Summary of Findings

The State of the Economy and Its Budgetary Ramifications

1. The Israeli economy experienced severe setbacks in 2001 – a situation that is expected to continue, if not worsen, in 2002. This recession followed a slowdown that began in 1996 and set in motion a downward trend in GDP (Gross Domestic Product) growth rates.
2. Recent data indicate that in 2002 the economy continues to contract in terms of production, employment, and foreign trade. Economic activity has slowed even in comparison with 2001, thereby raising unemployment rates.
3. In the fiscal realm, state revenues are expected to fall in 2002. There is reason for concern that the steep drop in estimated revenues will prompt decision makers to adopt a policy of haphazard cutbacks in government spending that will focus on easily cut expenditure items.
4. This concern is reinforced by the fact that defense expenditure has grown in 2002. Thus, the global economic downturn, domestic economic developments, and the security situation may combine to force a rollback particularly in social services. In view of this combination, extreme caution in economic policy is needed. In any event, the deficit created by these circumstances should be regarded as a temporary development caused by an economic slowdown that will hopefully be followed by an upturn.

Developments in the Scope and Use of Public Resources

1. In the past two decades, government spending as a percentage of GDP has been falling considerably. Budget deficits decreased, thereby reducing the national debt and the

ongoing burden of debt payback and interest payments. Nevertheless, perhaps in part due to a substantial reduction in government spending on items other than social services (defense and others), it became possible to increase government social spending from 18 percent of GDP in 1980 to 20 percent in 2000.

2. The mix of social spending has changed in the past few years: in 1996 one-third of this expenditure was used for transfer payments and two-thirds for in-kind services, whereas in 2002, nearly 40 percent will be used for cash benefits and only 60 percent for in-kind social services. There is no doubt that the change in the share of in-kind services originates mainly in the general budgetary restraint applied in this period.
3. The income maintenance component of social expenditure is of paramount social importance because it provides an economic safety net and functions as one of the two main mechanisms for income redistribution and reduction of economic inequality. When the burden of transfer payments increases in times of an economic downturn and budget stress, policymakers tend to reduce this budget item for the sake of the economy. The government should avoid rash solutions of this sort, especially during a recession, since it may cause severe damage to social justice and equality in a society as complex as Israel's.
4. Child allowances are the second largest expenditure component among transfer payments, after old-age pensions. In 2000, the Knesset enacted the Large Families Law, which increased the child allowances sharply for the fourth child and even more for the fifth and subsequent children. By passing this legislation, the Knesset turned child allowances into a social mechanism for subsidizing large families, i.e., a policy tool to encourage higher birth rates.

5. In 2002, the National Insurance Institute is expected to spend NIS 7.3 billion on unemployment compensation and income maintenance, making them the third largest component in the aggregate of transfer payments. This sum, on the one hand, is an indication of the existence of acute unemployment, in part due to cyclical volatility in economic activity and exogenous economic and political factors; on the other hand, it is a sign of a substantial increase in the number of people who are chronically unemployed or have dropped out of the labor force altogether.
6. Spending on in-kind social services will total NIS 64.0 billion (in current prices) in 2002, about 13 percent of GDP. This aggregate includes government expenditure on education, health, personal social services, employment, immigrant integration, and housing.
7. The government is expected to spend NIS 31.4 billion (in current prices) on education in 2002, 6.5 percent of GDP. Local authorities' outlays add another percentage point of GDP, bringing total public expenditure on education to about 7.4 percent of GDP. In addition to this is private expenditure on education, which brings total national education expenditure to approximately nine percent of GDP.
8. According to international comparisons by the World Bank and OECD, Israel is one of the three or four leading countries in the world in allocation of resources for education, with respect to both public expenditure and national expenditure. It should be kept in mind, however, that this finding is strongly affected by the relatively young age structure of the Israeli population compared with most industrialized countries. Indeed, if the calculations are adjusted to take the size of the student population into account, per pupil expenditure in Israel resembles the average in OECD member countries.

9. The trend in resource allocation for health care reflects the growing disparity between national and government expenditure. The Israeli government has been consistently applying a policy of reducing government intervention in the health system, especially in respect to funding. By doing so, it is facilitating an upward trend in privatization of health care, with all the resultant social implications.
10. Government spending for personal social services is expected to reach one percent of GDP in 2002. This expenditure item has been growing steadily. Until the enactment of the Long-Term Care Insurance Law about 0.5 percent of GDP was spent on these services annually. Since the law took effect, the sums have risen rapidly, at an average annual rate of 6.5 percent.
11. Between 1990 and 2001, government spending on personal social services (excluding nursing care) rose from NIS 1.6 billion (in 2000 prices) to NIS 2.7 billion – an impressive increase of 64 percent. The proposed level of expenditure for 2002, NIS 2.6 billion, indicates that this process has come to a halt. The two areas that experienced notable budget increases in the past decade are services for the physically disabled and for the mentally impaired.

Education

1. The data on primary school enrollment by population sector attest to an increase in the share of the *haredi* ("ultra-orthodox") sector (with the share of its Independent school system rising from eight percent in 1990 to 20 percent in 2000). The share of the Arab sector also increased (from 23 to 25 percent). The relative share of the State-Religious school system remained stable, while enrollment in State schools dropped from 71 to 60 percent in 2000.
2. At the post-primary level, too, the relative share of the State and State-Religious school systems has been declining. In

contrast, the share of students in the Arab sector rose gradually from 17 percent to 19 percent in 2000, and that of the *haredi* sector rose rapidly in the past five years from eight to 15 percent.

