

Government Expenditure for Social Services

1. The State Budget as a Crucial Tool in the Implementation of Government Policy

The State Budget is a crucial tool for the implementation of policy in the various fields of government activity. The draft budget data that are submitted to the Knesset for its approval, its size and composition, reflect the government's policies and priorities, while the final expenditure data released at the end of the year show how well the policies have been implemented. Large discrepancies between plan and performance may occur due to changes in circumstances or may indicate a failure to realize the desired policies and priorities.

In recent years, relatively large changes were made in the size and composition of the budget in the course of the budget year. This makes it difficult for government ministries to implement their working plans efficiently and may result in underutilization of resources and confusion regarding priorities. For example, according to the 2003 Draft Budget – the last year for which final expenditure budget data are available – social service expenditure in the current budget should have totaled NIS 98.4 billion, and after various amendments in the course of the year the final sum was increased to NIS 95.6 billion. Actual expenditure for social services from the current budget in 2003 was NIS 92.5 billion – only 94 percent of the original program and 97 percent of the budget as adjusted during the year.

The deviations between the final budget expenditure and the adjusted budget were greater in expenditure for in-kind social services than in income maintenance. Among the types of in-kind social expenditure, the deviations were greater in health care and personal

social services than in education (Table 1). With regard to other in-kind services, the greatest deviations occurred in items related to assistance to new immigrants. The extent of underutilization of the adjusted budget makes one suspect that the planned priorities in the budget were not maintained.

Table 1. Social Expenditure in the Current Budget, 2003 – Draft Budget, Adjusted Budget, and Performance
(NIS billions and percent)

Expenditure Type	Draft budget	Adjusted budget	Final Expenditure	Deviation in performance from:	
				Original budget	Adjusted budget
Total	98.4	95.6	92.5	-6.0	-3.2
Income maintenance	42.7	41.0	40.1	-6.1	-2.2
In-kind services	55.7	54.6	52.4	-5.9	-4.0
Thereof:					
Education	31.5	30.5	29.8	-5.4	-2.3
Health	16.2	15.9	15.3	-5.6	-3.8
Personal services	5.5	5.4	5.2	-5.5	-3.7
Other services	2.5	2.8	2.1	-16.0	-25.0

2. The Economic Situation and the Share of the State Budget in GDP

The decline in economic activity was halted in 2003 and the economy took a turn for the better in the second half of the year. After two years of continuous deterioration, the Gross Domestic Product (GDP) increased by 1.3 percent and the business sector product increased by 1.7 percent (as against annual decreases of one percent and 3 percent, respectively, in the previous two years). The positive turnaround was supported by a global economic recovery, including the high-tech industry, and a slight improvement in the security situation. The expansion of economic activity accelerated in the first half of 2004. In

the first quarter of the year, GDP and business sector product grew at annual rates of 5 percent and 7 percent, respectively, and growth rates of 4 percent and 5 percent are projected for the year.¹ The outlooks for 2005 indicate that economic activity will continue to advance, albeit at slightly lower rates.

The resumption of growth has not led to an improvement in the employment situation. After a sharp decrease in the number of foreign workers, the employment of Israelis in the business sector increased by 2.5 percent in 2003. Nevertheless, the average annual unemployment rate rose in 2003 to 10.7 percent from 10.3 percent in 2002. In the last quarter of 2003, the unemployment rate reached 10.9 percent and the proportion of those without employment seeking work for more than half a year – an indicator of the depth of unemployment – actually increased. Some of the rise in unemployment can be traced to the cessation of hiring in the public sector. During 2004, unemployment decreased somewhat but remained above 10 percent. The labor market appears to respond at a lag even as economic activity expands. Therefore, unemployment is unlikely to decrease substantially by the end of 2004. Only in 2005, if growth continues as predicted, may the unemployment rate fall below 10 percent for the first time in a number of years.

The real income of salaried employees continued to erode in 2003. The real wage per employee post dropped by 2.8 percent following a 6 percent decrease in 2002. Although wages rose in the first few months of 2004, when one-time salary benefits were deducted, the increase was, in fact, very small.

The cumulative effect of higher unemployment and lower income was reflected in the population's average standard of living, which fell by 1.4 percent between 2001 and 2003 in real terms when measured in terms of per-capita private consumption. An additional and more acute expression of the situation may be found in the poverty level. The proportion of households with net income below the poverty line was

¹ Rounded figures.

18 percent in 2002 and rose to 19.3 percent in 2003. Moreover, poor households became poorer: the poverty gap, defined as the distance between the average income of a poor family and the poverty line, widened from 26 percent in 2001 to 31 percent in 2003.

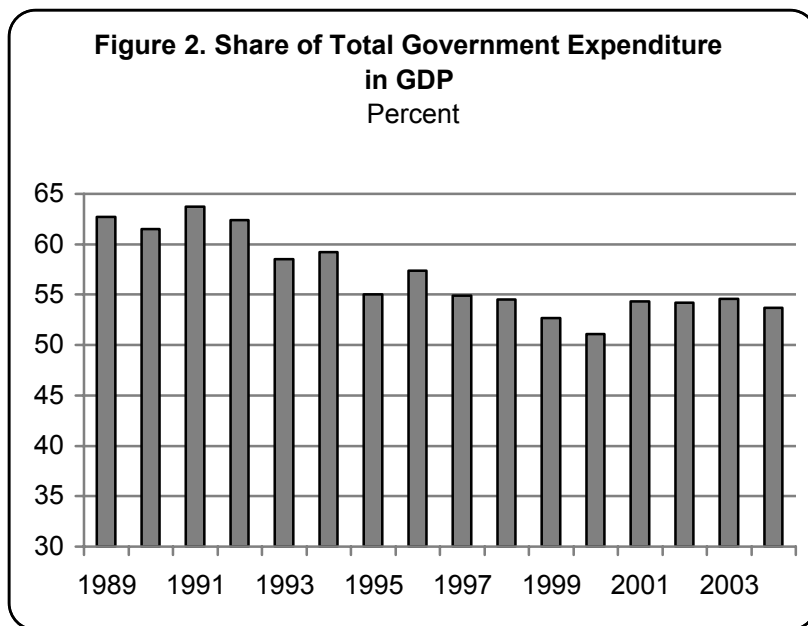
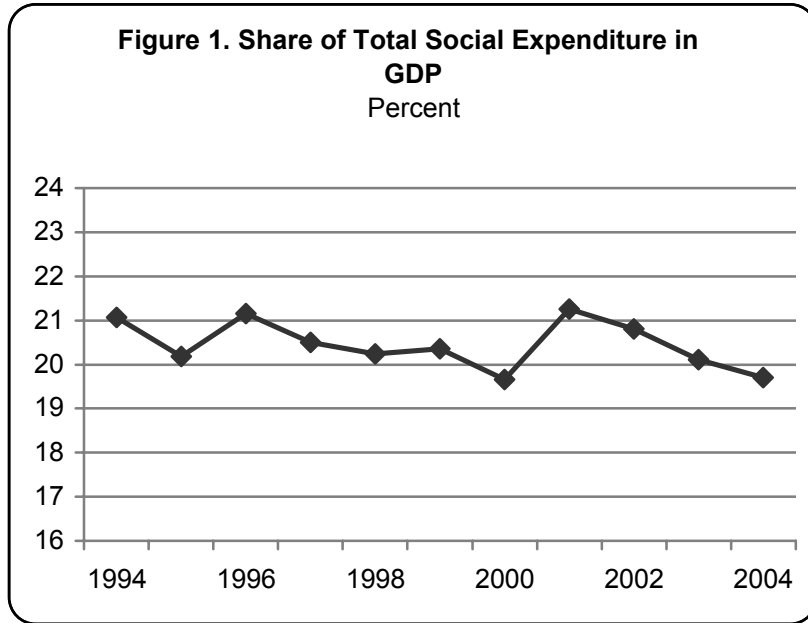
These developments in unemployment and poverty are the backdrop that Israel's economic policymakers should strongly bear in mind: they should influence decision-making, in general, and decisions related to government social spending, in particular. At first glance, one of two alternatives may be chosen: the first, stresses steps to renew and re-ignite economic growth in order to boost employment and raise incomes; the second, focuses on trying through direct action to ease the distress of society's weaker groups whose economic situation has worsened. These two alternatives may, of course, be combined and implemented in various combinations.

