

Summary of Findings

Economic Developments

1. The onset of the current global economic crisis found Israel's economy in relatively good condition after four years that were characterized by impressive growth and dynamic activity. This was also reflected in various indicators relating to the labor force, for instance: the number of those employed increased annually at an average rate of 3.2 percent while the rate of unemployment fell to 6 percent.
2. The increase in tax revenues led to a decrease in the budget deficit and to a balanced budget in 2007, as well as to a significant decline in government debt as a share of GDP.
3. The average standard of living continued to rise in 2007 with an increase in both per capita income and consumption. However, the economic benefits of the past few years of growth were not enjoyed equally by all: real growth in per capita disposable income (adjusted for family size) during the period 2002-2007 was 18.6 percent in the upper quintile and 8.5 percent in the bottom quintile.
4. The rise in the percentage of households living in poverty leveled off in 2007, and the percentage of the overall population, and of children, living in poverty actually declined. At the same time the relative situation of the families under the poverty line worsened, as they fell further below the poverty line. Income inequality, as measured by the 2007 Gini index after transfer and direct tax payments, was 0.3834 – one of the highest rates amongst developed countries.

Employment, Unemployment and Wages

1. With the rise in economic activity, Israel's labor force participation rate continued to rise over the last two years to over 56 percent in 2007 and the first half of 2008. However, large disparities exist between the labor force participation rates of different population groups, particularly with regard to factors such as levels of education, gender and place of residence (in the periphery or the center of the country). Among two specific population groups – *Haredi* (“ultra-Orthodox”) men and Arab women – labor force participation rates are particularly low.
2. The number of those employed grew to 2.8 million during the second quarter of 2008, versus 2.3 million at the beginning of the decade. Most of this growth took place in the business sector, which expanded by some 110,000 workers during the period 2005-2007 – 2.5 times the increase in by the public sector. This trend was sparked by a government policy of slowing growth in the public sector and diminishing its relative share in the economy.
3. The rise in the number of employed persons occurred mainly within the sector that includes academic and associate professionals, technicians and managers, as well as the sector composed of clerical workers, agents and sales workers. These two groups accounted for 36 percent of the employed in Israel's economy in 2007. Two other sectors, those of skilled workers in industry, construction etc., and unskilled workers, contracted in 2007, accounting for only a quarter of all those employed. The rise in demand pertains mainly to professions requiring a high level of education, in contrast to a declining demand for skilled and unskilled workers who are employed mainly in traditional industries and whose overall share in the workforce has been diminishing.

4. The decline in unemployment continued both in absolute terms (fewer than 200,000 unemployed) and in terms of the unemployment rate, which fell to 6 percent during the third quarter of 2008. Israel's unemployment rate for 2007 was the lowest recorded since 1997 and approached the OECD average of 5.7 percent. The absolute number of those unemployed for over a year decreased in 2007 by some 25 percent compared to the previous year, and returned to the 2003 level. However, compared to the beginning of the decade, their percentage share, as well as their total number, has doubled. A high percentage of this chronically-unemployed population consists of people of limited education and Israeli Arabs, who find it difficult to integrate into the labor market in part due to the growing employment of foreign workers.
5. The number of non-Israeli workers (foreigners and workers from the West Bank and Gaza) employed in Israel, which had been declining since 2002, rose again in 2007. This appears to reflect an easing of the policy aimed at limiting their employment in general, and less stringent enforcement with regard to illegal foreign workers, in particular.

Government Expenditure on Social Services

1. The resurgence of economic growth did not improve matters on the social front nor were the resources necessary to improve the situation allocated. The last few years have seen a continual decline in expenditure on social services as a percentage of the GDP, reaching a low of just 16 percent, while the share of social expenditure, out of total government disposable government (after debt servicing) declined to less than 51 percent. This was in spite of impressive economic growth and despite the fact that measurable social goals had been set by the

government for the period 2008-2010, attesting to an apparent rise in awareness of the importance of social issues.