3. The past two decades have seen substantial success in preventing students from dropping out and in maintaining high enrollment rates. The improvement in the Jewish sector was greater in the 1980s, whereas considerable progress was made in the Arab sector in the 1990s.
4. In the past twenty years, the percentage of matriculation certificate eligibles has been rising steadily, from 21 percent of the relevant age group in 1980 to 41 percent in 2000. Our analysis shows that the "true" percentage of eligibles in the relevant age cohort will soon reach 60 percent.
5. In the past decade, enrollment rates in the Arab sector rose substantially – to more than 70 percent – but the share of matriculation certificate eligibles is still relatively low. Within the Jewish sector, too, there are still major differences depending on the ethnic origin of students' families. The eligibility rate of students from families of Asian and African origin has improved over the years, but the disparities are still large.
6. The teacher population is characterized by several ongoing processes: (1) an increase in the average age, which is causing a substantial increase in the retirement rate; (2) an increase in average seniority, which improves the quality of instruction but also increases the average salaries of teachers; (3) growing feminization of the teaching profession-- among teachers in Jewish schools, women now account for 90 percent of primary school teachers and 73 percent of teachers in post-primary schools.
7. University enrollment has increased by 68 percent since 1990 and enrollment in other degree granting institutions has increased by more than 570 percent. At the end of the decade,

more than 100 degree granting institutions operated in Israel. Seven of them are defined as universities; the others are teachers' colleges, regional public colleges, private colleges, extensions of foreign universities, and degree granting distance learning institutions. There is no doubt that higher education in Israel has undergone democratization. The question is who the beneficiaries of this process are and what its implications are for socioeconomic disparities.

8. The increase in the percentage of female students in higher education gained momentum in the 1990s, and is now reflected in the number of women working toward bachelor's, master's, and doctoral degrees. Since 1998, women have been a majority even among doctoral students.

Health System

1. The state budget funds 46 percent of total national expenditure on health; the health tax funds another 25 percent; and, payments by households for medicine and medical services, including dental and private medical care, cover 29 percent. In most European countries that Israel strives to resemble, public spending as a percentage of national expenditure is higher than in Israel.
2. Principles of fairness and justice in health care funding are also harmed by the increased prevalence of supplemental insurance and expenditure on it. The premiums for supplemental insurance policies are fundamentally regressive and are contributory to the widening of socioeconomic gaps.
3. The health funds have been taking measures to economize and improve their efficiency, including cutbacks in various services. The government policy concerning the funds' deficits aimed to reduce them by increasing co-payments for medicine, charging a fee for visits to specialists, and levying additional fees for the use of health services. Consequently, co-payments almost doubled between 1995 and 2000.

4. Co-payments for medicines have increased substantially in the past decade. For all the health funds, the average consumer pays 14–16 percent of the price of medication in co-payments, resulting in a major financial burden for the lowest income households. Availability and selection of medications through the health funds are sources of dissatisfaction among the insured. Another aspect of medicine co-payments is that they sometimes deter those in the lower income groups from taking the medicines they are prescribed. Some researchers believe that the co-payment policy is having a particularly adverse effect on the health of low income population groups.
5. The matter of reorganizing hospitals belonging to the government and to Clalit Health Services as corporations is still on the agenda of Israel's health policymakers. A CSPS position paper concerning procedures for the incorporation of government hospitals explains why the process has failed and suggests alternatives for the future. The current situation is one of the matters closely examined in the position paper. The paper found the situation an extremely problematic one due to the exceedingly slow process of incorporation without the stipulation of clear stages of progress and, more importantly, without the demarcation of goals and the setting of clear rules of conduct for government hospitals in this process.
6. Dental health is an illustration of what happens to an important area of health care when it is entrusted to private market mechanisms: the cost has been mounting and the service is not producing the desired results. Israel ranks towards the bottom on the scale of dental care in Western countries on every indicator of dental including dental morbidity. The CSPS repeats its health recommendation that dental care for children up to age 18 and all preventive dental care be included in National Health Insurance.

7. Mental health care in Israel, as in other countries, still suffers from an "apartheid" policy, i.e., separate hospitals, community-based treatment not covered by the health funds, and severe discrimination against the mentally ill in supplemental insurance plans. The question of what agency is legally responsible for community-based treatment of the mentally ill remains vague and highly problematic. In practice, the Health Ministry treats some of the patients in community mental health clinics, and Clalit Health Services operates its own system of community services. None of the other health funds has any significant system of community care for the mentally ill. It is worth nothing that until now the State Health Insurance Law has not covered this important area.

Personal Social Services

1. Personal social services address the vital needs and problems of individuals, families, groups and communities who experience difficulty in coping with various hardships. The survey points to substantial differences in the pace and extent of the development of services for different population groups.
2. These differences are reflected in the rapid development of services for the elderly, for example, in contrast to the slow development of services for other population groups, such as youth and families in distress. For example, the number of recipients of nursing care rose from 28,000 in 1990 to 104,000 in 2001 – a 3.7 fold increase, while the population of seniors in Israel grew by about 50 percent over the same period.
3. The data point to large disparities between Jewish and Arab localities in expenditure on personal social services. Due to family size in the Arab sector, these disparities are particularly evident when measured in per client terms: per

client expenditure by central government is 62 percent higher in the Jewish sector than in the Arab sector and locally financed ("independent") expenditure per client is 47 percent higher.

4. Average per client expenditure by central government is 16 percent higher in socioeconomically strong localities than in localities in the middle of the socioeconomic scale. The advantage of strong localities is even more noticeable in locally financed per client expenditure, which is higher there than in all other localities: 44 percent higher than the corresponding expenditure in intermediate level localities, 51 percent higher than in the weak Jewish localities, and 120 percent higher than in the weak Arab localities.
5. As for average expenditure per client household, the strong localities allocate more of their own independent resources to client households than do other localities. Although central government expenditure per client household is the lowest in strong localities, it differs only slightly from that in the intermediate localities.