The policy that the government adopted in 2002 and has been implementing for two full years shows a clear preference for the first alternative. As a consequence, the government has been spending relatively less of the GDP on social services: 21 percent in 2001, 20.8 percent in 2002, 20.1 percent in 2003, and a projected rate of around 20 percent in 2004.²

At the present writing, the 2005 State Budget has been presented to the Knesset but has not yet been approved, even on first reading. According to the draft budget, government social expenditure in fixed (2003) prices is projected at less than NIS 97 billion for 2005, as against NIS 106 billion in 2001. Thus, in cumulative terms, average per-capita expenditure has fallen by 15 percent in the past five years. The change in resource allocation is even more pronounced in National Insurance benefits, which on per-capita average have fallen by nearly 20 percent during this time.

The share of social expenditure in GDP fell from 21.3 percent in 2001 to 20 percent in 2003 and an additional drop to 18.3 percent according to the 2005 budget is expected.

² Throughout this survey, government expenditures in 2004 are based on the adjusted budget for September 2004.



The trend in social expenditure stands out in view of the increase that took place in the relative weight of overall government expenditure. Economic policy since the 1985 Stabilization Program has been striving to reduce the share of government in GDP. For the past two decades, all Israeli governments shared the approach that economic resources should be directed to the business sector in order to assure sustainable growth. Thus, the government expenditure/GDP ratio fell from 63 percent to 51 percent between the late 1980s and 2000, with some fluctuations. The trend changed in 2001 when the ratio climbed to 55 percent that year and stayed at approximately that level in 2002 and 2003. Contributing to the change were negative rates of economic growth and the real increase in government expenditure. In 2004, the government expenditure/GDP ratio is projected at 53 percent and the outlook for 2005 indicates that a further decrease is likely.

3. Government Expenditure by Main Activities

In 2003, 32 percent of total government expenditure was earmarked for debt repayment; the remainder was divided between social expenditure (54 percent), defense (24 percent), and economic activity and administration (22 percent). In 2004, the share of "discretionary" expenditure (total spending net after debt repayment) in the grand total increased somewhat. Within the discretionary aggregate, the share of social services declined, that of defense remained relatively unchanged, and that of economic activity and administration increased.

Social expenditure has accounted for more than half of the discretionary government expenditure since 1992. The share climbed steadily until 2001 when it peaked at 56 percent; in 2002 and 2003 it dropped by 2 percentage points, and a further drop to 53 percent is expected in 2004. Government expenditure has not always been distributed this way; from a longitudinal perspective, the distribution by main activities has changed considerably (Table 2). The most significant change is an increase in the share of expenditure for social

purposes, mostly at the expense of a decrease in the relative portion of defense spending.

Table 2. Distribution of Government Expenditure, by Main Activities (percent)

	1980	1985	1990	1995	2000	2003	2004
Government expenditure							
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Thereof:							
Debt repayment	24.5	43.4	33.0	29.9	30.0	32.0	30.7
Discretionary government expenditure							
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Social services	31.7	32.1	45.2	52.4	55.0	54.1	53.1
Defense	39.5	40.2	31.3	24.6	24.0	24.3	24.1
Economic activity/administration	28.8	27.7	23.5	23.0	21.0	21.6	22.8

Debt Repayment

Expenditure related to the government debt – repayment of principal and interest – has decreased steeply since the mid-1980s. This is a direct result of a vigorous policy to contain the budget deficit, which lowered the total debt/GDP ratio from 200 - 300 percent in the early 1980s to 90 percent in 2000. The trend turned around in 2001 and the ratio climbed to 107 percent in 2003. Just as the decreases in debt and debt-related expenditure freed resources for activities in other fields, so the increase in recent years is expected to make the debt burden heavier and leave the government with fewer discretionary resources available in the future. The discretionary portion of government expenditure – 69 percent in 2004 – is set to decline to 66 percent in the 2005 draft budget.

Defense

Defense expenditure peaked in the mid-1970s and has been declining steadily since then relative to both GDP and total government expenditure. Furthermore, the amount of U.S. defense assistance that Israel has been receiving has been climbing in recent years (due to the

redirection of some U.S. economic aid to defense), freeing more domestic currency from defense to other uses. Thus, the share of defense expenditure in domestic currency has decreased more steeply than the data on total defense expenditure indicate.

Defense spending includes a large component of fixed outlays for the maintenance of military forces, and expenditure related to long-term development and multi-year rearmament plans. Since 1973 there has been no evidence of a direct correlation between changes in the level of defense spending and the current security situation and the thorny Middle East peacemaking process. In recent years, however, defense spending has risen slightly due to the continuing confrontation with Palestinian terror. Thus, the share of defense in discretionary government expenditure rose by 1.8 percentage points in 2002 relative to 2001 and fell by one percentage point in the following two years.

Economic Activity and Administration

Economic and administrative expenditure spans a wide range of activities. It covers economic incentives for the encouragement of capital investments, research and development, and exports, subsidies for agriculture; as well as activities to maintain public order, law enforcement, environmental quality, development of foreign relations, and the like. These uses accounted for 30 percent or more of the discretionary government expenditure in the early 1980s, about one-fourth at the end of that decade, less still in the 1990s, and about one-fifth in recent years. Economies of scale presumably function in some of these activities, so that expenditure does not necessarily increase along with population increase or economic growth. In certain activity areas, however, the relative cutback in resources has been harmful to the level and quality of government services.

Social Expenditure

The share of social services in discretionary government expenditure rose by 13 percentage points in the 1980s and by another 10 percentage points since the early 1990s.

Social expenditure finances the set of activities that advance and drive the government's social policies. They include direct (in-kind) services that the government provides the public, services of other public and private institutions that the government funds fully or partly, and various kinds of transfer payments by means of the National Insurance Institute. In-kind government social services include education, health care, personal social services, housing, and assistance for recent immigrants. The main transfer payment programs are child allowances, old-age and survivors' pensions, benefits for the disabled, unemployment compensation, and income maintenance.

In 2003, actual social expenditure was NIS 100.9 billion, most of which – 92 percent – consisted of expenditure within the current budget. In 2002 and 2003, social spending decreased in real terms by 2.7 percent and 2.5 percent, respectively. This marks an abrupt change in government spending policy following social expenditure increases of 8 percent in 2001, 2 percent on annual average in the second half of the 1990s, and 8.5 percent in the first half of the previous decade. In view of the population increase, average per-capita social expenditure has dropped in recent years, as against a leveling off (with slight fluctuations) in the second half of the 1990s and an upward trend in the first half of that decade. The projected change in social spending in 2004 is an increase of 1.1 percent in real terms. However, the gap between plan and final expenditure (discussed previously in Section 1) is worth noting again. If the discrepancy between the two in 2003 reoccurs in 2004, this will be a continuation of the downward trend in actual social spending.

4. Social Expenditure: Social Services and Transfer Payments

Social expenditure is divided between in-kind services and transfer payments. Government ministries are responsible for the delivery of services, which are fully covered by the State budget. The National Insurance Institute, in contrast, administers most transfer payment programs. The State budget covers the difference between total transfer outlays and National Insurance contributions from the public (e.g., financing of benefits for elderly immigrants who never paid into National Insurance). To provide a full picture of social spending, the discussion below and the data in the Appendix do not distinguish between sources of funds and relate to total transfer payments from the government (including the National Insurance Institute) to the public.