2. Overall social expenditure per capita reached its lowest level in two decades, NIS 14-15,000, versus NIS 16-17,000 from the 1990s through the early 2000s (at constant 2007 prices). The decline in in-kind (direct) service provision, particularly in education and health, is substantial – from NIS 10,500 per capita at the beginning of the decade to NIS 8,800 in 2007 (at constant prices). Per capita spending on income-support and other National Insurance Benefits also declined as compared to the beginning of the decade, reaching less than NIS 6,000 (in 2007 prices).
3. The decline in expenditure in recent years has been accompanied by a reduction in the government's share in financing national education and health expenditure. This development has led to a major increase in household spending in these areas. It would seem to contribute to a widening of disparities in terms of service consumption, health outlays, and educational performance among the weaker populations, who are unable to privately finance the purchase of these services.
4. With regard to the composition of government expenditure on in-kind services, 2007 saw a relative rise in spending on education and personal social services, versus a decline in the share of health spending. This decade has also witnessed a decline in the share of other social services (including housing and immigrant absorption).
5. In 2007 there was a real-term increase in total expenditure for income-support programs, particularly in the areas of general disability and old age/survivors pensions. Unemployment benefits, income-support benefits and child allowances continued to decline.

6. Over the last few years there has been a cutback in the development budgets for education and health – budgets financing the maintenance and further development of the systems' physical infrastructures. Only 2 percent of total government expenditure on education is being channeled toward development, and only one percent of government health expenditure. In both of these areas, the very low level of investment is eroding the systems' physical infrastructures, which may translate into low service quality in the future.

*The Education System*¹

1. During the decade 1998-2007 national expenditure on education rose in constant prices by 17 percent, yet as a proportion of the gross domestic product it declined from 9.0 to 8.3 percent. This is still one of the highest expenditure rates in the world. It took place at a time of rapid economic growth. During the same period the relative education-expenditure disparity between Israel and the OECD countries grew significantly at all educational levels: Israel devotes to primary education less than 80 percent of the OECD countries' average allocation, while for post-primary education the figure is less than 70 percent.²
2. Government per-pupil expenditure dropped during this period by 8 percent on average (though it still remained significantly higher than per-pupil expenditure in the early 1990s, and similar to the average figure for the early 1980s). However,

¹ Detailed discussions of this and the following in-kind service sectors appear in the Hebrew version of this report. The complete Hebrew report is available on-line (www.taubcenter.org.il) or by request.

² If the differences between the countries in terms of quality of life, as reflected in per capital GDP are taken into account, per-pupil expenditure in Israel is similar to that of most OECD countries.

these expenditures differ by education level. For example, early childhood education grew throughout the period due to a switch from private to public expenditure – the outcome of an extension of the Compulsory Education Law to the 3-4 year-olds. In post-primary education, however, the 2000s witnessed a steep 17 percent decline in per-pupil expenditure.

3. Israel's education system encompasses some 2.2 million pupils, a million and a half of whom are enrolled in grades 1-12. The entire system experienced relatively slow growth over the past decade, 20 percent overall. Education in the Jewish sector grew by just 13 percent, while education in the Arab sector grew by 61 percent. This reflects two processes: the rate of natural increase (which is working steadily to increase the proportion of "non-Jews" (Arabs, Bedouin, Druze and Circassians) in Israel's population overall and within the pupil population in particular; and a rise in school enrollment within the Arab sector, particularly with regard to post-primary and preschool education.
4. Patterns of natural increase lie behind yet another phenomenon that characterizes the past decade: a prominent increase in enrollment in *Haredi* educational frameworks, amounting, on average, to a quarter of all pupils in the Jewish sector.
5. The rate of matriculation-certificate eligibility within the relevant age cohort rose by 40 percent during the years 1997-2007, a clear indicator of success for the Israeli education system. If *Haredi* and East Jerusalem pupils, who choose for different ideological reasons not to take the matriculation exams, are excluded, an eligibility rate significantly higher than that reported is obtained.

