

Summary of Findings

Economic Developments and Government Expenditure

1. The economic recovery that began in the second half of 2003, after two years of steep decline in activity, continued in 2004. The positive turnaround was supported by the global economic recovery, predominantly in the high-tech industries, and by a certain improvement in the domestic security situation.

2. The resumption of growth has not as yet brought about a shift in the employment situation. It is true that a steep decrease in the number of foreign workers made it possible to increase the employment of Israelis in the business sector by 2.5 percent in 2003, but the unemployment rate in 2004 remained in double digits. Only in 2005 may unemployment decrease significantly, if growth continues in line with the present outlooks.

3. The 2005 state budget was submitted to the Knesset towards the end of 2004 but was voted down. The draft budget envisions a decrease in central government social expenditure as measured in the rate of social expenditure in Gross Domestic Product. Indeed, social spending has declined from 21.3 percent of GDP in 2001 to 20 percent in 2003 and, according to the 2005 draft budget, to 18.3 percent. The spending cut is also reflected in absolute expenditure measured in constant prices. Thus, total social expenditure will be less than NIS 97 billion this year as against more than NIS 106 billion in 2001. Average per-capita expenditure has been declining during the past five years, by 15 percent in cumulative terms.

4. Real wages are estimated to have grown by 2 percent in 2004, but only after a cumulative decrease of nearly 10 percent in 2002–2003.

5. The combined effect of higher unemployment and lower social benefits is strongly evident in the poverty data. In 2003, 19.3 percent of households nationwide had disposable income under the poverty line. Furthermore, the poor households became poorer, i.e., their average income was 31 percent under the poverty line in 2003, on average, as against 26 percent in 2001. It is believed that the developments in 2004 in regard to social benefits and taxes will exacerbate the incidence of poverty and widen the income disparities.

6. Ever since the 1985 Economic Stabilization Program, it has been the government's economic policy to reduce the share of government in GDP and to redirect economic resources to business sector activity in order to assure sustainable growth. Consequently, the ratio of government expenditure to GDP fell from 63 percent to 51 percent. The trend changed direction in 2001, the ratio climbing to 55 percent. This ratio held firm in 2003 but declined in 2004 and, according to the 2005 draft budget, is expected to decline again.

In-Kind Social Services

Education

1. The growth of the Arab-sector education system is persisting at a rate considerably faster than the Jewish sector. The source of the growth is, largely, natural increase, although rising enrollment rates are playing a contributory role at the preschool and post-primary levels.

2. The *haredi* (Ultra-Orthodox) education system is also striking in its growth rate; its share in total Jewish primary schooling climbed to 24 percent in 2003.

3. Israel has hundreds of small schools due to growing fragmentation of its education system along religious, ideological and community lines. This fragmentation reflects the system's response to citizens' choice of educational settings that correspond to their national, religious, ideological and social outlooks. It also makes the education system immensely difficult to run efficiently. However, the educational advantages of small schools, foremost the more intimate educational climate that they offer, are widely noted.

4. Israel's lower secondary school classes stand out for their overcrowding, an exceptional phenomenon that is almost unknown in other developed countries. Educational activity among this age-group is bound to suffer as a result.

Health Care

1. The erosion in the state financing of health expenditure and the expansion of private funding practices in the public service system – co-payments and optional private insurance – have led to the recomposition of health system funding. The share of private expenditure in national health outlays climbed from 26 percent in 1995 to 31 percent in 2003.

2. The performance of the Israeli health care system and the population's satisfaction with it are considered impressive, but the changes in funding patterns in recent years have lessened this satisfaction somewhat. There is concern that the changes in funding will also have adverse effects on the health of weaker population groups who are finding it increasingly more difficult to access medical services.

3. The proportion of Israelis who took out private medical insurance in 2002 was almost twice the 1995 level. However, 50 percent of the population in the two lowest income quintiles did not have private insurance as against only 20 percent in the two highest quintiles. The increase in supplemental insurance and

co-payments is clearly harmful to equity. Strong population groups make better use of health services by means of private insurance than weak groups do. Thus, the latter subsidize the former in the various insurance arrangements.

Personal Social Services

1. The development of the personal social services clearly reflects the weakening of the Israeli welfare state in recent years. Expenditure for personal social services has been cut due to reductions in both central government outlays and local authority participation. Consequently, the services are less able to respond appropriately to the needs of various population groups.
2. The scale and quality of personal social services are noted for geographical inequality due to differences in the levels of central and local government participation and differing levels of activity among various types of organizations (public, voluntary, and private business).
3. The process of legislating social services has slowed in recent years. Most services are not set by any legislation or are set in legislation that does not assure the delivery of a specific basket of services within a specified time frame. Indeed, services that are not legislated have suffered the most from the budget cuts in the past two years.

Transfer Payments – the National Insurance System

1. In recent years, the National Insurance Institute's policy of universal social benefits has come under debate. The main reasons are the onerous burden of outlays for National Insurance benefits and the tremendous increase that has occurred in them. There is a growing tendency to focus the benefits on, and earmark them for, those who need them only. Benefits have been cut in recent years but the complementary action –

launching alternative assistance programs for weak population groups, which have been harmed more than others by the changes in Israel's welfare policy – has not taken place.

2. Recipients of income maintenance and unemployment compensation benefits were among the groups most affected by the budget cuts in 2002-2004. It deserves emphasis that Israel's unemployment compensation law, not generous by Western standards to begin with, was toughened even more in 2002–2003. The changes did not take account of the economic slowdown that began in 1996 and the decrease in total demand for workers.

