Israel’s Social Welfare System: An Overview

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Introduction

Recent developments in Israel’s social welfare system, including developments during the past year, point to two prominent trends. One trend is the observed long-term stability in social spending levels and indications of the limited effectiveness of measures to address poverty and inequality. The other trend signals that “social investment” policies are being implemented.

The trend towards stable expenditure began in the early 2000s, after the adoption of a policy leading to substantial cuts in spending in the social security and welfare systems; the cutbacks were most notable in the lowering of generosity of benefits and the accessibility to various social security programs. That period saw a major increase in poverty and inequality levels. This process is clearly seen in Figure 1, which looks at social security and social welfare spending as a percentage of gross domestic product (GDP), and at poverty-incidence and inequality-level figures from the beginning of the millennium. The data indicate long-term stability with regard to social spending and the effectiveness of poverty- and inequality-fighting measures. The data also show a trend toward somewhat increased spending over the past two years, with a concomitant slight decline in poverty and inequality.

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1 Social security spending includes spending on programs operated by the National Insurance Institute, the Ministry of Defense (benefits for disabled veterans and bereaved families), and the Ministry of Finance (assistance to victims of Nazi persecution and negative income tax). Social welfare spending includes the expenditures of government ministries involved with social issues, whose activities focus on addressing poverty and exclusion: the Ministry of Labor, Social Affairs and Social Services; the Ministry of Housing; the Ministry of Aliya and Immigration; and the Ministry for Social Equality.
The stability of expenditure rates following the benefit cutbacks of the early 2000s has led to a situation where Israel’s social spending, which even before these cuts was more limited than that of other welfare states, remained appreciably lower in international comparison. The slight changes in poverty and inequality levels over the past two years appear to stem from a combination of the increased labor market participation of various population groups (though at low wage levels), and social security program changes focusing on specific populations whose members can be brought above the poverty line with relative ease. Elderly people living in poverty are a notable example of this. However, these changes have not affected the majority of the needy population, and the overall trend continues to be one in which the share of Israeli families living in poverty, and the degree of inequality between Israelis, has remained among the highest in the OECD.

The problems faced by those seeking to escape the cycle of poverty are illustrated by an international comparison of the total number of weekly
work hours per household (combined hours of all household members) in
the income distribution’s lowest decile that are required to lift a household
above the poverty line (Figure 2). The comparison shows that an especially
large number of household work hours are required in Israel relative to the
other OECD countries. It is not surprising that Israel’s current incidence of
poverty shows very little progress towards the target set five years ago by
the Committee for the War Against Poverty (the Elalouf Committee) — a
reduction down to the OECD average of 11 percent of all families.

**Figure 2. Weekly household work hours required for a household
at the lowest income decile to rise above the poverty line, 2016**

![Weekly household work hours required for a household at the lowest income decile to rise above the poverty line, 2016](image)

Note: Weekly work hours required per household, not per person.
Source: John Gal and Shavit Madhala, Taub Center | Data: OECD.Stat
Alongside the trends of stability, recent years seem to indicate a change of emphasis in certain social welfare areas, signaling what welfare state discourse refers to as a “social investment” approach. This approach, which over the past two decades has generated considerable interest and has been implemented to varying degrees in European welfare states (the European Commission) and elsewhere (Smyth and Deeming 2016), seeks to highlight the welfare state’s contribution to promoting growth and social cohesion. It does this by placing greater emphasis on developing the human capital of its population. It also stresses the optimal integration of all citizens, women and minorities included, into the labor market and society at large.

One leading proponent of this approach, Anton Hemerijck (2017), notes the three main elements of social investment:

1. Facilitating “flow,” i.e., the entry and exit of people of different age groups and genders in and out of the labor market over the life course;
2. Improving the quality of “stock,” i.e., continuously upgrading human capital and skills;
3. Ensuring the existence of effective “buffers” in the form of safety nets providing social security to residents and social stability to aging societies faced with frequent economic transitions.

