
**ISRAEL'S
SOCIAL
SERVICES
1998-99**

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*The Center for Social Policy Studies in Israel
Jerusalem, July 1999*

The Center for Social Policy Studies in Israel

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Preface

The State Budget is, in essence, a pool of national resources devoted to the performance of missions that the government has taken upon itself in various domains. Its size and apportionment among the various uses dictate how important segments of public activity will develop and has a sizable impact on the functioning of society and each of its sectors. This is the perspective from which we examine the trend in social welfare on the basis of an analysis of state budget allocations for the social services.

Over the years, the State Budget has claimed a massive proportion of the total national product and directed it into public channels, as warranted by the Government's definition of national needs. The very size of the budget, in absolute and relative terms, has attracted much attention in economic forums; economic developments have frequently required adjustments in the level and components of the budget.

Until the past decade, the largest aggregate in the budget – in fact, the dominant one – was for defense. In the 1980s, the defense budget accounted for almost half of total government spending. Often, during the fiscal debates, when the need for substantial cutbacks in the budget arose (and when was this not the case), economists demanded reductions in defense spending. In these cases, the point of departure was not necessarily the idea that defense spending was too high in view of military needs. The point of departure was different: because the experts have determined that the budget must be cut, and because even a huge reduction in small items will not yield the desired arithmetic results, there is no alternative to trimming the largest expenditure component, the defense budget. Thus, it was the

relative size of the defense budget that placed it in the budget – slashers' crosshairs.

During the past few years, as the data in this report show, these two components – social services and defense – have exchanged their relative position, and social spending now occupies the slot once held by the defense budget. As a result, the social-services budget has also replaced the defense budget as the prime target whenever the need for cutbacks arises (and, as we have said, when is it otherwise). This is evidently the fate of any item that exceeds 50 percent of the total budget.

These remarks should not be construed as deprecating the concept of “budget constraint.” It should be borne in mind that social expenditure is substantial not only as a percentage of the budget; it also consumes a growing share of the total national product. In the past few years, social-service expenditure has accounted for more than one-fifth of the total output of the Israeli economy (Gross Domestic Product). Therefore, setting the size of the social-services sector is – and must be – an inseparable part of economic decision-making.

Hence an assessment of social trends requires a thorough scrutiny of economic policy, as this policy in itself dictates major elements of the welfare system. If, for example, we examine the changes in income distribution within society, we find that the main factor in inequality derives from disparities in wages and economic income. One cannot indict state intervention mechanisms for failing to narrow the inequality with greater vigor. The gulfs stemming from the labor market are too vast for a transfer-payment policy to eradicate or rectify to the extent required. However, there is good reason to examine the extent to which overall economic policy contributes, from the outset, to the formation of these disparities.

The existence of income and wage disparities is, among other things, the result of a sluggish economy: downturn, unemployment, and slow or no growth. These are precisely the

phenomena that economic policy is supposed to prevent. The road there is charted by Zvi Sussman in the article that provides a background for analysis of resource allocation for the social services, and by Arnon Gafny, in his summarizing remarks at the start of the book.

Income distribution is not the only arena of disparities and inequality. In a comprehensive examination of pluralistic aspects of Israeli society, currently under way at the Center for Social Policy Studies, continuing gaps are coming to light in education. There are also extreme disparities in the labor market, both in the occupational distribution and the level of unemployment. High levels of unemployment are a prime source for the emergence of income disparities; but they also undercut the social status of those currently unemployed and of those at risk of losing their jobs.

Disparities and inequality are a social blight that can shake the foundations of society and harm national solidarity. If this is true when the disparities apply at random across society, how much more serious is the situation when the lines of demarcation between the haves and have – nots correspond to ethnic or other collective lines – as is the case in Israel. There is indeed a correlation between group affiliation and poverty, want, and social distress. What is more, the social services that should diminish the disparities do not achieve their objective, whether because of inadequate budgets or faulty planning and deficient implementation of the policy intended to reduce inequality.

In this report, the CSPS team examines the State Budget and its allocation to the social services. The analysis shows that the increases characteristic of much of the decade have been arrested in the budgets for 1997-1999. It is worth bearing in mind, however, that the absolute level at which social spending has been frozen is higher than at any time in the past. What requires further study is not so much the total level but the

apportionment among the various activities. This is true with respect to the major categories – such as health care, which has been shortchanged in favor of education – and with respect to subcategories within them.

