
(NIS million, 2007 prices)*

1. Total budget (current and development)

	Total Income		In-kind services						
	mainte- nance	Total	Educa- tion	Health	Personal social services	Em- ploy- ment	Immigrant integration	Housing	
1980	46,772	11,172	35,601	16,874	11,556	1,990	283	318	4,580
1985	47,082	14,570	32,512	16,245	11,262	1,741	272	357	2,634
1989	54,636	19,566	35,070	17,540	11,759	2,425	396	761	2,188
1996	98,292	30,254	68,038	30,524	17,641	3,695	510	2,061	13,607
2000	106,698	40,100	66,598	32,838	16,168	4,876	637	2,257	9,822
2001	115,086	45,215	69,871	34,221	16,952	5,272	667	1,968	10,792
2002	111,081	43,886	67,195	32,878	16,741	5,720	711	1,675	9,470
2003	108,329	41,770	66,559	33,118	16,428	5,615	735	1,371	9,293
2004	103,458	40,136	63,322	31,544	17,118	5,613	799	1,323	6,925
2005	102,806	39,937	62,869	31,609	17,633	5,668	820	1,283	5,857
2006	102,926	41,173	61,753	31,473	17,801	5,797	990	1,362	4,330
2007	105,422	41,908	63,514	33,501	16,956	6,229	1,056	1,189	4,583
2008	111,576	43,737	67,839	34,721	18,015	6,877	1,378	1,476	5,371

Average annual percent change

1980-1985	0.1	5.5	-1.8	-0.8	-0.5	-2.6	-0.8	2.4	-10.5
1985-1989	3.8	7.6	1.9	1.9	1.1	8.6	9.9	20.8	-4.5
1989-1996	8.8	6.4	9.9	8.2	6.0	6.2	3.7	15.3	29.8
1996-2000	2.1	7.3	-0.5	1.8	-2.2	7.2	5.7	2.3	-7.8
2000-2005	-0.7	-0.1	-1.1	-0.8	1.7	3.1	5.2	-10.7	-9.8
2005-2008	2.8	3.1	2.6	3.2	0.7	6.7	18.9	4.8	-2.8

* Income maintenance expenditure is deflated by the Consumer Price Index; all other expenditure in the current budget is deflated by the Public Civilian Consumption Price Index, and expenditure in the development budget is deflated by the Construction Price Index.

Table 3. (continued)**2. Current budget**

	Total	Income	In-kind services						
			mainte-	Total	Educa-	Health	Personal	Em-	Immigrant
		nance		tion		social	ploy-	integration	
						services	ment		
1980	41,513	11,172	30,341	16,355	11,232	1,957	283	318	197
1985	44,113	14,570	29,543	15,975	11,052	1,716	272	357	171
1989	52,345	19,566	32,779	17,294	11,610	2,404	396	761	313
1996	82,436	30,254	52,182	29,022	16,588	3,647	510	2,061	355
2000	95,248	40,100	55,148	31,480	15,653	4,835	637	2,257	286
2001	102,797	45,215	57,582	32,901	16,509	5,226	667	1,968	311
2002	100,498	43,886	56,613	31,875	16,398	5,676	711	1,675	277
2003	98,130	41,770	56,361	32,242	16,187	5,577	735	1,371	249
2004	96,047	40,136	55,911	30,971	16,941	5,584	799	1,323	293
2005	96,302	39,937	56,365	30,956	17,439	5,650	820	1,283	217
2006	97,951	41,173	56,778	30,890	17,541	5,783	990	1,362	211
2007	100,200	41,908	58,292	32,882	16,745	6,220	1,056	1,189	200
2008	104,748	43,737	61,011	33,477	17,577	6,811	1,378	1,476	291

Average annual percent change

1980-1985	1.2	5.5	-0.5	-0.5	-0.3	-2.6	-0.8	2.4	-2.7
1985-1989	4.4	7.6	2.6	2.0	1.2	8.8	9.9	20.8	16.2
1989-1996	6.7	6.4	6.9	7.7	5.2	6.1	3.7	15.3	1.8
1996-2000	3.7	7.3	1.4	2.1	-1.4	7.3	5.7	2.3	-5.3
2000-2005	0.2	-0.1	0.4	-0.3	2.2	3.2	5.2	-10.7	-5.4
2005-2008	2.8	3.1	2.7	2.6	0.3	6.4	18.9	4.8	10.3

Table 4. Expenditure on Social Services per capita, by Main Item
(NIS million, 2007 prices)*