Hemerijck stresses the importance of combining these elements for the success of the social investment approach. A welfare state that relies on the logic of social investment will, from the outset, make special investment in programs to strengthen the skills and competencies of its population, and will encourage citizens’ full participation in the social and employment spheres. Such a welfare state will provide its citizens with tools for optimal integration into the labor market, along with effective mechanisms to protect them and facilitate their re-entry should they stop working. The assumption is that social policy should not only address present inequality and personal distress, but should also constitute a long-term investment in the society’s future (Morel, Palier, and Palme 2012; Nolan 2013).

As noted, a few features of the social investment approach appear to have penetrated Israeli social policy in recent years (Zehavi and Breznitz 2018). As can be seen in Figure 3, this shift is reflected in policy decisions across a variety of areas: early childhood and education systems; programs to advance the integration of Arab Israeli and Haredi adults into the labor market; and the promotion of programs such as Noshmim Lirvacha, operated by the
Ministry of Labor, Social Affairs and Social Services to address the social exclusion of families living in poverty. There is also an effort (if partial) to raise the income of workers living in poverty by increasing the minimum wage and expanding access to work grants. In addition, the Savings for Every Child program, which seeks to jump start young Israelis’ transition to post-secondary education and the labor market, is well suited to efforts to increase human capital and facilitate future social mobility.

However, alongside these measures intended mainly to reinforce the “stock” and “flow” elements of the social investment approach, little effort has been made to upgrade the “buffer” components, i.e., unemployment insurance and income support programs. The accessibility and generosity of these programs in the Israeli welfare state are limited, resulting in under-utilization on the part of their target population. This is the case despite the Elalouf Committee recommendations and support for program changes from the Bank of Israel and the National Insurance Institute. In this sense, the decline in spending on unemployment insurance and income support programs, as shown in Figure 3, is not only the result of improved labor market participation, but also attests to the limited value these assistance programs provide to those who are unable to participate in the labor market.

**Figure 3. Changes in expenditures on selected social investment areas, 2017 vs 2014**
NIS million, 2017 prices

Source: John Gal and Shavit Madhala, Taub Center | Data: Ministry of Finance; NII
1. Social expenditure

Social expenditures, which include government spending on education, healthcare, and social welfare, amounted to about NIS 223 billion in 2017 — an increase of NIS 18 billion compared with 2016. This increase is also seen in relative terms: the share out of all government spending over 2017 amounted to 59 percent, an increase of 2 percentage points over 2016 (Figure 4), while social spending as a percentage of GDP rose by a little under 1 percent (from 16.8 percent in 2016 to 17.6 percent in 2017). In financial terms, social welfare spending alone increased this year by about 9 percent, amounting to about NIS 110 billion in 2017.

Figure 4. Social expenditure
By area, as a percent of overall government expenditure

Note: Overall government expenditure: government spending as detailed in the implementation budget, reduced by spending lines for debt payment, interest, and charges.
Source: John Gal and Shavit Madhala, Taub Center | Data: Ministry of Finance; NII; CBS

2 Spending on education and healthcare includes the Ministry of Education and Ministry of Health budgets (including development budgets) and health tax spending. Social welfare spending includes social welfare and social security spending as specified in footnote 1.
National Insurance Institute benefits

Social security spending is a major expenditure in all welfare states, including Israel. The agency responsible for providing most of the relevant benefits is the National Insurance Institute (alongside benefits for disabled IDF veterans and bereaved families paid by the Ministry of Defense, and Holocaust survivor benefits paid by the Ministry of Finance). The total National Insurance expenditure on benefits for 2017 was NIS 82.4 billion. In financial terms this constitutes a 10 percent increase compared with 2016 spending levels (in recent years the rate of annual increase has been about 3.5 percent).

An examination of the changes in total expenditure on benefits in GDP terms also shows an increase in spending; in 2017, spending stood at 6.5 percent of GDP (Figure 5). Most of the increase was due to additional spending on the Savings for Every Child program, which, in 2017, amounted to NIS 4.2 billion. When total expenditure is reduced by this program addition, no change in expenditure is found, and, in 2017, spending came to about 6 percent of GDP.