The main difficulty in attaining a more rational distribution stems from political constraints that lie in the path of the planners, and the pressure exerted by the various professional actors in each category. The major test facing decision-makers is to elaborate priorities that will narrow the lags that have developed over the years in some areas of social service.

This report was prepared by members of the CSPA team, as noted at the beginning of each chapter, who took advantage of the discussions held by the CSPA Council during the year. A special contribution was made by Dalit Nahshon-Sharon, who edited the articles and oversaw the publication of the Hebrew version of the book, assisted by Yehudit Agassi, who typed the many drafts and helped shape the final design of the book. Marina Kunin and Yulia Bluvstein assisted Joel Blankett, who coordinated the infrastructure work that accompanied the writing of the various chapters, and reviewed the English version of the report. Miri Sela helped with all the administrative details. My deepest appreciation to all of them.

* * *

The publication of the Center's annual report is made possible by the constant support of the American Jewish Joint Distribution Committee in furtherance of this important enterprise for the welfare of Israel. This support is evident in the constant encouragement and recognition of the importance of social policy planning expressed by AJJDC President Jonathan Kolker and AJJDC Chairman of the Board, Amb. Milton Wolf. The backing and support of the professional staff of the AJJDC, led by Executive Vice President Michael Schneider, together with Associate Executive Vice President Steve Schwager,

provide the basis for a creative atmosphere of cooperation and mutual understanding. The solid foundation for this continued support is reflected in the ongoing active involvement of Honorary Vice President Ralph Goldman.

During the past several years CSPS's regular funding has been augmented by personal contributions of four members of our board of directors, Henry Taub, Amb. Milton Wolf, John Colman, and the late Herbert Singer. This year they have been joined by the generous contribution of Betty and Howard Smigel. The generosity of these supporters has enabled the expansion of the Center's activity during a period of critical social policy decisions for the state of Israel.

Above all is the day to day leadership of Chairman of the CSPS Board, Henry Taub. His support is manifested in close and ongoing involvement with very special input from both his head and heart, harmoniously combined. His guidance and advice is reflected in our work to an extent far greater than he is prepared to acknowledge. Any organization that has Henry as its chairman is fortunate – no one knows this better than I.

Yaakov Kop

Jerusalem
July 1999

Summary of Findings and Policy Alternatives

Arnon Gafny

The policy studies in this book are divided into two sections.* The first presents the economic background. The second begins with an analysis of resource allocation for the social services, followed by chapters on developments and particular issues in education, health, and the social services.

As these lines are being written, the Israeli economy is in the midst of a deep slump, one of the worst the country has known. It began more than two years ago, worsened over time, and intensified in 1999. The most conspicuous phenomenon in the field are a suspension of economic growth, rising unemployment, and decreased investments and exports. The downturn interrupted the process of social progress experienced by Israel during the first half of the decade and led to a retreat in several areas.

Against this background, the relative importance of macroeconomic policy within the overall domain of social-policy issues has increased; today it has a major impact on the advancement of all social issues. In 1998, the Center held

* The original Hebrew version includes a third section that deals with social aspects of pluralism in Israel society. The articles in this section were written as part of a comparative project begun this year at the Center for Social Policy Studies in Israel, in conjunction with the Brookings Institution in Washington. The English translation will be published at a later date.

several conferences, with the participation of a number of leading Israeli economists, to find ways to climb out of the slump. A consensus emerged that even if the downturn has several exogenous causes, such as international crises, a substantial decrease in the pace of immigration, and stagnation in the peace process, the main cause of the downturn was a combination of an exceptionally large dose of fiscal and monetary restraint.

Zvi Sussman's article, "Economic Downturn, Growth, and the State Budget," in the first part of the book, takes up the question of what fiscal policy could lift the economy out of the present slump. He finds that contractionary fiscal and monetary policies were still being applied by the Government and the Bank of Israel, for the third year in succession, even though economic conditions changed as early as the end of 1996 and warranted a significant change in economic policy. Sussman states that "the protracted slump warrants the application of a counter-cyclical policy by means of a more expansionary state budget and a less contractionary monetary policy, which would help the business sector break out of the slump and productivity in the years to come ". He stresses, however, that "in view of the instability in the world financial system and the rising susceptibility of the Israeli economy to exogenous shocks, expansionary measures in general, and fiscal policy in particular, should be applied in moderation, subject to multi-annual targets for public expenditure, derived from the optimum long-term growth potential of the economy."

