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In This Issue:

The "Americanization" of Healthcare Financing in Israel

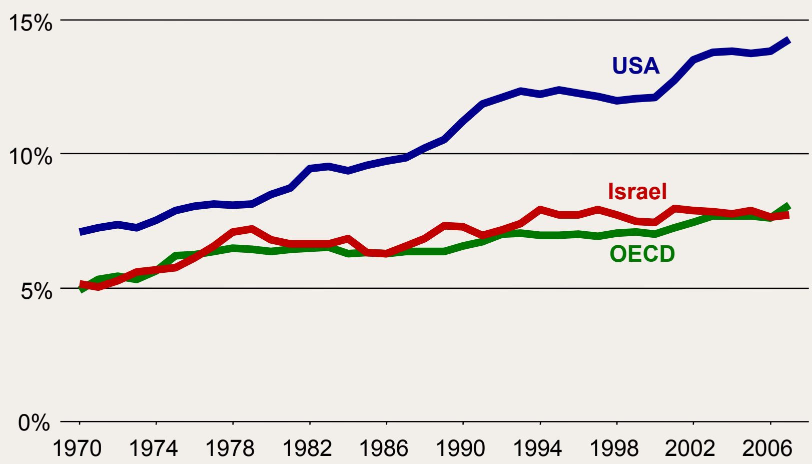
Israel is steadily pulling away from the OECD and toward the U.S. as the private portion of its healthcare spending rises steadily. Will this also lead to a similar direction in healthcare outcomes?

Both in terms of healthcare outcomes and costs, the United States has underperformed over the last four decades when compared with the average developed country of the Organization of Economic Cooperation and Development (OECD) as well as relative to Israel, a recently admitted OECD member. Healthcare costs have been growing faster in the United States than in the other developed OECD countries, including Israel, while the health outcomes have been improving faster in the OECD and Israel.

These are some of the findings in a recent Taub Center study by Prof. Dov Chernichovsky, Dr. Ronni Gamzu and Dr. Guy Navon that appears in the Center's annual "*State of the Nation Report*". Prof. Chernichovsky is the Chair of the Center's Health Policy Program and a senior staff member at Ben-Gurion University of the Negev. Dr. Gamzu is the recently appointed Director-General of Israel's Ministry of Health. Until his appointment, he was a Policy Fellow in the Taub Center's Health Policy Program and Director-General of Ichilov Hospital (the study was conducted prior to his appointment). Dr. Navon is a Policy Fellow in the Center's Health Policy Program and a researcher at the Bank of Israel.

Focusing on costs, the first figure shows that healthcare expenditures have risen in the United States from 7 percent to 14 percent of the Gross Domestic Product (GDP). This compares with a relatively modest increase from 5 percent to 8 percent of GDP in the 22 developed nations of the OECD and in Israel. Thus, from a cost perspective, Israel's record has closely matched the rest of the developed OECD countries – excluding the U.S. – that provide universal health coverage. While

National Expenditure on Health as Percent of GDP*, 1970-2007
Israel, OECD** and U.S.



* Adjusted for standardized population, as percent of GDP per capita.

** OECD average includes 22 OECD countries excluding U.S.

Source: Taub Center for Social Policy Studies in Israel.
Data: Israel's Central Bureau of Statistics, OECD.

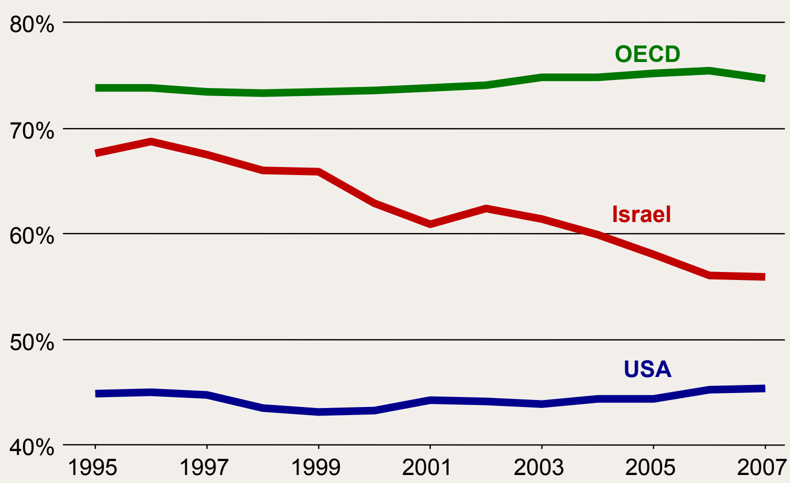
cost increases have not been as high as in the U.S., life expectancy has improved in Israel even more than the OECD average (see "How Healthy?" in September Bulletin). In retrospect, Israel appears to have received relatively good value for its expenditures on healthcare since the 1970s.