Figure 5. NII expenditures on benefits as a percent of GDP

Note: Other includes military reserve duty grants, bankruptcy aid, grants following accidents, and “compassion” grants (in cases where the benefit was denied because the individual failed to pay into the NII or they were registered as self-employed).

Source: John Gal and Shavit Madhala, Taub Center | Data: NII; Bank of Israel
One social security issue on the public agenda this past year is that of benefits for people with disabilities. Out of all National Insurance Institute benefit spending, the expenditure on general disability benefit is the second-largest, after old-age and survivor benefits: its share of total benefits spending is about 19 percent. In 2017, this expenditure amounted to NIS 15.3 billion. Figure 6 shows that, since the early 1990s, the percentage of general disability pension recipients rose substantially; as of 2017, they numbered about 242,000 (4.9 percent of the population in the eligible age range), versus 73,000 in 1990 (2.9 percent of the population).

In February 2018, following an intensive campaign of protests by organizations representing people with disabilities, an increase in the general disability benefit was approved by the Knesset. The measure raised the basic disability benefit per person per month between NIS 470 and NIS 770, to reach a total of NIS 3,270 by March 2018. The Additional Monthly Pension (AMP) was merged into the calculation. Prior to this, the AMP was given only to those with disability levels of 80 percent or over, but now all individuals with disabilities eligible for the general disability benefit will receive the AMP in the same amount of NIS 452 per month. The cost of this increase is estimated at NIS 240 million.

Another important change that has occurred is an increase in the monthly earnings limit (income from work that a person with disabilities can earn without their disability benefit being reduced) from NIS 2,800 to NIS 3,700. By the end of 2019, the Minister of Finance and the Minister of Labor, Social Affairs and Social Services will submit regulations specifying a further increase in benefits, ensuring that the disability benefit will not drop below NIS 3,700. The decision was also made that, beginning in 2022, the benefit will be linked to the average wage. From a budgetary perspective, it was decided that the total cost of all the additions in all of the roll out stages...
will be NIS 4.34 billion per year (Knesset 2018a).

The results of this legislative development are already reflected in the general disability benefit relative to the average wage (Figure 7). A comparison over time shows that, from 2010 on, the disability benefit eroded slightly relative to wages. This erosion continued until January-February 2018, when the benefit as a percentage of the average wage grew thanks to the agreements reached, enabling the disability benefit of a person with a spouse and two children, for instance, to reach about 64 percent of the average wage (compared with 54 percent before the change).

**Figure 7. General disability benefit as a percent of the average wage**

Source: John Gal and Shavit Madhala, Taub Center | Data: NII

**Work grants**

The purpose of work grants, which are administered through the Israel Tax Authority (Ministry of Finance), is to increase the income of working families whose income from work is particularly low. Since the work grant was made available to the entire population in 2012, there have been no major changes in the amount of the average grant, which stands at about NIS 3,700 per year. The total grants distributed in 2016 came to some NIS 1.1 billion, an
increase of about NIS 100 million from 2015. A look at these figures in GDP terms reveals that the share of work grant spending is less than 0.1 percent of GDP, and, since 2012, there has been no substantial change in the share of spending (Figure 8a). Nor have there been major changes in the grant’s take-up rate over this period (Figure 8b). In 2017, eligibility for the grant was extended to single parents, which added another 50,000 people to the population of those entitled. Since eligibility applies to the year preceding the change, the increase in the number of those potentially eligible relates to 2016 as well which, apparently, caused that year’s take-up rate to fall.

**Figure 8a. Amount paid out for work grants and the number of those eligible for them**

Source: John Gal and Shavit Madhala, Taub Center | Data: Israel Tax Authority; Bank of Israel
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Figure 8b. Share of work grant recipients out of all potential recipients

Expenditure on employment

Expenditure on active labor market policy (ALMP) in Israel, that is, on programs to encourage the optimal integration of different populations into the labor market, is among the lowest in the OECD. Of this expenditure, the share that Israel devotes to vocational training is 0.06 percent of GDP — half of the OECD average, which is 0.13 percent of GDP (Figure 9).