In 2003, social expenditures amounted to NIS 100.9 billion – NIS 60.9 billion for services and NIS 40 billion for various transfer payments. The respective figures in the 2004 budget (in constant 2003 prices) are NIS 102.1 billion – NIS 63.3 billion for services and NIS 38.8 billion for transfer payments.

Over the years, the share of expenditure for direct services has been declining and the share of transfer payments has been increasing (Figure 3). An obvious exception to this generalization occurred in the early 1990s, following mass immigration from the former Soviet Union. The need to house hundreds of thousands of immigrants led to an increase in outlays for in-kind services through the development budget, bringing the relative share of in-kind services to 71 percent. Since then, the proportion of expenditure for in-kind services has declined by about 10 percentage points and that of transfer payments has risen proportionately.

The changes in the proportions of in-kind services and transfer payments in total social expenditure reflect significant differences in

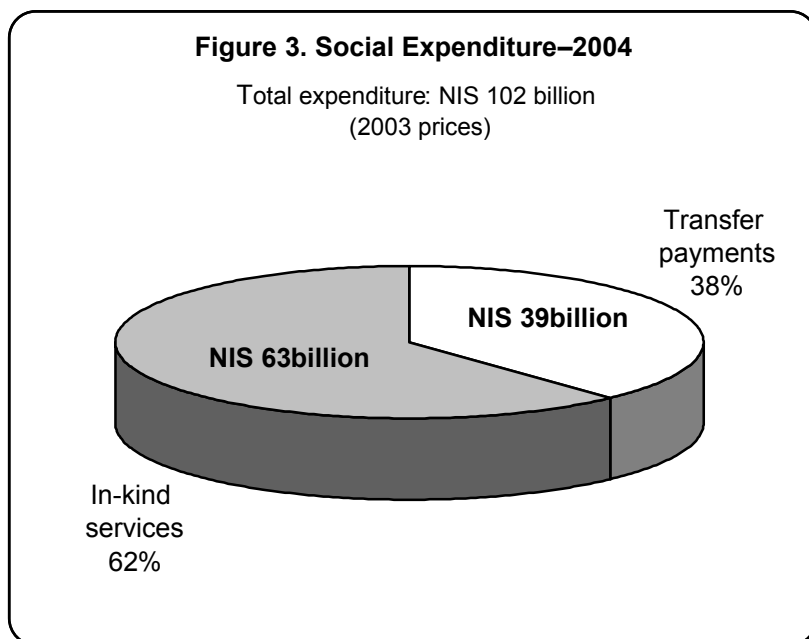
the real long-term growth rates of both components.³ In the 1993–2003 decade, annual average expenditure for services increased by only 0.4 percent while transfer payments rose by 5.9 percent and the population grew by 2.5 percent. Since expenditure for services failed to keep pace with population growth, per-capita expenditure declined. Annual average per-capita transfer payments, in contrast, rose by 3.3 percent.

Table 3. Social Expenditure by Main Components (percent)

	Total	In-kind services	Transfer payments
1980	100.0	69.3	30.7
1985	100.0	59.0	41.0
1989	100.0	57.6	42.4
1992	100.0	71.1	28.9
1995	100.0	65.9	34.1
2000	100.0	60.9	39.1
2003	100.0	60.3	39.7
2004	100.0	62.0	38.0

It is noteworthy that the share of direct in-kind expenditure typically decreases in years when the government decides to cut back on social spending. Transfer payments cannot be cut in the same way because they have more protection in legislation. Thus, transfer payments are somewhat inelastic and the total expenditure is adjusted almost automatically with the growth in the number of benefit recipients.

³ To calculate the real changes in expenditure on services, nominal expenditure was decreased by the Public Consumption Price Index. To do the same for transfer payments, the Consumer Price Index was used.



Real growth in the transfer payments has continued for two decades at an accelerated pace – nearly 6 percent on annual average in the 1980s and 7 percent in the 1990s. Expenditure peaked in 2001 after an annual increase of nearly 13 percent. The trend turned around in the following two years, 2002–2003, with a real decrease of 4 percent on annual average. Another decline of 3 percent is expected in 2004. The new trend reflects a government policy that rules out additional steady increases and promises further measures to reduce benefits and limit eligibility for them. (For an in-depth discussion see the section on National Insurance benefits.)

5. In-Kind Social Services

The changes in the composition of expenditure on in-kind social services during the past two decades were affected largely by mass immigration in the early 1990s (Table 4). The increase in immigration related expenditure – especially government investment in housing – was reflected in a proportional increase in the “Expenditure on Other Services” line, an aggregate that includes, but is not limited to, the budgets of the Ministries of Construction and Housing and of Immigrant Absorption. The effect of this factor has been declining in recent years. Aside from the effects of mass immigration, several other factors stand out: stability in the share of education expenditure (half of expenditure for in-kind services during the 1980s and the early 2000s), an increase in the share of health expenditure (one-third of service expenditure in the 1980s and one-fourth in the early 2000s), and a gradual rise in the share of personal social services expenditure, especially since the mid-1990s.

Table 4. Expenditure on Social Services (percent)

	Total	Education	Health	Personal social services	Other
1980	100.0	47.9	32.8	5.7	13.6
1985	100.0	50.3	34.9	5.4	9.4
1989	100.0	50.2	33.7	7.0	9.1
1992	100.0	35.0	21.0	4.6	39.4
1995	100.0	44.0	26.6	5.9	23.5
2000	100.0	49.9	24.6	7.4	18.1
2003	100.0	50.2	25.4	8.5	15.9
2004	100.0	47.2	25.0	8.2	19.6

a. Education

Education expenditure represents the largest single expenditure category within in-kind social services. In 2003, the government spent NIS 30.6 billion, up 0.8 percent over 2002 in real terms; in 2004, the projected expenditure is NIS 29.9 billion (in constant 2003 prices), down 2.2 percent from 2003 in real terms.

Government expenditure on education has been increasing steadily since the mid-1980s, when economic stabilization requirements led to a drastic cut in spending, a reduction in classroom hours, and the elimination of several academic subjects. Between 1987 and 2003, education expenditure climbed by 4.5 percent on annual average in real terms. The increase was especially rapid from 1989 through 1996, about 8 percent per year, due to the need to enroll masses of newly arrived immigrant students in the early 1990s. After 1997, the annual average growth rate slowed to only 1.4 percent.

In analyzing the long-term trend in education spending the focus is on four main parameters: (1) the share of government in total national education expenditure; (2) average per-pupil expenditure, considered a general indicator of the quality of education; (3) the level of education expenditure in the development (investment) budget as a gauge of the adjustment of education infrastructure to future needs, and; (4) changes in the distribution of expenditure among levels of education as a reflection of policies and priorities.

(1) The Share of Government in Total National Education Expenditure

National education expenditure includes outlays for all public and private education institutions from preschool to higher education; per-household expenditure for tutoring, textbooks, etc.; and expenditure for the construction and equipping of new schools. According to estimates by the Central Bureau of Statistics (CBS), the share of national education expenditure in GDP rose from less than 9 percent in the early 1990s to more than 10 percent in 2002. During this period, the government share in national education expenditure fluctuated somewhat.

Since the differentiation between central government and local government in education funding is of limited significance, the following data combine funding from both sources. In the late 1980s central and local government covered 76 percent of national education expenditure and 80 percent in the mid-1990s. A moderate decline began in 1998, bringing the share down to 70 percent in 2001–2002. Since then, in view of the moderate increase in government education expenditure, the share of government in national education expenditure has presumably continued to decline. If this “privatization” trend continues, it may threaten the universality of education, and, in the long term, contribute to increasing social inequity.