Sussman explains that the influence of the 'automatic stabilizers' (which should have increased the budget deficit during a downturn) was neutralized by a decrease in expenditure as well as by an increase in taxes. If it is agreed that fiscal policy can have an effect on economic activity, at least in the short-term, why – he asks – was it categorically ruled out as an option for stimulating the economy to climb out of the slump? The

article proposes an alternative fiscal policy in which real public consumption is increased by three percent a year, within a multi-annual framework. To promote growth in the business sector, he proposes that the increase be concentrated in items that rapidly stimulate domestic demand and at the same time act to reduce inequality.

Resource Allocation

The analysis of the *level and composition of social expenditure*, in the central section of the book, further highlights the effect of the downturn, which has frozen the level of social expenditure in the second half of the 1990s. It shows that total social expenditure, which accounted for 45 percent of total disposable spending (excluding debt servicing) by government at the beginning of the decade, climbed to 53 percent by the middle of the decade. This new level has been frozen for the past three years, however. The economic downturn has also been reflected in a change in the composition of social expenditure, an increase in the weight of expenditure for income maintenance (mainly because of a significant increase in outlays for unemployment compensation), and a decrease in the proportion of spending for in-kind services.

An intriguing finding is that, as a result of the preference the Government assigned to the education budget in the first half of the decade, education has become the second-largest item in the overall budget, after defense. The absolute gap between these two sectors has been narrowing over the years; if the trend continues, the two budgets will be of equal size in the not-too-distant future. Concurrently, the constant level of health expenditure since 1996 stands out; in view of population growth, this means that there has been a cumulative decrease in average per-capita spending.

The chapter on *education* focuses on the post-primary level, on the reduction in the rate of dropping out, and on the expansion of eligibility for the matriculation certificate. The great effort invested during the past decade to stanch the phenomenon of post-primary dropping out has yielded significant progress; there are may fewer dropouts today. It must be noted, however, that the Arab sector still lags behind the Jewish sector; within the Jewish sector, the State-Religious system trails the State system. As for matriculation-certificate eligibility – the unquestioned key to the socioeconomic future of individual Israelis, and not only their entrance ticket to higher education – a greater effort has been made during the past few years to encourage members of weaker population groups to earn matriculation certificates.

The discussion on higher education touches on an interesting and extremely important development that has taken place in the wake of the substantial change in policy in the past few years: a perceptible growth in the number of students and degree recipients, a steady diversification of post-secondary institutions, and a process of privatization in higher education. The discussion also deals with the elimination of gaps among population groups. The disparity between the sexes has changed its sign, and today the enrollment rates of women far exceed those of men. An analogous process has not occurred with ethnic disparities; native-born Israelis of African and Asian extraction continue to lag behind.

The issue of the opening of many private institutions of higher education is discussed at length. Although the private institutions charge higher tuition (\$6,000-\$8,000 per year), they have introduced study arrangements that are more convenient, allowing students to complete degree programs more quickly (for example, an undergraduate degree in one year instead of three).

The article also discusses the question of tuition, which has recently been at the top of the public agenda. Center researchers favor renewed consideration of a proposal first advanced by Assaf Razin, in one of its publications, to allow *all students* to finance their studies by means of loans, whatever their current economic circumstances. It should be emphasized that the Center's proposal is different from similar ideas put forward recently. According to the original proposal, the loan would cover not only tuition but would also provide students with a stipend for basic needs. Furthermore, repayment would be spread over a much longer term than that mentioned in the current proposals, and the monthly installments would be commensurate with the graduate's earning capacity at the time of repayment. It is particularly important to stipulate that monthly repayments not exceed a defined percentage of the borrower's income.