1. Total budget (current and development)

	Total	Income mainte- nance	In-kind services						
			Total	Educa- tion	Health	Personal social services	Em- ploy- ment	Immigrant integration	Housing
1980	12,062	2,881	9,181	4,352	2,980	513	73	82	1,181
1985	11,123	3,442	7,681	3,838	2,661	411	64	84	622
1989	12,092	4,331	7,762	3,882	2,603	537	88	168	484
1996	17,289	5,322	11,968	5,369	3,103	650	90	362	2,393
2000	16,965	6,376	10,589	5,221	2,571	775	101	359	1,562
2001	17,873	7,022	10,851	5,315	2,633	819	104	306	1,676
2002	16,907	6,680	10,228	5,004	2,548	871	108	255	1,441
2003	16,193	6,244	9,949	4,951	2,456	839	110	205	1,389
2004	15,194	5,895	9,300	4,633	2,514	824	117	194	1,017
2005	14,835	5,763	9,072	4,561	2,544	818	118	185	845
2006	14,592	5,837	8,755	4,462	2,524	822	140	193	614
2007	14,683	5,837	8,846	4,666	2,362	867	147	166	638
2008	15,280	5,990	9,290	4,755	2,467	942	189	202	736

Average annual percent change

1980-1985	-1.6	3.6	-3.5	-2.5	-2.2	-4.3	-2.5	0.6	-12.0
1985-1989	2.1	5.9	0.3	0.3	-0.5	6.9	8.1	18.9	-6.1
1989-1996	5.2	3.0	6.4	4.7	2.5	2.8	0.3	11.6	25.6
1996-2000	-0.5	4.6	-3.0	-0.7	-4.6	4.5	3.1	-0.2	-10.1
2000-2005	-2.6	-2.0	-3.0	-2.7	-0.2	1.1	3.1	-12.4	-11.6
2005-2008	1.0	1.3	0.8	1.4	-1.0	4.8	16.8	3.0	-4.5

* Income-maintenance expenditure is deflated by the Consumer Price Index; all other expenditure in the current budget is deflated by the Public Civilian Consumption Price Index, and expenditure in the development budget is deflated by the Construction Price Index.

Table 4. (per capita, continued)**2. Current budget**

	Total	Income	In-kind services						
			mainte- nance	Total Educa- tion	Health	Personal social services	Em- ploy- ment	Immigrant integration	Housing
1980	10,706	2,881	7,825	4,218	2,897	505	73	82	51
1985	10,421	3,442	6,979	3,774	2,611	405	64	84	40
1989	11,585	4,331	7,255	3,828	2,570	532	88	168	69
1996	14,500	5,322	9,179	5,105	2,918	641	90	362	62
2000	15,145	6,376	8,769	5,005	2,489	769	101	359	45
2001	15,965	7,022	8,943	5,110	2,564	812	104	306	48
2002	15,297	6,680	8,617	4,852	2,496	864	108	255	42
2003	14,669	6,244	8,425	4,820	2,420	834	110	205	37
2004	14,106	5,895	8,211	4,548	2,488	820	117	194	43
2005	13,896	5,763	8,133	4,467	2,516	815	118	185	31
2006	13,886	5,837	8,049	4,379	2,487	820	140	193	30
2007	13,955	5,837	8,119	4,580	2,332	866	147	166	28
2008	14,345	5,990	8,355	4,585	2,407	933	189	202	40

Average annual percent change

1980-1985	-0.5	3.6	-2.3	-2.2	-2.1	-4.3	-2.5	0.6	-4.4
1985-1989	2.7	5.9	1.0	0.4	-0.4	7.0	8.1	18.9	14.4
1989-1996	3.3	3.0	3.4	4.2	1.8	2.7	0.3	11.6	-1.5
1996-2000	1.1	4.6	-1.1	-0.5	-3.9	4.6	3.1	-0.2	-7.6
2000-2005	-1.7	-2.0	-1.5	-2.3	0.2	1.2	3.1	-12.4	-7.2
2005-2008	1.1	1.3	0.9	0.9	-1.5	4.6	16.8	3.0	8.4

Table 5. Distribution of Expenditure on Social Services (Percent)