(2) Average Per-Pupil Expenditure

Enrollment in public preschools, primary schools, and secondary schools (middle school and high school) – most of the country’s education system – rose from 1,402,000 in 1994/95 to 1,673,000 in 2002/03, representing a cumulative increase of 19.3 percent. Current expenditure for these main segments of the education system increased by 34.5 percent in real terms during these years. Thus, average per-pupil expenditure rose by 12.7 percent.

In and of itself, a sharp increase in average per-pupil expenditure may indicate an improvement in the quality of education. To assess the full significance of the increase, however, further details are needed like changes in the distribution of pupils among different education frameworks and differences in average per-pupil cost in each framework. Be this as it may, current expenditure on the education system did not increase in 2003 even though enrollment continued to climb. In 2004, current expenditure for these purposes is expected to return to the 2001 level.

(3) Investment in Physical Infrastructure of the Education System

Most government expenditure on education is channeled through the current budget and is earmarked for payroll and on-going activities; expenditure on construction, renovation, and equipping of schools is included in the development budget. Investment expenditure has been steadily contracting in terms of its share in overall government education expenditure in recent years. Thus, in the early 2000s only 2–3 percent of total education expenditure was set aside for the development of the education system's physical infrastructure.

In absolute terms (constant 2003 prices), development expenditure was NIS 1.1 billion in each of the years 2000 and 2001, NIS 830 million in 2002, NIS 725 million in 2003, and a projected NIS 460 million in 2004. From a long-term perspective, investment in the physical development of the education system has been about one-fifth less in recent years than the average in the 1990s (except for 1993 and 1994, which were affected by an increase related to immigration). In view of the natural increase in the education system, the contraction of investment may create a dangerous gap between needs and available infrastructure.

(4) Distribution of Current Expenditure among Levels of Education

The distribution of current expenditure among main components of education has not changed significantly in more than a decade (Table 5). The proportional increase in preschool expenditure reflects the extension of the Compulsory Education Law to cover the 3-4 year-olds (of whom 80 percent have been enrolled in public preschools in recent years). The increase in the share of higher education (until 2003) occurred due to the expansion of the higher education system (a proliferation of new schools) and the concomitant increase in enrollment. The share of expenditure for vocational training and *yeshivot*, in contrast, has been declining. (In the case of *yeshivot*, this may have to do with the elimination of redundancies with transfer of their financing from the Ministry of Religious Affairs to the Ministry of Education.) The share of general expenses also declined; this may

be due to increased efficiency. This relative overall long-term stability may indicate that the distribution of expenditure is affected mainly by demographic trends (“autopilot”) and that policies and priorities have, to a great extent, only marginal effects.

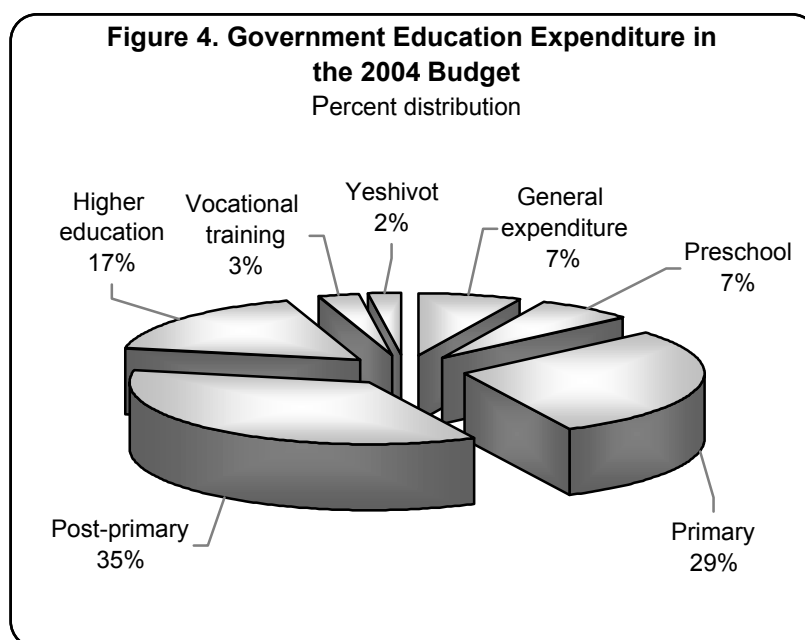


Table 5. Distribution of Current Education Expenditure – Main Items (percent)

	1990	1995	2000	2003	2004
Total	100.0	100.0	100.0	100.0	100.0
General expenditure	7.8	7.1	7.0	6.5	6.9
Preschool	4.9	4.6	6.1	7.2	6.9
Primary	26.7	28.5	26.4	27.5	29.0
Post-primary	34.5	34.6	35.5	34.6	35.2
Higher education	17.2	17.4	18.3	18.7	17.1
Vocational training	3.1	3.0	2.6	2.4	2.7
Yeshivas	5.8	4.8	4.1	3.1	2.2

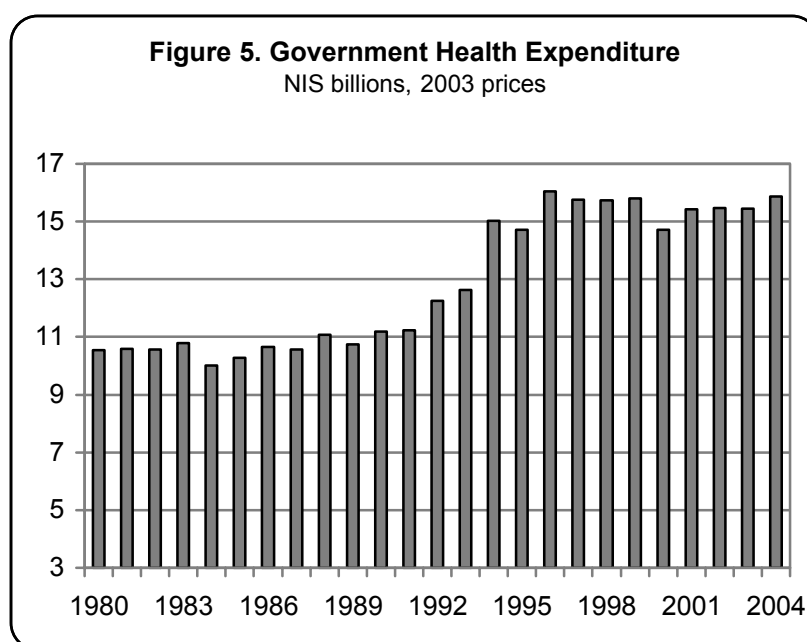
b. Health

Government health expenditure was NIS 15.5 billion in 2003, largely unchanged from 2002, and is projected at NIS 15.9 billion (in 2003 prices) in 2004, up 2.7 percent over 2003 in real terms. In fact, except for a dip in 2000, real government expenditure on health has hardly changed since 1997.

From a longitudinal perspective beginning in 1980, the trend in government health expenditure can be divided into three periods. In the first period, 1980–1989, expenditure was stable at NIS 10.6 billion on annual average (2003 prices) with annual deviations that did not exceed 5 percent in either direction. In the seven subsequent years, 1990–1996, expenditure climbed rapidly, from NIS 10.8 billion (1989) to NIS 16 billion (all in 2003 prices) or by 6 percent on annual average. From 1997 to 2003, expenditure was again stable at NIS 15.5 billion on annual average (2003 prices) with deviations of less than one percent (except for 2 percent over the average in 1999, and 5 percent below the average in 2000). In sum, government health expenditure underwent a 50 percent stepwise increase in the first half of the 1990s, after a lengthy period of stability, and has remained at this new level for nearly a decade with very little fluctuation.