An analysis of government expenditure on *health* points to "the continual and consistent attempts by the government to cut back its budgetary involvement and increase the public's share in the funding of national health expenditure." This process has pushed the health system into a serious crisis since the passage of the State Health Insurance Law. In 1998, for example, the health funds instituted direct charges collected from their members, either as a fee for visits to physicians or as participation in the cost of medications. "This solution deviates from the basic philosophy of national health insurance and is regressive." The Center considers such a solution to be unreasonable. "If the funds' expenses are justified, in the sense that the competent agencies acknowledge that they reflect the real cost of providing service at its existing level, then it follows that the collection and government-funding formula is flawed and needs to be amended to make up the shortfall".

The contribution by the health services to society over the years is reflected in the findings about increased life expectancy

and decreased infant mortality: the average lifespan in Israel has risen by almost 10 years since the State was founded – an improvement of 15 percent. A sizable disparity persists between the Jewish and the Arab sectors with regard to infant mortality, although there has been significant progress in the latter sector.

The chapter on *personal welfare services* emphasizes the partial privatization of the system, as expressed by the fact that, today, most government expenditure for personal welfare services is routed to private and nonprofit service-providers. At the same time, municipal authorities are increasingly delivering and funding these services beyond the 25 percent required by law. This process is perceptibly widening disparities in the level of service provided to the population of different localities.

The most impressive development of the past decade involved government expenditure and the number of organizations that provide services to the elderly. The analysis of trends in these services shows that “there is no doubt that services for the elderly currently reach a large proportion of the elderly population and have improved their quality of life. However, several problems still lack appropriate solutions, such as long-term inpatient care and the disabled elderly who are not eligible for services under the Long-Term-Care Insurance Law.” An interdisciplinary team of the Center will soon submit its conclusions and policy recommendations with regard to long-term in-patient care for the elderly and its funding.

Although expenditure for personal social services has grown in the past few years, most of the increase has been channeled to long-term care allowances – with a growth trend paralleled in other income maintenance programs but not in in-kind services. In any case, the distribution of expenditure by major service categories reflects a clear preference for the elderly and retarded (especially those in institutions) over other groups in distress, who do not receive adequate attention in the budget.

Economic Downturn, Growth, and the State Budget

Zvi Sussman

The downturn that has affected the economy since the second half of 1996 continued in 1998. According to provisional data, it became more acute during the course of the year. The effects of the decrease in immigration from the former Soviet Union, the restraint, and high real interest rates were compounded by the slowdown in world trade, prompted by the crises in southern Asia, Russia, and South America. The protracted slump warrants the application of a counter-cyclical policy by means of a more expansionary state budget and a less contractionary monetary policy, which would help the business sector break out of the slump and attain a growth rate commensurate with the increase in the labor force and productivity in the years to come. In view of the instability in the world financial system and the rising susceptibility of the Israeli economy to exogenous shocks, however, expansionary measures in general, and budgetary policy in particular, should be applied in moderation, subject to multi-annual targets for public expenditure, derived from the optimum long-term growth potential of the economy.

1. The Slump Continued and Intensified in 1998-99

Initial estimates for 1999 indicate that the downturn that began in the second half of 1996 has continued and, in many areas of economic activity, actually worsened:

Slowdown in growth: The growth rate of business-sector Gross Domestic Product, which reflects economic activity, fell to 1.8 percent in 1998 and is expected to stay at that level in 1999.

Decrease in per-capita GDP: In per-capita GDP, which reflects the potential standard of living for the longer term, there was a significant decrease in 1998 and will stabilize at that level, according to preliminary estimates.

Increase in unemployment: The unemployment rate, which bottomed out in the first half of 1996, has been rising steadily since then, and reached the level of 9 percent in 1999.

Decrease in investments: The decline in investments in fixed assets, about three percent in 1997, gathered momentum in 1998-99, mainly because of a decline in residential building.