However, an "Americanization" process in Israel's healthcare system has been raising concerns of a problematic future. As is evident in the second figure, the public share of total health care expenditure in Israel has been falling steadily, deviating from the OECD average and converging toward the relatively low American share. There is ample evidence that private financing of health care is much less effective than public financing in controlling costs, and indeed, in this same period Israel has begun to experience a relative rise in healthcare prices.

The inflation in healthcare prices reflects declining efficiency in Israel's healthcare system. It means that the increase in healthcare costs passed on to the public has been greater than the increase in services it received. Inflation also leads to declining equity. The

Public Share in Health Expenditure as a Percent of Total National Expenditure, 1995-2007

Israel, OECD* and U.S.



* OECD average includes 22 OECD countries excluding U.S.

Source: Taub Center for Social Policy Studies in Israel.
Data: Israel's Central Bureau of Statistics, OECD.

fact that healthcare prices have risen more than other prices and incomes aggravates an already difficult situation caused by the growing share of private healthcare financing. The merging of these two factors reduces access to care while increasing the burden of healthcare spending on the budgets of middle, and particularly, low income households. Furthermore, these developments may eventually undo many of the country's achievements in health outcomes.

In some respects, this situation is reminiscent of the diverging healthcare paths in the United States and those of other developed countries – including Israel. Despite the superiority of the American system from the perspective of technology and the level of resources invested in healthcare, its outcomes are relatively modest. The "Americanization" of healthcare financing in Israel – which is currently only expressed in inflation, and not yet in terms of health outcomes – brings Israel closer to the less desirable elements in the American system: high cost coupled with ever increasing disparities in accessibility to care.

Teach Your Children Well

Rising education gaps underlie rising Israeli wage gaps that are among the highest in the West.

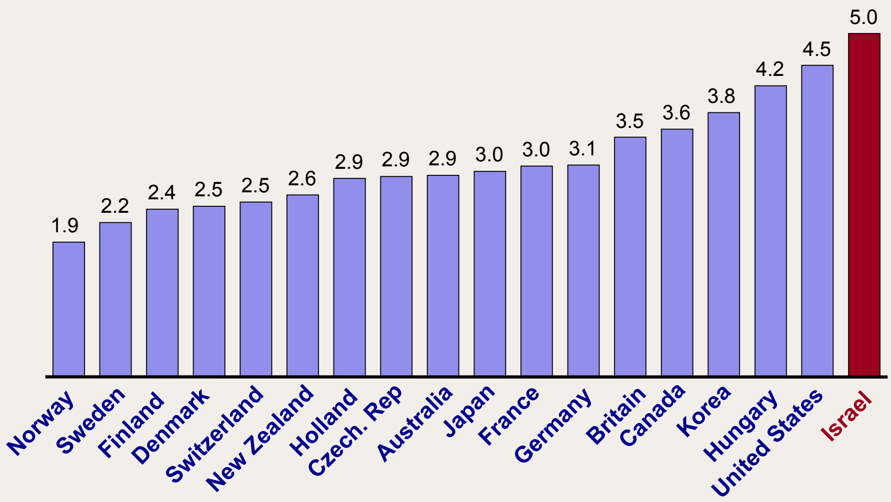
Preliminary research conducted by Taub Center Deputy Director Prof. Ayal Kimhi that will appear in the Center's next "*State of the Nation Report*" shows that Israeli wage gaps, after declining from Western peaks, have been rising steadily over the past several years.

As indicated in the first figure, the Israeli wage gap in 1998 was higher than in any OECD country and more than double the ratio found in a number of countries (see box for explanation of how gap is measured).

In the wake of the recession after the year 2000, Israeli wage disparities declined somewhat while the American wage gap rose (second figure). By 2003, U.S. wage inequality exceeded Israel's. Since then, wage gaps increased in both countries, placing them both at the top of the OECD by 2008, with the U.S. ranked in first place and Israel second.

Among the primary factors influencing pay, it is customary to consider gender, work experience and education. The third figure focuses on wage gaps within

Wage Gaps in Israel and OECD, 1998
wage ratio of 90th percentile relative to 10th percentile
full-time employees



Source: Ayal Kimhi, Taub Center and the Hebrew University.
Data: Israel's Central Bureau of Statistics, OECD.

The 90-10 ratio is one of the accepted measures for wage differentials. It is the ratio between the salary of the worker at the 90th percentile (one who earns more than 90% of the work force) and that of the worker at the 10th percentile (one who earns more than 10% of the work force). This measure is not affected by changes in the earnings of senior management, who are found in the very highest percentiles, nor by changes in the earnings of workers at the very bottom of the pay scale. It is customary to measure only those employed full-time, that is, at least 35 weekly hours.

each of these categories to see which of these may have had the greatest impact on the overall wage gaps.