Long-term constancy in real expenditure means a decline in average per-capita expenditure. Furthermore, the prices of health services tend to rise more quickly than the overall price index. In 1997–2003, for example, the cumulative increase in the index of health services prices (included in the private consumption aggregate) surpassed the total increase in the Consumer Price Index by 15 percent. The combined effects of stable expenditure, population growth, and the increase in relative prices of health services indicates that the delivery of government funded health services to the public has been eroded by more than 30 percent since 1997.

Furthermore, **national** health expenditure has risen by 4.4 percent on annual average in the past decade in real terms.⁴ National health expenditure includes spending on all health services delivered in clinics, hospitals, private physicians' and dentists' offices, the purchase of medicines and medical equipment, health research and government administration, and investments in the construction and equipping of health care facilities. The continuing real increase was reflected in a rise in the share of national health expenditure in GDP from 7.4 percent in 1993 to 8 percent in the second half of the 1990s and 8.8 percent in 2003.



At the same time, the **government** share in funding national health care has been declining. In 1995, the health fund membership fees that households had been paying were replaced with a health tax. In order

⁴ According to Central Bureau of Statistics estimates.

to maintain comparability of data, membership fees were added to the government share in national health expenditure financing in previous years. The adjusted data show that the government covered 68 percent of national health outlays in 1993 and 75 percent in 1996. Since then, the proportion fell steadily to only 66 percent in 2003.

From the household perspective, the increase in overall national expenditure on health, combined with a simultaneous decrease in the government's share in financing, has led to an increase in household expenditure on health services in the period between 1997 and 2003 by some 55 percent, in real terms.

Thus, it seems that Israel is gradually moving toward a privately funded health care system. Such a change carries far-reaching implications, including the risk of greater inequity in the consumption of health services. Indeed, surveys by the Taub Center have shown that a large share of the public forgoes some form of medical care each year due to the required co-payment.

Government health expenditure also includes investments in buildings and equipment. These investments have fallen by roughly half in the past decade – from NIS 655 million per year in 1993–1996 to NIS 344 million per year in 1997–2003 (both figures in 2003 prices). In recent years, investment has been only 1–2 percent of total health expenditure. In health care, as in education, inadequate investment in the physical infrastructure causes the system to erode and may result in poor quality of service in the future.

Current government expenditure is divided among participation in health insurance – practically speaking, funding of health services that are delivered by nongovernmental institutions – and direct expenditure for the delivery of health care services. Over the years, the share of participation in health insurance has been declining and that of direct government expenditure has been rising (Table 6). The decrease in transfers to other institutions is linked partly to the elimination of the “parallel tax” (employers' health insurance contributions) in 1997.

Within the aggregate of direct expenditure, there has been a conspicuous decrease in outlays related to general inpatient care and moderate increases in two main expenditure items, psychiatric care and long-term care.

Table 6. Distribution of Current Health Expenditure – Main Items

(percent)

	1990	1995	2000	2003	2004
Total	100.0	100.0	100.0	100.0	100.0
Participation in insurance	71.2	70.0	66.0	65.1	68.0
Direct expenditure	28.8	30.0	34.0	34.9	32.0
Direct expenditure–total	100.0	100.0	100.0	100.0	100.0
General inpatient care	10.0	11.9	3.4	3.0	3.2
Psychiatric care	21.9	23.2	22.6	24.5	23.8
Long-term care	17.1	17.2	20.8	21.9	22.7
Public health	14.0	17.2	22.1	17.8	17.0
Misc.*	37.0	30.5	31.1	32.8	33.3

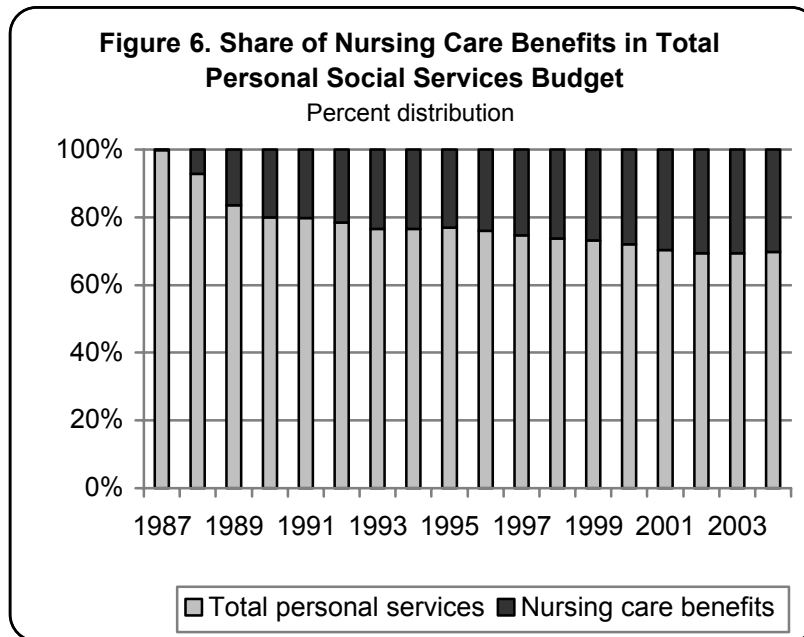
* Including health expenditures outside the Ministry of Health budget. The “miscellaneous” line is reserved mainly for expenditures of the National Insurance Institute for maternity hospitalization, medical care for work-related accidents, etc.

c. Personal Social Services

Personal social services are administered by the Ministry of Social Affairs and municipal welfare departments. In 2003, government expenditure for such services was NIS 5.2 billion, 2 percent less than in 2002 in real terms. In 2004, expenditure is projected at a similar level (in constant prices).

In the 1980s, until the Long-Term Care Law was passed in 1988, annual expenditure was steady at NIS 1.7 billion (in 2003 prices). Since then, expenditure has increased continually and annual outlays have roughly tripled.

Government expenditure for personal social services falls into two main categories: nursing care benefits (45 percent) and other services (55 percent), comprising welfare services for children and youth, care for the elderly and for special population groups (marginal youth, persons with disabilities, the mentally retarded) and central and community welfare services for individuals and families.



6. Transfer Payments – the National Insurance System

Transfer payments to the public, by means of the National Insurance Institute, amounted to NIS 40 billion in 2003. Two decades of steady real increases ended in 2001, with an abrupt turnaround that caused transfer expenditures to decline. This real decrease continued in 2004, as transfer payments will amount to NIS 38.8 billion (2003 prices), an additional decrease of 3.2 percent.

The transfer payment component of social expenditure, coupled with the tax system, reflects the state's role in striving for social justice by influencing inequalities in income distribution. Transfer payments also guarantee society's weaker segments – the elderly, the disabled, the unemployed, etc. – a specified minimum level of income, and in this sense they act as a social safety net. Finally, transfer payments compensate for the failure of the tax system to take family size into account and correct for market failures in the savings and insurance industries. However, transfer payments may also have negative implications. In particular, they are accused of creating disincentives to labor force participation, and some benefits that are not subject to a means tests are accused of having regressive effects. The main difficulty, however, has to do with the heavy burden on the budget that the transfers have created. The rules of eligibility and the levels of benefits set by law made it necessary to allocate sums that rose rapidly and unavoidably each year and limited the government's ability to contain the budget deficit to levels considered acceptable in stable economies.

Thus, by deciding in 2002 to reduce the transfer benefits and restrict eligibility for them, the government engineered an 8 percent real decrease in transfer payment outlays within two years (2002 and 2003). The decreases in spending were not across-the-board; they were especially steep in unemployment compensation (35 percent), child allowance (24.5 percent), and income maintenance benefits (12.8 percent). These data do not fully reflect subsequent similar decisions. As stated, an additional decrease of about 3 percent seems to have occurred in 2004.