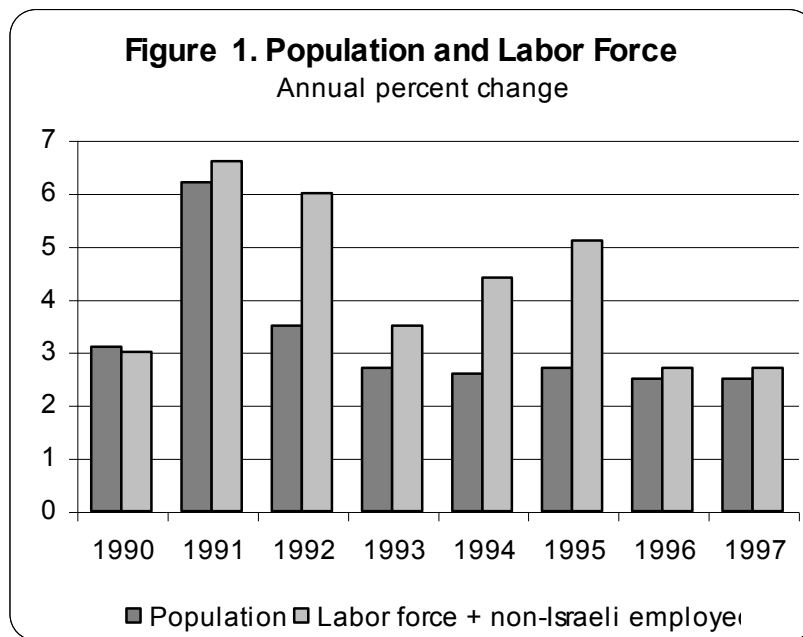
Slowdown in exports: In 1997, the 7 percent increase in exports far surpassed the growth in domestic demand, and effectively prevented a steeper decrease in economic activity. In the course of 1998, export growth was halted; the annual average growth rate for the year was 6 percent.

These negative developments were accompanied by a substantial slowdown in the inflation rate, to the point that there was a negative change in the index in three of the last four months of 1997. The trend continued in 1998, and intensified in 1999.

a. Decline in Production Capacity

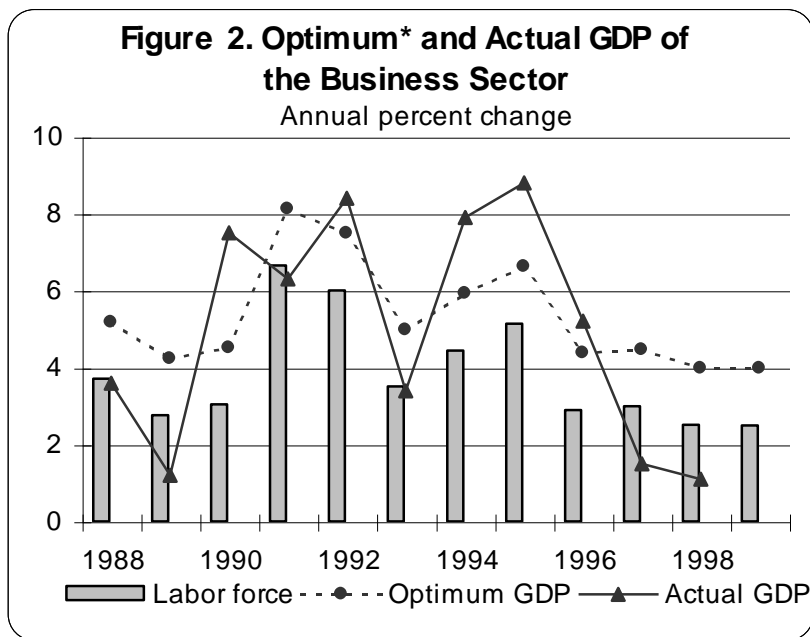
An analysis of the factors that led to the sharp downturn in economic activity must distinguish between long-term factors, which caused a decline in *production capacity*, and more transient factors, which caused *non-utilization* of existing production capacity. The long-term growth potential of the economy is determined by the population growth rate, which largely dictates the growth of the potential labor force, and by

the increase in total productivity.¹ Indeed, during the rapid economic growth of 1990-95, the contribution of the large immigration from the former Soviet Union was conspicuous. The immigrants generated a large domestic demand for housing and for everything needed to establish households in the new country. Immigration expanded the labor supply. Along with the increase in foreign workers and the rehiring of some long-time unemployed, the Israeli and foreign labor force grew by an almost unprecedented 6.6 percent per year in 1990-1995.



¹ The optimum production capacity of the economy is estimated here on the basis of growth in the labor force, and on the assumption of an increase in total productivity of about one percent per year (as against the approximately two percent decrease in productivity in both 1997 and 1998). It is also assumed that the capital stock is adjusted to the growth in product, so that the capital-to-product ratio remains constant.