The social disparities that characterize Israel’s labor market, the shortage of appropriately skilled workers in certain fields, and the modest scope of Israel’s vocational training system compared with that of other OECD nations have caused Israel’s vocational training system to be perceived, in recent years, as an area ripe for investment. Vocational training is seen as both a potential economic tool — for upgrading human capital in the labor force — and a social tool — for reducing disparities between population groups (Bank of Israel 2018b; Kuczer, Bastianić, and Field 2018). This issue was also addressed in the recommendations of the Committee for the War Against Poverty in 2014.
The agency responsible for government-funded vocational training is the Manpower Training and Development Department in the Ministry of Labor, Social Affairs and Social Services (it was formerly a division within the Ministry of Economy). The Department’s purpose is to train human capital in accordance with the Israeli economy’s evolving needs. A look at the Department’s spending since the early 2000s reveals a number of trends including a trend towards increased spending (Figure 10). This trend started in 2009 but slowed slightly in 2013, from which point there has been an annual spending increase. Essentially, from 2013, when the Department’s total expenditure amounted to about NIS 852 million, through the end of 2017, the Department’s budget grew by 26 percent.
The Department’s expenditures can be divided into two types: expenditures on youth training, and expenditures on adult training. Making this distinction shows that most of the changes during the relevant period are in spending on adult training. The share of spending in this area out of all Department spending was about 60 percent in 2000, but fell over the years, to about 33 percent in 2008. Recently, with an increase in the absolute amount of the budget allocated for adult vocational training, and despite declining unemployment rates, it has risen again, reaching about 43 percent in 2017 (an expenditure of NIS 370 million).

**Figure 10. Budget of the Manpower Training and Development Department and the unemployment rate**

NIS billion, 2017 prices

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Note: In 2012, the CBS survey methodology changed, resulting in a break in the data series.

Source: John Gal and Shavit Madhala, Taub Center | Data: Ministry of Finance; Bank of Israel
Day care centers

The Day Care Centers Department in the Ministry of Labor, Social Affairs and Social Services is responsible for ensuring appropriate conditions and an educational care environment for infants and toddlers up to age three, and is additionally tasked with promoting the integration of mothers of young children into the labor market. When adopting the recommendations of the Trajtenberg Committee in 2012 (the committee established in response to the 2011 social protests), the government decided that over the course of six years from the date of the resolution, the country’s stock of child care facilities would be enlarged to serve 30,000 children, through public funding for the construction of new day care centers. Policy efforts in this area reflect the centrality that welfare states currently ascribe to early childhood education, and the importance of early educational interventions for human capital enhancement, especially for children of families suffering economic distress (Shavit, Friedman, Gal, and Vaknin 2018). It is hardly surprising that early childhood intervention is a major element of social investment approaches.

Spending data from the Day Care Centers Department indicate that, from 2011 to 2017, their budget grew by about 94 percent, and, in 2017, amounted to about NIS 1.64 billion (Figure 11). During this period, the share of spending on construction and converting buildings to day care centers out of the Department’s budget increased substantially, from only about NIS 2 million, in 2011, to about NIS 260 million in 2017. According to a report by the Citizens’ Empowerment Center in Israel, from 2013 to mid-2016, a total of 16 new day care centers were built, serving 1,200 children (about 4 percent of the target number). The second half of 2016 saw a sizable increase in the number of day care centers officially authorized and given permits, as well as the addition of 88 day care centers (Citizens’ Empowerment Center in Israel 2017). Budget implementation figures, when compared with original allocations for construction and building-conversion, indeed suggest that, between 2012 and 2014, the implementation rate was about 18 percent on average, while between 2015 and 2017, it rose to 100 percent.