Even if one cannot overlook the reasoning in favor of arresting the rapid rise in transfer payments or for reversing it, one should examine the extent to which the cutbacks were consistent with the basic social goals of the benefits, i.e., to assure various population groups a minimum income at an appropriate level relative to society's overall standard of living. The test that should be applied, then, is relative, not

absolute; it should take into account developments in the environment within which the benefit recipients live.

To perform such a test, the ratios of the various transfer payments in average per-recipient terms to the average standard of living, expressed in per-capita private consumption, at three points in time were calculated. At the first of these points, 1989, the effect of mass immigration from the former Soviet Union was not yet evident (for reasons of data availability, the first point of reference is 1990 in regard to child allowances and 1991 for unemployment compensation.) The second point, 2001, preceded the government decisions that reversed the long-term trend in transfer payments. The third point, 2003, is the last year for which full expenditure data are available. The changes in ratios are presented in index terms, using the first point in time as the base (Table 7).

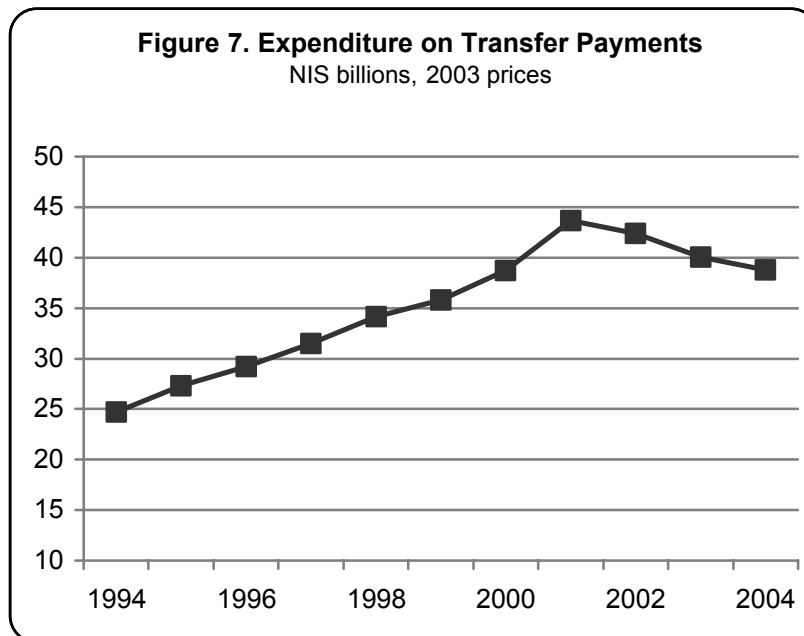


Table 7. Average Benefits Relative to Average Standard of Living
(percent)

	1989	2001	2003
Old-age and survivors	100	92	85
Children	*100	76	58
General disability	100	106	110
Unemployment compensation	**100	111	108
Income maintenance	100	94	76

* 1990

** 1991

The computed ratios for all benefits except for general disability were lower in 2003 than in 2001, and all except for general disability and unemployment compensation were lower in 2003 than in the initial observation. The steepest decreases occurred in child allowances and income maintenance. Although these are rough calculations that have their weaknesses, they create the unavoidable impression that the cutback decisions were not examined in relation to concurrent changes in the standard of living of other populations groups.

Table 8. Distribution of and Changes in Benefits – Main Items
(percent)

	1990	1995	2001	2003	2004	Avg. annual percent change	
						1990- 2001	2001- 2004
Total	100.0	100.0	100.0	100.0	100.0	7.8	-3.9
Old-age and survivors	44.6	40.5	37.0	38.8	40.9	6.0	-0.7
Children	22.2	22.8	18.5	15.2	12.4	6.0	-15.7
General disability	11.3	11.6	14.4	17.6	18.5	10.2	4.5
Unemployment and income maintenance	10.6	12.6	17.1	14.2	13.2	12.5	-11.8
Other	11.3	12.5	13.0	14.2	15.0	9.2	0.8

The largest transfer payment program is **old-age and survivors' pensions** (Table 8). Expenditure for these benefits is largely a function of the size of the relevant population and, until recent government decisions, the national average wage (to which the basic pension was indexed) and the proportion of income supplement recipients among the elderly. In the 1990s, the increases in expenditure were influenced by an influx of elderly immigrants who began to receive pensions and, in many cases, were entitled to income supplement payments. The decline in expenditure since 2002 reflects a general cutback of 4 percent in benefit levels and some changes in the age of eligibility, partly offset by an increase in the number of benefit recipients. It was also decided to index benefits to the Consumer Price Index instead of the national average wage, but this change has not yet been reflected in the level of expenditure.

In most years, **child allowances** were the second largest expenditure program. In the 1990s, expenditure increased under the cumulative effect of three important changes: lifting of the temporary freeze on allowances for first and second children in families; extending full eligibility to families whose head of household had not performed military service; and the Large Families Law. The government's decisions in 2002 returned the real level of expenditure to the mid-1990s norm. Moreover, since the new policy included a decision to equalize the allowance for each child in a gradual fashion over seven years (and immediately for children born after June 2003), child allowance expenditure is expected to decline further, or to grow very slowly, in the years to come as well.

Expenditure for **general disability benefits** increased rapidly throughout the period and, especially, since the mid-1990s. In June 1995, the benefit level was raised by 7 percent by law in order to reduce poverty and income disparities, making it the only benefit untouched by the cutback policy introduced in 2002. Furthermore, in November 2002 three special disability benefits were added: for the severely disabled, for the disabled whose earning capacity is severely limited, and for disabled children.

Expenditures for **unemployment compensation and income maintenance benefits** were the fastest rising main transfer payment programs in the 1990s. This reflected the economic downturn, the growth in unemployment, and also an increase in the public's awareness of its eligibility for these benefits. Unemployment compensation outlays grew in the 1990s despite more stringent eligibility rules instituted in some of the programs. Since 1995, for example, in order for the young unemployed (up to age thirty-five) to remain eligible for benefits, they must accept any job offered to them, and since 1999 the maximum unemployment benefit has been further limited. The decisions made since 2002, in contrast, have caused expenditure to decrease sharply. Under the new policy, the maximum term and level of benefits for those repeatedly unemployed have been restricted and the qualifying conditions for unemployment compensation have been made stricter. The income maintenance benefits were reduced by 4 percent, eligibility rules were tightened, and the means tests and the benefit rates were revised. Since the unemployment situation has not improved for the time being, the harm inflicted on recipients of unemployment compensation and income maintenance benefits has not been offset by an increase in income from other sources, as policymakers had hoped.