	Total	Income maintenance	In-kind services			
			Total	Education	Health	Other*
1. Total budget (current and development)						
1980	100.0	30.7	69.3	30.9	21.1	17.3
1985	100.0	41.0	59.0	28.6	19.9	10.5
1989	100.0	42.4	57.6	28.4	19.0	10.1
1996	100.0	33.3	66.7	30.3	17.5	18.8
2000	100.0	39.1	60.9	30.5	15.1	15.3
2001	100.0	40.4	59.6	29.8	14.8	15.0
2002	100.0	41.0	59.0	29.4	15.0	14.6
2003	100.0	39.9	60.1	30.3	15.0	14.7
2004	100.0	39.5	60.5	30.4	16.5	13.6
2005	100.0	39.6	60.4	30.5	17.0	12.9
2006	100.0	40.3	59.7	30.5	17.2	12.0
2007	100.0	39.8	60.2	31.8	16.1	12.4
2008	100.0	39.1	60.9	31.2	16.2	13.5
2. Current budget						
1980	100.0	36.0	64.0	34.5	23.7	5.8
1985	100.0	44.2	55.8	30.2	20.9	4.8
1989	100.0	44.5	55.5	29.3	19.7	6.6
1996	100.0	39.0	61.0	33.9	19.4	7.7
2000	100.0	43.1	56.9	32.5	16.1	8.3
2001	100.0	44.5	55.5	31.7	15.9	7.9
2002	100.0	44.6	55.4	31.2	16.0	8.2
2003	100.0	43.6	56.4	32.3	16.2	7.9
2004	100.0	42.3	57.7	32.0	17.5	8.3
2005	100.0	42.1	57.9	31.8	17.9	8.2
2006	100.0	42.2	57.8	31.4	17.8	8.5
2007	100.0	41.8	58.2	32.8	16.7	8.6
2008	100.0	41.6	58.4	32.0	16.8	9.5

* Composed chiefly of personal social services, immigrant integration, and housing.

Table 6. Expenditure on Income Maintenance, by Main Component
(NIS million, 2007 prices)*

	Total	Old-age and survivors	Child allowances	General disability	Un- employ- ment	Income support	Other NII	Victims of Nazis
1980	11,172	5,021	3,374	1,228	203	0	992	354
1985	14,570	6,716	3,767	1,902	380	486	1,035	283
1989	19,566	8,531	4,508	2,274	1,459	595	1,751	449
1996	30,254	12,004	6,730	3,639	2,100	1,787	3,037	956
2000	40,100	15,022	7,734	5,527	3,296	3,203	4,032	1,286
2001	45,215	16,748	8,348	6,503	3,870	3,851	4,501	1,394
2002	43,886	16,110	7,007	7,095	3,684	3,857	4,671	1,461
2003	41,770	16,110	6,306	7,317	2,515	3,359	4,773	1,388
2004	40,136	16,412	4,986	7,392	2,203	3,045	4,773	1,325
2005	39,937	16,692	4,603	7,696	2,046	2,834	4,791	1,274
2006	41,173	17,251	4,998	8,141	1,967	2,636	4,872	1,308
2007	41,908	17,412	4,971	8,765	1,757	2,419	5,163	1,420
2008	43,737	17,847	4,939	9,330	1,856	2,440	5,479	1,845

Average annual percent change

1980-1985	5.5	6.0	2.2	9.1	13.3	..	0.9	-4.4
1985-1989	7.6	6.2	4.6	4.6	40.0	5.2	14.0	12.3
1989-1996	6.4	5.0	5.9	6.9	5.3	17.0	8.2	11.4
1996-2000	7.3	5.8	3.5	11.0	11.9	15.7	7.3	7.7
2000-2005	-0.1	2.1	-9.9	6.8	-9.1	-2.4	3.5	-0.2
2005-2008	3.1	2.3	2.4	6.6	-3.2	-4.9	4.6	13.2

* Deflated by the Consumer Price Index.

Table 7. Distribution of Expenditure on Income Maintenance (Percent)

	Total	Old-age and survivors	Child allowances	General disability	Un- employ- ment	Income support	Other NII	Victims of Nazis
1980	100.0	44.9	30.2	11.0	1.8	0.0	8.9	3.2
1985	100.0	46.1	25.9	13.1	2.6	3.3	7.1	1.9
1989	100.0	43.6	23.0	11.6	7.5	3.0	8.9	2.3
1996	100.0	39.7	22.2	12.0	6.9	5.9	10.0	3.2
2000	100.0	37.5	19.3	13.8	8.2	8.0	10.1	3.2
2001	100.0	37.0	18.5	14.4	8.6	8.5	10.0	3.1
2002	100.0	36.7	16.0	16.2	8.4	8.8	10.6	3.3
2003	100.0	38.6	15.1	17.5	6.0	8.0	11.4	3.3
2004	100.0	40.9	12.4	18.4	5.5	7.6	11.9	3.3
2005	100.0	41.8	11.5	19.3	5.1	7.1	12.0	3.2
2006	100.0	41.9	12.1	19.8	4.8	6.4	11.8	3.2
2007	100.0	41.5	11.9	20.9	4.2	5.8	12.3	3.4
2008	100.0	40.8	11.3	21.3	4.2	5.6	12.5	4.2