3. The old-age benefit has been eroded relative to the average standard of living; by 2003 it went down to 85 percent of its 1989 level. Assorted changes in work-related pension eligibility and the old-age benefit, implemented by means of legislation, are expected to induce further erosion in the income level of post-retirement seniors. Long-term care benefits were also cut across the board in 2003, by 4 percent in cumulative terms by 2006.

4. Only disability benefits were exempted from the 4 percent across-the-board cutback that the various economic plans imposed. Indeed, they have become much more generous in recent years. This happened, in part, as a result of the public struggle by organizations of persons with disabilities, which received widespread public and media support.

5. Reductions to child allowances, imposed by the government's economic policies over the past three years, contributed to the rise in the proportion of children below the poverty line to 28 percent in 2004. If the current policy remains in effect, this proportion can be expected to rise.

The 2004 Social Survey

1. The Taub Center Social Survey found that most of the public does not support the government's economic policy. In fact, the proportion of respondents who "strongly" oppose it is almost three times greater than of those "strongly" in favor of it (32 percent versus 12 percent). Opposition is strongest among weak population groups and lessens among those with higher education levels and high income.
2. An overwhelming majority of 83 percent, a striking and unusually large majority by the standards of public-opinion polls, believes that the government is not investing enough resources in the war on poverty. Interestingly, similar high rates are observed even among strong social groups.
3. The public tends consistently to believe that Israel is heading toward wider social gaps. Only 14 percent believe that the disparities are likely to narrow; more than half believe that they will widen.
4. Much of the Israeli public (60 percent) do not feel secure in their jobs and are afraid of the possibility that they or a family member will become unemployed. These findings were elicited at similar intensity in previous years.

Special Area Issues*

The Erosion of Low Salaries and Increasing Poverty among Working Families

1. Israel has one of the world's few developed economies in which wage disparities between skilled and highly educated workers and unskilled and poorly educated workers have widened since the late 1980s. Furthermore, the proportion of

* Selected Area Issues appear as chapters in the full Hebrew report and have not been included in this English translation.

low-wage workers is higher in Israel than in Western Europe. The gap between workers at the bottom of the wage scale and those at the top is also large in Israel.

2. Israel has adopted a policy that aims to wean working age people who are capable of working off of the welfare system and to push them into the labor market. However, the measures that have been taken – cutting of social benefits and limiting of eligibility for unemployment compensation and income maintenance – were based on a series of assumptions that have not been proven and may lead to results opposite to those that the policymakers intended. Almost half of the poor, those whom the country's welfare system is supposed to assist, are impoverished due to low pay for their labor and not due to non-labor, be it in working age or in old age.

3. The government should immediately adopt a vigorous policy to cut the knot that links unskilled labor and poverty. The government may apply various tools to achieve this end, especially subsidizing incomes of low-wage workers by introducing a negative income tax, as several Western countries have done successfully.

Employment, Unemployment, and Welfare Policy

1. In the various poverty fighting plans that have been proposed lately, there is a lack of a comprehensive, system level perspective that addresses itself to the interdependency between the labor market and other systems. The plans speak of increasing support for weak population groups by raising employment rates among them but are accompanied by recommendations to cut the government budget and reduce general government employment. From this standpoint, they may contribute to higher unemployment.

2. Unemployment rates in Israel have remained stable in recent years at the relatively high level of nearly 11 percent. The

article proposes, among other things, that the government set a target unemployment rate that would reflect its commitment to employment as part of its social responsibility. The target should be expressed in the form of an annual level of unemployment, much like the inflation and deficit targets that currently exist. A time frame for its attainment should be established as well as methods and ways for its accomplishment.

***Educational Streaming: Classrooms and Groups –
A Recommendation for Changing Teaching Methods***

1. The education process is carried out mainly in classrooms. The proposal in this chapter explores the possibility of reforming education in a way that would leave the classroom at the focal point of activity but would integrate study groups into the system to enhance the quality of education, considerably narrow disparities, and significantly boost the number of students who earn matriculation certificates.
2. The proposed program would convert the current school day, totally devoted to classroom instruction, into an integrated study day including group teaching and personal interaction. Students would spend at least one-fourth of their time in school in the study groups.
3. Teachers would serve in two capacities: as subject teachers and as leaders of the study groups. The groups would be handled by teachers and by adult students who would be specially trained and supervised by qualified teachers.
4. It is important to stress that one of the main sources of inadequacy in Israeli students' achievements in a series of international tests, as well as the internal evaluation of the Israel Ministry of Education, is the very high proportion of underachieving students in the system, most of whom come from weak strata in the country's social periphery.

Mental Health Care Reform

1. The reform in mental health care services, geared to reduce inpatient care and emphasize community based care, is moving ahead sluggishly. There have been, however, several important achievements, such as a decline in the number and percent of patients who spend more than one year in inpatient care. The article examines the reform from the comprehensive perspective of guaranteeing continuity in mental health care services.
2. As the implementation of the structural reform continues, the insurance aspect of the reform – integrating mental health care services into the general system of the sick funds – takes on vast importance. This implies shifting of responsibility for the delivery of services to the sick funds, in order to establish continuity of care between the inpatient setting and the community. The success of the structural reform is linked to success of the insurance reform in respect to reorganizing this service. If the completion of the reform is delayed past 2005, the process, now in its initial phases, will be adversely affected – as will the population of the mentally ill.