The average pay of men in Israel was 44% higher than that of women in 1998. As indicated in the right panel of the third figure, this gap narrowed substantially, falling to 37% by 2008. A similar, though somewhat smaller, decline was found in the return on work experience (middle panel of the third figure). Experienced workers – those with at least ten years of experience – earned 46% more than their less experienced counterparts in 1998. By 2008, wage differentials between the two groups declined to 42%.

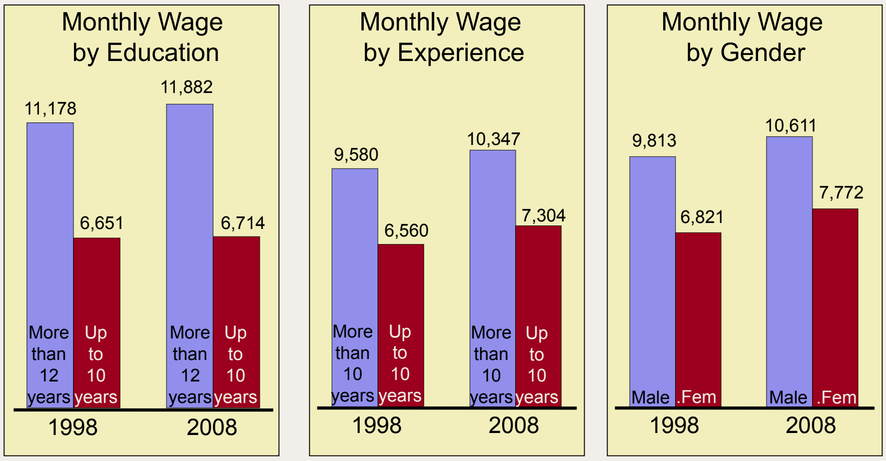
In contrast to what transpired over time in the two other primary sources of wage inequality, wage gaps due to differences in education exhibited a considerable increase. Educated workers (those with at least 12 years of study) earned 68% more than their less educated counterparts in 1998. Over the last decade, the return to education grew even larger, and the gap between those with more than 12 years of schooling and those with less grew to 77%. Insofar as this gap grew while the others lessened, it is safe to say that the primary cause of the growth in the overall wage gap is the increase in the return on education.

This increase in the return to education is itself an expression of the fact that the demand for educated workers rose more rapidly than their supply. In other words, the rate at which new, more educated workers enter the work force and replace the previous, less educated ones has been unable to keep pace with the increasing demand for educated workers.

The increase in demand for educated workers is a result of the increasing weight of knowledge-intensive sectors in the Israeli economy. As the share of these sectors grows, it is likely that the growing demand for educated workers will persist for the foreseeable future.

Gross Monthly Wages in Israel

full-time employees (NIS, 2008 prices)



Source: Ayal Kimhi, Taub Center and the Hebrew University.
Data: Israel's Central Bureau of Statistics.

In light of the above, the principal policy focus for reducing wage gaps in Israel needs to be in the education of the country's work force. The country needs to make it a national priority to provide a solid education that will enable its schoolchildren and college students to contend in a future global, competitive economy.

Although the left panel of the third figure describes the gap in terms of return on the years of schooling, the number of years of schooling by itself is not the only consideration. Israel already boasts a high percentage fraction of students who finish twelve years of schooling. They need to receive a core curriculum geared to the modern labor market, in terms of the subject matter and the quality and effectiveness of the teaching. Research published by the Taub Center in the last few years regarding the effectiveness of Israel's education system suggests that Israel still has a way to go in this regard.

Have a Good – and Expensive – Trip

Israel's Highway 6 is appreciably more expensive than comparable U.S. toll roads.

The toll road traversing Israel from north to south was opened in 2002. Since then, traffic on the road has greatly increased, and the road itself has been widened and extended. The mission of Highway 6 was to draw traffic from other central arteries and reduce congestion on them – and to reduce the travel time from the north to the south of Israel.

After the road opened, the Derech Eretz Company which operates the highway claimed that the tolls were low in comparison with toll roads abroad. Yet, in comparisons that Dan Ben-David made in 2003 and again in 2005 against five major toll roads in the United States (in Florida, Ohio, New York, New Jersey, and Pennsylvania), it turned out that the cost of driving on Israel's Highway 6 was notably more expensive than the U.S. average.

In a study recently published by the Taub Center, "Transportation Mobility and Its Impact on Accessibility in Israel: A Comparative Study," Yoram Ida and Gal Talit revisit Ben David's comparison. While the methodology used in the Ida-Talit study differed slightly from Ben-David's, the authors found that there are still very large differences between the tolls charged in Israel and those in the U.S. The comparison was done both for occasional travelers and for subscribers with discounts (in Israel, the basis for comparison was the most deeply discounted, *Passkal*, subscription), for a trip the entire length of the highway, as well as for a limited number of segments.