The second factor that made rapid growth possible was large investments in the economy. The moving force behind this was the immigration, which generated the demand and concurrently provided the labor needed to step up production. The optimistic climate that prevailed after the conclusion of the Oslo Accord generated a favorable environment for large-scale investments in housing as well as in other industries. The international financing made available to Israel, chiefly the U.S. government guarantees that facilitated raising capital in the U.S., provided the resources to pay for the large-scale investments.



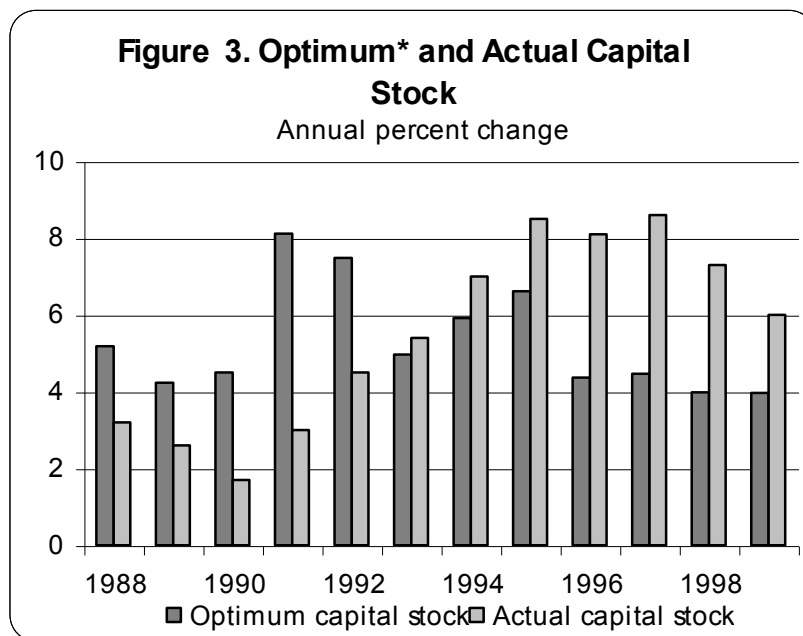
*For the method of computing the optimum product, see note 1.

The soft underbelly of the renewed growth in the first half of the 1990s was the slow growth of productivity; the rapid expansion of the labor force and of productive capital camouflaged poor performance in productivity. Here it is interesting to compare the current period with a corresponding period two or three decades ago. In contrast to the rapid economic growth then, accompanied by rapid increase in productivity, the 1990s growth process was totally different: growth based on expansion of production factors, with almost no increase in total productivity and no growth whatsoever in product per worker. The slower growth of the labor force – a result of the downturn in immigration and imposition of restrictions on entry of foreign workers – entails a long-term growth potential that is significantly lower than the high rates of 1990–1995, as long as there is no substantial change in the growth of total productivity. On the basis of the correspondence between growth in production factors and GDP, considering the sluggish growth of the labor force, and assuming that total productivity will rise at a rate of one percent per year, it is possible to estimate the growth capacity of the business sector in the past few years, as well as the optimum growth rate in the years to come, at about four percent annually.²

² If the measures to enhance efficiency and achieve more rapid productivity growth bear fruit, it will be possible to increase the estimate of growth capacity commensurably.

b. The negative effect of lower production capacity on short-term economic activity

The slower trajectory of long-term growth capacity has implications for the use of existing production capacity in the short-term. If a swift increase in capital stock was needed during the period of mass immigration, because of the rapid growth of the population and labor force, the slowdown in immigration made it necessary to reduce the growth rate of capital stock.



*The rate of change in optimum capital stock is derived from the actual growth of the labor force and an assumption of an ongoing growth in total productivity of one percent per year (See also note 1).

Capital stock is adjusted by means of changes in the level of investment: the advent of the new growth trajectory requires a nonrecurrent contraction of the level of investments (residential building and other). Because domestic investments are one of the most important factors in determining aggregate demand, it was to be expected that the retuning of the economy would have a detrimental effect on the utilization of existing production capacity and the economy would slip into an unavoidable short-term slump.