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3 The budget’s “Encouraging Parental Employment” line item.
In October 2018, the Knesset passed the Day Care Supervision Law, establishing government oversight and licensing of day care centers. The new law, which will take effect on September 1, 2019, makes the operation of day care centers serving seven or more children contingent on a license from the Supervisor of Day Care Centers in the Ministry of Labor, Social Affairs and Social Services. This license will be issued following safety inspection and background checks to ensure that day care center workers do not have criminal records. The Supervisor is to publish a list of authorized day care centers for young children that notes the facilities’ addresses and whether they have valid operating licenses (Knesset, 2018b).
2. Implementation of the Elalouf Committee recommendations

The Committee for the War Against Poverty, headed by MK Eli Elalouf, was established in 2013 on the initiative of the then-Minister of Welfare and Social Services, Meir Cohen. A year later, the Committee submitted a set of recommendations to the government, encompassing a variety of issues. The Committee’s main objective was to lower Israel’s incidence of poverty to the accepted OECD level. The Israeli government discussed the recommendations and incorporated some of them into its programs. Looking at the recommendations’ implementation allows for an assessment of government efforts to advance major poverty-addressing measures and to reach the goal set by the Committee.

The Taub Center has been monitoring the implementation of the Committee’s recommendations since they were approved. Figure 12 shows that the spending increase in 2017 as compared with 2014 for all areas covered by the final Committee recommendations amounts to some NIS 3.6 billion — 48 percent of the total recommended expenditure, totaling NIS 7.4 billion per year. The partial implementation is due to the fact that several recommendations have not been fully implemented, while others were not adopted (such as the recommendation to increase income support benefits). The Savings for Every Child program, implemented in 2017, though discussed by the Elalouf Committee, was not included or costed out in its recommendations. Taking into account the added expenditure on the implementation of the Savings for Every Child program, the spending increase comes to about NIS 7.8 billion (in percentages: the percent added in the social welfare area for 2017 is 206 percent, and in all areas, including the Savings for Every Child program, 106 percent).

It appears that, should present trends continue, the likelihood of achieving the stated objective of the Committee and of the Israeli government — a substantial decline in the incidence of poverty within the span of a decade — is very low.
Figure 12. Additional expenditure on implementation of the Elalouf Committee recommendations for the War Against Poverty
As a percent of the budget recommendations of the Committee

Note: For Economy/Employment areas, the data differ from the figures in previous Taub Center publications. In the past, data were from the Israel Tax Authority which are updated retroactively. Current data are taken from the Ministry of Finance and represent the actual implementation budget in each year. In addition, in the past, 2017 data were based on budget proposals, while current data are based on actual implementation data.
Source: John Gal and Shavit Madhala, Taub Center
Data: Ministry of Finance; NII; Committee for the War Against Poverty
Conclusion

Data on Israeli social welfare spending in recent years, and decisions by the government and its ministries on issues relating to the social welfare and social security of the country’s residents, point to two main trends. On the one hand, Israeli social welfare spending is low, and there appears to have been no major increase in spending to address the high poverty and inequality levels that have characterized Israeli society for the past two decades. A few measures taken in this area, such as legislation to increase general disability benefits, constitute responses to specific instances of political and public pressure. The government’s official adoption of the recommendations of the Committee for the War Against Poverty have not brought about a dramatic change in poverty policy, either. Although a large portion of the recommendations have been adopted, their chronic under-funding, and the government’s failure to implement other major recommendations, such as more generous income support benefits, have impaired the effectiveness of current poverty-fighting efforts.

On the other hand, an interesting trend has surfaced — one that signals a change in policy maker attitudes toward the role of the welfare state. Findings indicate a new emphasis on elements of the social investment approach in Israeli welfare-state activity. This approach has generated a great deal of interest in European welfare states, and though it has yet to become a focus of Israeli public discourse, its spirit has permeated local social welfare planning processes. This is reflected in the recent emphasis placed on efforts to improve Israeli human capital and labor-market access: expansion of the early childhood education system; increased investment in vocational training; the creation of vocational programs targeting specific sectors; operation of holistic programs to help families living in poverty enter the labor market; and, the implementation of the Savings for Every Child program. However, there is still no indication that other major elements of the social investment approach will be adopted — elements that aim to ensure the quality of life of those who are not participating in the labor market (and their optimal re-entry), or that provide a buffer for those who are unable to integrate into the labor market.
References

English


**Hebrew**