Table 8. Expenditure on Education, by Main Component, Current Budget
(NIS million, 2007 prices)*

	Total	General	Pre- schools	Pri- mary	Post- primary	Higher education	Vocational training	Yeshivot
1980	16,355	1,708	634	4,652	4,845	3,666	564	286
1985	15,975	1,506	757	4,088	5,176	3,299	541	609
1989**	17,294	1,308	873	4,552	6,064	3,136	534	828
1996	29,022	2,071	1,611	7,740	10,297	5,202	835	1,267
2000	31,480	2,216	1,936	8,305	11,180	5,756	809	1,279
2001	32,901	2,325	2,151	8,968	11,916	5,398	845	1,298
2002	31,875	2,297	2,175	8,781	11,431	5,133	870	1,187
2003	32,242	2,086	2,316	8,874	11,150	6,030	772	1,013
2004	30,971	2,117	2,374	8,889	11,131	5,152	671	638
2005	30,956	2,213	2,278	9,063	10,607	5,563	590	641
2006	30,890	2,041	2,386	9,315	10,453	5,470	525	700
2007	32,882	2,057	2,383	10,410	10,636	5,944	507	946
2008	33,477	2,164	2,386	10,695	11,205	5,264	832	932
Average annual percent change								
1980-1985	-0.5	-2.5	3.6	-2.6	1.3	-2.1	-0.8	16.3
1985-1989	2.0	-1.3	-0.3	8.0
1989-1996	7.7	6.8	9.1	7.9	7.9	7.5	6.6	6.3
1996-2000	2.1	1.7	4.7	1.8	2.1	2.6	-0.8	0.2
2000-2005	-0.3	0.0	3.3	1.8	-1.0	-0.7	-6.1	-12.9
2005-2008	2.6	-0.8	1.6	5.7	1.8	-1.8	12.1	13.3

* Deflated by the Public Civilian Consumption Price Index.

** Due to reclassification of items in the budget of the Ministry of Education as of 1987, figures in cols. 2-5 are not comparable to corresponding figures for earlier years.

**Table 9. Net Expenditure on Health, by Main Component,
Current Budget (NIS million, 2007 prices)***

	Total	Gov't financing of health Insurance			Direct expenditure				
		Parallel tax	Co-payments	Other transfers	General hospitals	Psychiatric care	Long-term care	Public health and other	Other **
1980	11,232	4,566	..	1,808	1,274	882	480	683	1,539
1985	11,052	6,011	195	1,321	521	625	445	551	1,383
1989	11,610	7,450	853	324	157	702	576	484	1,064
1996	16,588	8,473	2,245	1,267	225	1,221	858	761	1,537
2000	15,653	0	9,734	597	183	1,205	1,105	1,174	1,653
2001	16,509	0	10,143	512	515	1,318	1,256	1,069	1,696
2002	16,398	0	10,098	719	279	1,375	1,246	1,020	1,662
2003	16,187	0	9,891	842	174	1,407	1,261	1,020	1,592
2004	16,941	0	10,419	966	195	1,405	1,363	1,031	1,563
2005	17,439	0	10,888	849	174	1,561	1,242	1,059	1,667
2006	17,541	0	11,146	682	177	1,468	1,289	1,077	1,701
2007	16,745	0	10,197	625	136	1,529	1,292	1,026	1,941
2008	17,577	0	11,288	738	77	698	1,367	1,111	2,298
Average annual percent change									
1985-1989	1.2	3.5	..	-29.6	-25.9	3.0	6.7	-3.2	-6.3
1989-1996	5.2	4.8	..	21.5	5.3	8.2	5.8	6.7	5.4
1996-2000	-1.4	-3.6	44.3	-17.1	-5.0	-0.3	6.5	11.4	1.8
2000-2005	2.2	..	2.3	7.3	-1.0	5.3	2.4	-2.0	0.2
2005-2008	0.3	..	1.2	-4.6	-23.8	-23.5	3.3	1.6	11.3

* Deflated by the Public Civilian Consumption Price Index.