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

	Social service expenditure as percentage of:		
	<u>Government expenditure</u>		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
1990	30.3	45.2	18.6
1995	36.7	52.4	20.2
1996	36.8	53.2	21.2
1997	37.3	53.7	20.5
1998	37.1	54.0	20.2
1999	38.6	55.1	20.3
2000	38.5	55.0	19.7
2001	39.2	56.1	21.3
2002	38.4	54.2	20.8
2003	36.8	54.1	20.1
2004	36.8	53.1	19.7
2. Current budget			
1980	26.4	30.4	15.1
1985	24.6	32.3	14.4
1989	34.0	42.8	15.6
1990	35.2	43.6	16.2
1995	42.1	50.6	17.3
1996	43.3	51.3	18.1
1997	44.4	52.4	18.1
1998	44.9	53.1	18.1
1999	46.0	53.9	18.2
2000	46.0	54.3	17.8
2001	47.5	55.4	19.3
2002	46.4	54.0	19.1
2003	45.5	54.2	18.4
2004	44.0	52.8	17.7

Table 2. Government Expenditure, by Use (percent)

	Total	Thereof: Debt servicing	Total excl. debt servicing			
			Total	Social Defense services	Other	
1. Total budget (current and development)						
1980	100.0	24.5	100.0	31.7	39.5	28.8
1985	100.0	43.4	100.0	32.1	40.2	27.7
1989	100.0	37.8	100.0	42.0	33.1	24.9
1990	100.0	33.0	100.0	45.2	31.3	23.5
1995	100.0	29.9	100.0	52.4	24.6	23.1
1996	100.0	30.8	100.0	53.2	24.5	22.3
1997	100.0	30.5	100.0	53.7	24.7	21.6
1998	100.0	31.3	100.0	54.0	24.8	21.2
1999	100.0	29.9	100.0	55.1	23.7	21.2
2000	100.0	30.0	100.0	55.0	24.0	21.0
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	30.7	100.0	53.1	24.1	22.8
2. Current budget						
1980	100.0	13.3	100.0	30.4	44.5	25.0
1985	100.0	24.1	100.0	32.3	43.6	24.1
1989	100.0	20.6	100.0	42.8	35.4	21.8
1990	100.0	19.3	100.0	43.6	34.6	21.8
1995	100.0	16.7	100.0	50.6	27.7	21.7
1996	100.0	15.5	100.0	51.3	27.6	21.1
1997	100.0	15.3	100.0	52.4	27.3	20.3
1998	100.0	15.4	100.0	53.1	27.2	19.7
1999	100.0	14.6	100.0	53.9	25.9	20.2
2000	100.0	15.3	100.0	54.3	26.1	19.6
2001	100.0	14.4	100.0	55.4	25.7	18.8
2002	100.0	14.2	100.0	54.0	27.6	18.3
2003	100.0	16.0	100.0	54.2	26.6	19.2
2004	100.0	16.8	100.0	52.8	26.7	20.4

Table 3. Expenditure on Social Services, by Main Item
(NIS million, 2003 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	42,881	10,784	32,096	15,384	10,539	1,816	259	291	3,808
1985	43,535	14,064	29,471	14,831	10,280	1,590	248	327	2,196
1989	50,756	18,888	31,868	16,017	10,739	2,215	362	696	1,838
1990	59,023	19,102	39,921	17,045	11,181	2,358	360	2,849	6,128
1995	82,543	27,321	55,222	24,317	14,709	3,247	508	1,894	10,548
1996	90,043	29,204	60,838	27,780	16,039	3,375	466	1,884	11,294
1997	90,301	31,505	58,796	28,089	15,752	3,576	526	1,776	9,078
1998	92,727	34,128	58,599	27,958	15,733	3,805	531	1,796	8,774
1999	96,650	35,798	60,853	29,304	15,796	4,116	603	1,968	9,065
2000	98,550	38,709	59,841	29,873	14,721	4,449	582	2,061	8,155
2001	106,339	43,646	62,693	31,101	15,425	4,805	608	1,795	8,959
2002	103,519	42,363	61,156	30,331	15,461	5,289	658	1,550	7,866
2003	100,937	40,050	60,886	30,572	15,454	5,194	680	1,269	7,717
2004	102,102	38,768	63,334	29,914	15,864	5,171	800	1,654	9,932

Average annual percent change

1980-1985	0.3	5.5	-1.7	-0.7	-0.5	-2.6	-0.8	2.4	-10.4
1985-1989	3.9	7.6	2.0	1.9	1.1	8.6	9.9	20.8	-4.3
1989-1996	8.5	6.4	9.7	8.2	5.9	6.2	3.7	15.3	29.6
1996-2000	2.3	7.3	-0.4	1.8	-2.1	7.2	5.7	2.3	-7.8
2000-2004	0.9	0.0	1.4	0.0	1.9	3.8	8.3	-5.4	5.1

*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	Total Educa-		Health	Personal	Em-	Immigrant	Housing
	mainte-		tion		social	ploy-	integration		
	nance				services	ment			
1980	38,527	10,784	27,743	14,954	10,270	1,789	259	291	180
1985	41,078	14,064	27,013	14,607	10,105	1,569	248	327	157
1989	48,859	18,888	29,972	15,813	10,616	2,198	362	696	286
1990	52,678	19,102	33,576	16,757	11,035	2,342	360	2,849	233
1995	71,039	27,321	43,718	23,421	14,356	3,218	508	1,894	322
1996	76,918	29,204	47,713	26,537	15,167	3,334	466	1,884	325
1997	79,719	31,505	48,214	26,819	15,249	3,545	526	1,776	299
1998	82,836	34,128	48,708	26,879	15,442	3,780	531	1,796	279
1999	86,384	35,798	50,586	28,202	15,460	4,071	603	1,968	281
2000	89,072	38,709	50,363	28,749	14,295	4,415	582	2,061	261
2001	96,167	43,646	52,521	30,009	15,058	4,767	608	1,795	284
2002	94,760	42,363	52,396	29,501	15,177	5,254	658	1,550	256
2003	92,495	40,050	52,444	29,847	15,255	5,162	680	1,269	230
2004	91,689	38,768	52,921	29,451	15,617	5,130	800	1,654	270
Average annual percent change									
1980-1985	1.3	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	2.0	-1.5	7.3	5.7	2.3	-5.3
2000-2004	0.7	0.0	1.2	0.6	2.2	3.8	8.3	-5.4	0.8

Table 4. Distribution of Expenditure on Social Services (Percent)

	Total maintenance	Income	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
1990	100.0	36.0	64.0	26.1	17.1	20.8
1995	100.0	34.1	65.9	28.7	17.3	19.9
1996	100.0	33.3	66.7	30.3	17.5	18.8
1997	100.0	35.8	64.2	30.6	17.2	16.4
1998	100.0	37.5	62.5	29.9	16.8	15.9
1999	100.0	37.7	62.3	30.1	16.2	16.1
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	39.7	60.3	30.3	15.3	14.7
2004	100.0	37.3	62.7	29.6	15.7	17.4
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
1990	100.0	41.3	58.7	29.3	19.3	10.1
1995	100.0	39.9	60.1	32.2	19.7	8.2
1996	100.0	39.0	61.0	33.9	19.4	7.7
1997	100.0	40.5	59.5	33.1	18.8	7.6
1998	100.0	41.9	58.1	32.1	18.4	7.6
1999	100.0	42.0	58.0	32.3	17.7	7.9
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	43.3	56.7	32.3	16.5	7.9
2004	100.0	41.7	58.3	32.5	17.2	8.7

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

Table 5. Expenditure on Income Maintenance, by Main Component
(NIS million, 2003 prices)*

	Total	Old-age and survivors	Child allowances	General disability	Un- employ- ment	Income support	Other NII	Victims of Nazis
1980	10,785	4,847	3,257	1,185	196	0	958	342
1985	14,064	6,483	3,637	1,836	367	469	999	273
1989	18,888	8,235	4,352	2,195	1,408	574	1,690	434
1990	19,102	8,528	4,235	2,156	1,396	634	1,716	437
1995	27,321	11,073	6,219	3,169	1,819	1,616	2,703	723
1996	29,204	11,588	6,496	3,513	2,027	1,725	2,932	923
1997	31,505	12,117	6,813	3,865	2,712	1,920	3,091	988
1998	34,128	13,057	6,956	4,289	3,137	2,307	3,301	1,081
1999	35,798	13,362	7,357	4,635	3,207	2,601	3,478	1,157
2000	38,709	14,501	7,466	5,335	3,182	3,091	3,892	1,241
2001	43,646	16,167	8,059	6,277	3,736	3,717	4,345	1,346
2002	42,363	15,551	6,764	6,849	3,556	3,723	4,509	1,411
2003	40,050	15,551	6,088	7,063	2,428	3,242	4,337	1,340
2004	38,768	15,843	4,826	7,159	2,161	2,955	4,390	1,435
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
2000-2004	0.0	2.2	-10.3	7.6	-9.2	-1.1	3.1	3.7

*Deflated by the Consumer Price Index.