The average dollar price of a trip for a subscriber along the entire length of an American toll road was 3.4 cents per kilometer in 2009. As indicated in the figure, the average dollar-equivalent price for driving the entire length of Highway 6 – even including the southern, toll-free sections – was 82% higher than for the American toll roads.

The shorter the trip, the greater the price gap between the countries. The price per kilometer in Israel for three road segments is 117% higher than a comparable trip in the U.S. For a single road segment, the price paid by Israelis is 251% more than in the U.S. – that is, three and a half times the U.S. price.

A simple comparison of dollar prices, like the one above, does not take into account differences in the standard of living – which affect the ability to pay tolls – between the two countries. A comparison of the price per kilometer as a fraction of GDP per capita normalizes for the standard-of-living differences and enables a more representative price comparison between the two countries.

Considering that the standard of living in Israel is considerably lower than that in the United States, and that the tolls in Israel are higher than in the U.S., the relative burden of driving on Israeli roads is even greater. After adjusting for differences in living standards, the price per kilometer of traveling the entire length of Highway 6 is 3.4 times the price in America. When the comparison is done for a single segment of the road, Israeli subscribers pay 5.9 times as much as their American counterparts.

The discrepancies between tolls among occasional users – as opposed to subscribers – who drive short distances on toll roads in Israel and the United States are even greater. (For a trip the entire length of the road, the price gap between countries is similar to that for subscribers.) Even without adjusting for standard of living differences, the dollar price of driving on a toll road in Israel is three times the American price, and for an occasional driver over a single road segment it is 5.3 times as much. When differences in living standards are accounted for, Israeli tolls are 5 times as high for three road segments, whereas an occasional driver traversing a single road segment bears a burden 8.5 times higher than his American counterpart.

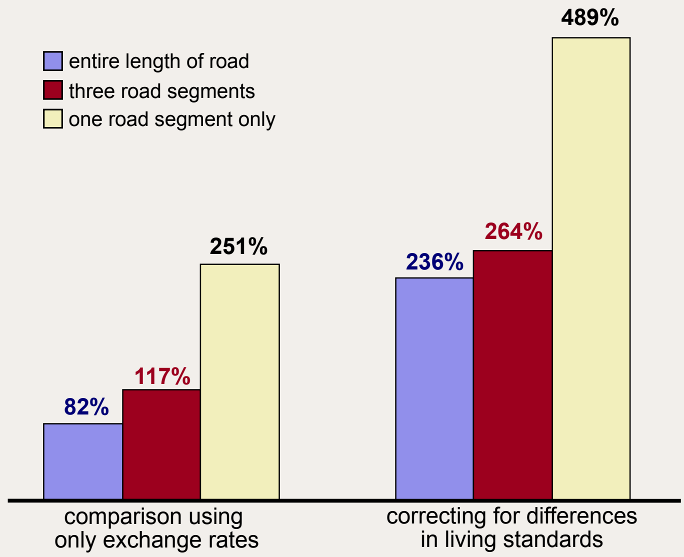
Since the primary focus here is to highlight the issue of affordability regarding this aspect of Israel's current transportation infrastructure, these comparisons consider only the relative standards of living in the two countries, and not the relative cost of building roads. That said, the greater the share of labor costs in the construction and maintenance of roads, then the lower living standards in Israel should reduce the relative costs of construction within the country.

Over the course of several decades, Israel's investments in inexpensive and rapid transportation infrastructure have lagged behind those of other Western countries. In the absence of rapid and inexpensive alternatives, Israelis are limited to using only those alternatives that are available in the country. The expensive Israeli toll roads increase the cost of transportation and shipping, which reduce the profitability of Israel companies and reduce their ability to compete with foreign companies. In addition, the added cost is passed along in large measure to the Israeli consumer, who is compelled to allocate more of his/her income for more expensive goods and services.

Despite the high tolls on Highway 6, traffic congestion along the road has increased substantially since it opened – primarily due to the lack of better alternatives – and it is has been widened in the sections passing through the center of the country. But in the absence of suitable alternatives, the harm to Israeli producers and consumers will continue, as the costs of not building rapid and inexpensive transportation infrastructure alternatives are rolled over to them.

Tolls on Highway 6 Relative to US Tolls*

price differences per kilometer, 2009



* Comparison of Passkal discount rate (for subscribers) to disount rates on toll roads in New York, New Jersey, Pennsylvania, Ohio and Florida.

Source: Yoram Ida and Gal Talit (2010). *Transportation Mobility and Its Influence on Accessibility in Israel.* Taub Center for Social Policy Studies in Israel (Heb).

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