** Includes government health outlays not recorded in the Ministry of Health budget.

**Table 10. Percent Investment Expenditure
in Total Education and Health Budgets**

	Total	Education	Health
1980	4.5	4.7	4.3
1985	2.4	2.3	2.6
1989	1.7	1.8	1.6
1996	4.9	4.6	5.5
2000	3.3	3.6	2.8
2001	3.0	3.3	2.2
2002	2.3	2.6	1.8
2003	2.0	2.4	1.3
2004	1.4	1.7	0.9
2005	1.6	2.0	1.0
2006	1.7	1.8	1.4
2007	1.6	1.8	1.2
2008	3.2	3.6	2.4

Definitions and Sources

Definitions

Government expenditure on social services includes all expenditure by government ministries and agencies and by the National Insurance Institute for education, health, income-maintenance, personal social services, housing, employment, and immigrant integration. The analysis in this book includes all expenditure implemented through the current budget (current expenditure) and the development budget (investment). Government expenditure is treated in net terms, i.e., total expenditure less earmarked revenue from outside agencies (such as co-payments from recipients of services).

The analysis refers to total government expenditure on services provided in-kind by the government (public consumption) and on subsidies and transfers to other economic sectors, such as National Insurance allowances, government support of non-governmental health institutions and support of non-governmental schools. Thus, the data reflect the activity of the government as a funding agent for the various social services, irrespective of the agency that delivers them.

The financial data pertain to fiscal years that correspond to calendar years (January-December).¹

¹ Until 1990, the fiscal year began in April of the year at issue and ended at the end of the following March. For the transition period – fiscal 1991 – a nine-month budget (April-December) was approved. To facilitate comparison with data from previous years, the 1991 budget expenditure was “translated” into full-year terms by linear extrapolation.

Data are shown in constant 2007 prices. The absolute figures were deflated by the Consumer Price Index or by an implicit price index for Civilian Public Consumption, as the case may be. Investment expenditure, implemented through the development budget was deflated by the Construction Inputs Price Index.

Classification of Social Expenditures

Social service expenditures were classified functionally by main fields (education, health, etc.) irrespective of the agency that delivers the service. This classification is different from that used conventionally in the state budget and the annual reports of the Accountant General, which categorize expenditures by administrative units (e.g., ministries and departments). Below is a detailed list of items included in each field.

Education: Education expenditure includes outlays by the Ministry of Education for school systems (preschool, primary, post-primary, post-secondary), general expenses for the education system, government participation in higher education budgets, and government expenditure for vocational training (Ministry of Industry, Trade and Labor). Transfers to post-primary schools from education levy receipts were also included until this was abolished in 1987.

Health: Health expenditure includes outlays of the Ministry of Health for health services (general inpatient, long-term, and psychiatric care; vocational training; public health services; government participation in the funding of National Health Insurance; and transfer payments to public medical institutions), including Defense Ministry participation in the Health Ministry budget. The health expenditures of the National Insurance Institute (inpatient maternity care, medical care for work accidents, health outlays under the Long-Term Care Insurance Law, and transfers to the health funds from Parallel Tax receipts until this tax was

abolished in 1997) are also included as well as the health expenditure of the Unit for Care of Victims of Nazi Persecution. To facilitate comparison with previous years' data, the health tax that citizens pay through the State Health Insurance Law is treated as a substitute for the sick fund dues that households remitted directly to the sick funds in earlier years and thus not considered here government expenditure.

Income maintenance: Income maintenance expenditure includes all transfers from the National Insurance Institute (with the exception of reserve duty compensation and lines explicitly included in other social service fields) and benefits for victims of Nazi persecution.

Other social services: This item includes government outlays for personal social services (expenditure by the Ministry of Social Affairs and Social Services for the care of children, the elderly, the disabled, and the mentally disabled; community work; and, most expenditure by the National Insurance Institute on account of the Long-Term Care Insurance Law); housing (expenditure by the Ministry of Construction and Housing); employment (expenditure by the Ministry of Industry, Trade and Labor for labor relations, personnel planning and referral, and occupational safety); and immigrant integration (expenditure by the Ministry of Immigrant Absorption).

Sources

The data on government expenditure for social services are based on the government's financial statements, prepared by the Accountant General of the Finance Ministry (the 2008 data are budget data updated to the time the report was prepared), and on the Statistical Quarterlies of the National Insurance Institute (the 2008 data are estimates of final expenditure, as prepared by the

Research and Planning Division of the National Insurance Institute). The explanatory notes attached to the state budget and the Bank of Israel Annual Report for the years at issue were also used. To compute real expenditure, the appropriate price indices supplied by the Central Bureau of Statistics were used.

A detailed list of the sources of data:

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