The Health Care System

1. National health expenditure remained relatively stable as a percentage of the GDP during the last decade, ranging from 7.7 to 8.2 percent; however, most of the OECD countries to which Israel has traditionally compared itself have experienced a gradual increase in this area, to an average of 8.9 percent of GDP in 2006.
2. Alongside the decline in health expenditure as a percentage of GDP, there has been a relative decline in the government's share in financing overall national health expenditure, from more than 70 percent during the 1990s to less than 65 percent in 2007 – one of the lowest figures among developed countries. At the same time, the rate of private household financing within the health system has increased from 25 percent of overall national health expenditure in 1995 to 36 percent in 2007.
3. The average household health expenditure (NIS 619 per month) doubled over the past decade (1997-2007), and its share of total household consumption outlays increased by 40 percent – from 3.8 percent to 5.3 percent of total consumption expenditure. The increase in private financing within the health system widens health disparities between the various population sectors due to differences in the ability to pay. This is illustrated in a comparison of private health expenditure between income quintiles which shows that the highest quintile spends three times more than the lowest quintile. This situation is liable to create an obstacle to service accessibility, not only when it comes to elective services but also with regard to essential health services.
4. 80 percent of Israelis do not rely solely on the basic national health service basket, but rather pay for some type of "supplemental" health insurance; however, 20 percent do not hold any supplemental health insurance offered by one of the

Sick Funds (The Israeli HMOs) or commercial providers, and some essential services provided by these programs are not accessible to them. The percentage of those not covered by supplemental health insurance is higher among the weaker populations, Arabs, new immigrants and low-income groups, as well as in localities of low socioeconomic ranking, and among the elderly.

5. Infant mortality rates declined to 3.9 per thousand live births, similar to that of most developed countries – despite the fact that the percentage of low birth-weight babies is considerably higher here than in Europe. While this is no doubt indicative of the high-level medical care provided on the whole by Israel's health system, notable disparities continue to exist between the Arab and Jewish populations.
6. Israel ranks high on the list of countries by life expectancy; this ranking is due in great part to the relatively high life expectancy of Israeli men (79 years), who top the list of countries along with Japan, Australia, Sweden and Switzerland. Israeli women fall into the second-highest category, with a life expectancy of 82 years – similar to that of women in Germany, Belgium, Portugal, the Netherlands and Ireland, but lower than that of Japan (86 years), France, Switzerland, Spain and Italy (84 years), Austria, Norway, Sweden, Canada and Finland (83 years).

Personal Social Services

1. Government expenditure for personal social services, one of the smaller budget items within overall government expenditure for in-kind social services, increased its expenditure share to 10 percent in 2008. Expenditure also rose in real terms, to over NIS 6 billion. This increase was mainly due to a near-fivefold growth in expenditure for long-term care services between

1990 and 2007, thus increasing their relative share from a quarter to half of all outlays on personal social services.

2. Expenditures for other services also increased during this period (doubling since 1990); a particularly sharp rise occurred in outlays for youth correctional services (nearly fourfold), services for the mentally disabled (approximately 2.5-fold), services for the physically disabled (threefold), and for social service department personnel (twofold). However, this recent increase in all service areas only partly matched the rise in the number of those requiring service.
3. Central government allocations finance a major portion of the expenditure for personal social services, which in the vast majority of cases are provided by the social service departments of the local authorities. The local authorities are supposed to finance a quarter of overall expenditure in this area. However, some local authorities are in budgetary crisis and their ability to fund their share of the services is compromised. As a result, many of the local social service departments manage to reach only part – often a small part – of the population groups in need of their services, and the services, when provided, only partially meet the needs of the clients.
4. In mid-2008 the social service departments provided services, at varying levels of intensity, to some 480,000 families, comprising a million and a quarter individuals. This represents a considerable burden, one that often exceeds the limited financial and human resources available. In the local social service departments in 2008 there were 4,700 employee positions (most of them social workers), whose salaries were funded by the Ministry of Social Affairs and Social Services, and 700 additional positions funded by the local authorities themselves (primarily those local authorities on a stronger economic footing). Ministry of Social Affairs' estimates point to a shortage of 1,000 social worker positions – without taking

into account the heightened need for services anticipated in the wake of the economic slowdown that began in the last quarter of 2008 and that is expected to worsen.