Table 6. 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
1990	100.0	44.6	22.2	11.3	7.3	3.3	9.0	2.3
1995	100.0	40.5	22.8	11.6	6.7	5.9	9.9	2.6
1996	100.0	39.7	22.2	12.0	6.9	5.9	10.0	3.2
1997	100.0	38.5	21.6	12.3	8.6	6.1	9.8	3.1
1998	100.0	38.3	20.4	12.6	9.2	6.8	9.7	3.2
1999	100.0	37.3	20.6	12.9	9.0	7.3	9.7	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	38.8	15.2	17.6	6.1	8.1	10.8	3.3
2004	100.0	40.9	12.4	18.5	5.6	7.6	11.3	3.7

Table 7. Expenditure on Education, by Main Component, Current Budget
(NIS million, 2003 prices)*

	Total	General	Pre- schools	Pri- mary	Post- primary	Higher education	Vocational training	Yeshivot
1980	14,954	1,562	580	4,254	4,430	3,352	516	261
1985	14,607	1,377	692	3,738	4,733	3,017	494	557
1989**	15,813	1,196	799	4,162	5,545	2,867	488	757
1990	16,757	1,303	829	4,472	5,775	2,879	528	971
1995	23,421	1,664	1,079	6,683	8,097	4,073	711	1,115
1996	26,537	1,894	1,473	7,077	9,415	4,756	763	1,158
1997	26,819	1,836	1,573	7,168	9,659	4,650	708	1,225
1998	26,879	1,827	1,556	7,304	9,771	4,505	729	1,187
1999	28,202	1,980	1,636	7,385	10,146	5,105	790	1,160
2000	28,749	2,023	1,768	7,584	10,210	5,256	739	1,168
2001	30,009	2,121	1,962	8,180	10,868	4,923	771	1,184
2002	29,501	2,126	2,013	8,127	10,579	4,751	805	1,099
2003	29,847	1,931	2,144	8,215	10,322	5,582	715	938
2004	29,451	2,017	2,023	8,552	10,379	5,039	782	660
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	2.0	1.7	4.7	1.7	2.0	2.5	-0.8	0.2
2000-2004	0.6	-0.1	3.4	3.0	0.4	-1.1	1.4	-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 8. Net Expenditure on Health, by Main Component, Current Budget
(NIS million, 2003 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	10,270	4,175	..	1,653	1,165	806	439	625	1,408
1985	10,105	5,496	178	1,208	477	571	407	504	1,264
1989	10,616	6,812	780	297	143	642	527	442	973
1990	11,035	6,471	821	569	317	694	543	445	1,176
1995	14,356	7,487	2,355	211	512	999	741	741	1,310
1996	15,167	7,747	2,052	1,159	206	1,117	784	696	1,406
1997	15,249	865	9,230	878	68	1,056	845	876	1,432
1998	15,442	59	9,297	1,619	102	1,058	907	946	1,454
1999	15,460	0	9,632	1,148	102	1,076	973	1,122	1,409
2000	14,295	0	8,890	545	167	1,100	1,009	1,072	1,510
2001	15,058	0	9,251	467	470	1,202	1,145	975	1,547
2002	15,177	0	9,346	665	258	1,273	1,153	944	1,538
2003	15,255	0	9,156	779	161	1,303	1,167	945	1,744
2004	15,617	0	9,755	845	163	1,197	1,138	855	1,664
Average annual percent change									
1980-1985	-0.3	3.4	..	-6.1	-16.4	-6.7	-1.5	-4.2	-2.1
1985-1989	1.2	3.5	..	-29.6	-25.9	3.0	6.7	-3.2	-6.3
1989-1996	5.2	4.8	14.8	21.5	5.3	8.2	5.8	6.7	5.4
1996-2000	-1.5	..	44.3	-17.2	-5.0	-0.4	6.5	11.4	1.8
2000-2004	2.2	..	2.3	11.6	-0.7	2.1	3.0	-5.5	2.5

*Deflated by the Public Civilian Consumption Price Index.

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

Table 9. 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
1990	2.0	2.2	1.7
1995	3.4	3.9	2.6
1996	4.9	4.6	5.5
1997	4.1	4.6	3.2
1998	3.1	3.8	1.8
1999	3.2	3.7	2.1
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	1.6	1.6	1.6

Definitions and Sources

Definitions

Government expenditure for social services includes all expenditure by government offices 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). We treat government expenditure 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 for services provided in-kind by the government (public consumption) and for 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). 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, we “translated” the 1991 budget expenditure into full-year terms by linear extrapolation.

The data are shown in constant 2003 budget 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 statements of the Accountant General, which categorize expenditures by administrative units (e.g., ministries and departments). In education, for example, we included expenditure implemented through the budgets of the Ministry of Education, the Ministry of Labor and Social Affairs (vocational training), and the Ministry of Religious Affairs (*yeshivas*). Below is a detailed list of items included in each field.

Education: Education expenditure includes outlays by the Ministry of Education and Culture for school systems (preschool, primary, post-primary, post-secondary), general expenses for the education system, government participation in higher education budgets, government expenditure for vocational training (Ministry of Labor and Social Affairs) and for *yeshivas* (Ministry of Religious Affairs). We also included transfers to post-primary schools from education levy receipts until this duty was abolished in 1987.

Health: Health expenditure includes expenditures 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. We also included the health expenditures of the National Insurance Institute (inpatient

maternal 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). We also included health expenditure of the Unit for Care of Victims of Nazi Persecution. To facilitate comparison with previous years' data, we did not classify the health tax that citizens pay by force of the State Health Insurance Law as government expenditure; instead, we treated this tax as a substitute for the health fund dues that households remitted directly to the funds in previous years.

Income maintenance: Income maintenance expenditure includes 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 Labor and Social Affairs for the care of children, the elderly, the disabled, and the retarded; and community work. We also included 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 Labor and Social Affairs 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 2004 data are budget data updated to the time the report was prepared; the 2005 figures are those in the adjusted budget proposal, presented

to the Knesset), and on the Statistical Quarterlies of the National Insurance Institute (the 2004 data are estimates of final expenditure; those for 2005 pertain to projected receipts and expenditures that was prepared by the Research and Planning Division of the National Insurance Institute.) We also availed ourselves of the explanatory notes attached to the state budget and the Bank of Israel Annual Report for the years at issue. To compute real expenditure, we used the appropriate price indices supplied by the Central Bureau of Statistics.

A detailed list of the sources of data follows.

- Bank of Israel, **Report of the Bank of Israel**, various years.
 Center for Social Policy Studies in Israel, **Israel's Social Services**, Jerusalem, various years.
 Central Bureau of Statistics, **Statistical Abstract of Israel**, various years.
 --, **National Education Expenditure**, series on statistics of the National Accounts, various years.
 --, **National Health Expenditure**, series on statistics of the National Accounts, various years.
 --, **Monthly Bulletin of Statistics**, various periods.
 --, **Monthly Bulletin of Price Statistics**, various periods.
 Ministry of Education and Culture, Economics and Budgeting Administration, Economics and Statistics Division, **The Education System in Numbers**, Jerusalem, various years.
 Ministry of Finance, **Budget Proposal and Explanatory Notes**, various years.
 --, The Accountant General, **Financial Statements**, various years.
 National Insurance Institute, **Quarterly Statistics**, various periods.
 --, **Annual Survey**, various years.
 --, **Working Budget and Explanatory Notes**, various years.
 State Comptroller, **Annual Report**, various years, Jerusalem.