5. The personal social service sphere is undergoing a comprehensive and rapid process of semi-privatization that is changing its pattern of activity: a significant number of the social welfare services that the central and local governments are either legally required or wish to provide to needy populations are financed by them but actually provided by non-governmental organizations.

The Social Security System

1. Achievements towards reducing the number of the poor or narrowing socioeconomic disparities have not been significant: poverty rates remained stable at 20 percent throughout 2006-2007, while inequality of income distribution increased.
2. National Insurance benefit payments in 2007 amounted to NIS 42 billion (in current prices), and they are expected to approach NIS 44 billion in 2008. These sums still constitute a smaller share of the GDP than in any other year since the beginning of the decade.
3. The three main branches of social insurance – old age/survivor, general disability, and child allowances – account for two-thirds of all benefits. At 40 percent of total expenditure, old age benefits were the largest program of all National Insurance transfer payments. The next-largest expenditure, which over the past decade has taken on a high degree of importance, is disability benefits, whose share of the total National Insurance Institute budget is over 20 percent, greatly exceeding that of child allowances which, until the beginning of the current decade, had constituted the second most significant component of overall expenditure. This trend intensified during 2008.

4. The average old age pension (paid to 730,000 individuals), which has been adjusted several times over the last few years, reached a level of 29 percent of the national average wage in 2008 (individual pension – NIS 2,265). The increase in pension payments to the needy elderly has led to a decline in the incidence of poverty among the elderly over the past two years. Despite this, however, nearly a quarter of households headed by a senior were poor – a higher rate than the overall population average.
5. Nearly 200,000 people with physical disabilities received disability benefits in 2008. This group has witnessed a higher rate of growth than that of other beneficiary groups. Changes have recently (July 2008) been adopted regarding the employment of people with disabilities that are intended to prevent their benefits from being compromised should they enter the labor force, thus encouraging them to return to work.
6. About a million (993,000) families received child allowances in 2008; the number of children for whom these benefits are being paid is approaching 2.4 million. Total child allowance payments for 2008 will reach NIS 5 billion, but this program area has suffered more severe cutbacks due to the "emergency economic plans." The incidence of poverty among children and families has risen significantly (particularly in those instances where the head of the household does not participate in the labor force): 774,000 children lived in poverty in 2007, constituting 34 percent of all children in Israel.

The 2008 Social Survey

1. The Israeli public's sense of well-being and social confidence deteriorated in 2008 in contrast to the trend toward improvement that had prevailed since 2003. The Taub Index of Social Confidence, which had reached a high of 62 in May

2007, fell to 58 a year later (on the Index scale of 0 to 100), and it appears that the Israeli public is beginning to feel the impact of the worldwide and local economic slowdown. The survey was conducted in the spring of 2008, and its findings indicate that, even before the slowdown began to affect standard of living levels, the Israeli public was already beginning to fear for the future. Not surprisingly, the survey found a higher level of fear among the weaker population groups, particularly those at the lower income levels.

2. The number of respondents reporting an improvement in their standard of living declined this year within the population as whole and at all education levels. However, the most negative results were obtained from those with low levels of education – among them the proportion of respondents in this category who reported a worsening in their living standard grew from a third to half, and the proportion of those reporting an improved standard of living declined. This deterioration among the low-education group is particularly worrisome as it points to a conspicuous marginalization of this population. To complete the picture: the percentage of those with an academic education who reported an improvement in their standard of living was nearly double that of the low-education group; and the percentage of low-education respondents who reported a worsening of their situation was more than double that of the high-education group.
3. The survey points to a broad consensus within the public: the issue of social disparities is Israeli society's number one problem, and efforts to contend with it should be at the top of any government's agenda. There appears to be broad agreement regarding the possibility of significantly lowering the level of inequity and narrowing the prevailing socioeconomic disparities. However, the government and its various agencies

are not working effectively to narrow these disparities and may actually contribute to their widening.

4. According to the survey findings, 61 percent of the population feels that there are great disparities between the health services provided to the various population groups. This is a significantly higher percentage than that found in 2007, when 53 percent of the respondents held this view. It is interesting to note that this sense of inequality is more pronounced among those belonging to the stronger population groups (in terms of income and education).