At the present time, we are unable to estimate the individual effects of the adjustment process described above and of the other factors that generated the slump of the past two years. We can, however, point to several factors that made things worse than they would have been had adjustment to a lower growth trajectory been the only factor at work.

- The economy's point of departure, before the effects of the slowdown in immigration began to be felt, was one of hyperactivity, caused by the huge accumulated increase in investments required to integrate the immigrants, which were carried out with a certain time-lag. Hence it could be expected that, in the short-term, the fluctuations in economic activity – up and down – would be more severe than entailed by the slowdown in growth capacity and by changes in the rate of increase in capital stock in the long term.
- As a result of the expansionary, pro-cyclical budgetary policy, in the aftermath of public-sector wage agreements that caused a significant increase in domestic public expenditure, in an economy that was already overheated, the budget deficit overran the target and the balance-of-payments deficit ballooned. The measures of budgetary and monetary restraint taken to correct these overruns and continue to reduce inflation aggravated the effect of the downturn in immigration. High interest rates encouraged large capital imports that caused appreciation of the sheqel exchange rate

and made exports less profitable. The sizable depreciation of the currency in September and October was largely an over-correction for the accumulated appreciation.

- The uncertainty that prevailed in the wake of the suspension of the peace process, coupled with a series of terrorist attacks, caused a perceptible decline in incoming tourism.
- A series of financial crises, first in eastern Asia and afterwards in Russia and elsewhere, created a climate of slowdown and caused world trade to contract. These crises are liable to harm many developed economies, including Israel.
- Rapid economic restructuring of the economy, with a boom for high-tech industries but declining competitiveness and unused production capacity in traditional industries, has had a moderating effect on the growth rate, at least during the transition period.

2. Fiscal Policy in 1998

The Government's fiscal policy for 1998, as reflected in the State Budget approved by the Knesset, was essentially a continuation of the fiscal restraint applied since the middle of 1996:

To attain its targets, the Government will act to gradually reduce the size of the total deficit . . . as a percentage of GDP, in accordance with the Deficit Reduction Law: The planned deficit will decline to 2.8 percent of GDP in 1997 and to 2.4 percent in 1998. To meet the deficit target, . . . a cut of [NIS] 2.3 billion is needed in the budget base. In 1998, no new tax legislation is planned (National Budget, October 1997).

The coupling of adherence to a contractionary macro economic policy, and the refusal to adopt a more expansionary fiscal policy that would stimulate aggregate demand is not coincidental. It stems from the economic model adopted by the Ministry of Finance and the Bank of Israel. This model is based on the following principles:

- a. Fiscal policy should work to create conditions for long-term expansion of production capacity by reducing the share of public expenditure and cutting the deficit. Fiscal (and monetary) policy should not aim at increasing economic activity when the economy is in a slump and existing production capacity is not being utilized. Any expansion of activity that might be attained by a budget deficit larger than that originally set and by a reduction in the interest rate will have only a temporary effect and will postpone the attainment of sustainable growth.
- b. Government-initiated structural changes will play a major role in boosting the economy onto a path of sustainable growth. These include downscaling government involvement in the economy (restraining the growth of public-sector employment, reducing or even shutting down agencies whose activity can be handed over to the business sector), more rapid privatization, elimination of rigidities in the economy (especially in the labor market), and enhancement of competition. These structural changes should accelerate economic growth and thereby lower the unemployment rate.
- c. A continuation of the downward trend in the inflation rate, in order to attain price stability by 2001, is stipulated as a major target. This is

primarily a target of the monetary policy, but fiscal policy, too, should be applied to attain it. This is because high taxation and a large budget deficit – inevitable if expenditures are not reduced – will generate protracted inflationary pressures. Attainment of price stability will promote maximum economic growth, strengthening Israel's standing in the world market and attracting foreign investments.³

The discussion in this chapter does not focus directly on an examination of these longer-term goals of Government and Bank of Israel policy or on whether the policy steps enumerated here can indeed achieve those goals. Instead, it concentrates chiefly on whether the fact that the economy is experiencing a slowdown justifies exclusive adherence to long-term policy while ignoring short-term problems that beset the economy. Or does the state of the economy in fact dictate a change in fiscal policy to provide it with maximum assistance to get back on track?

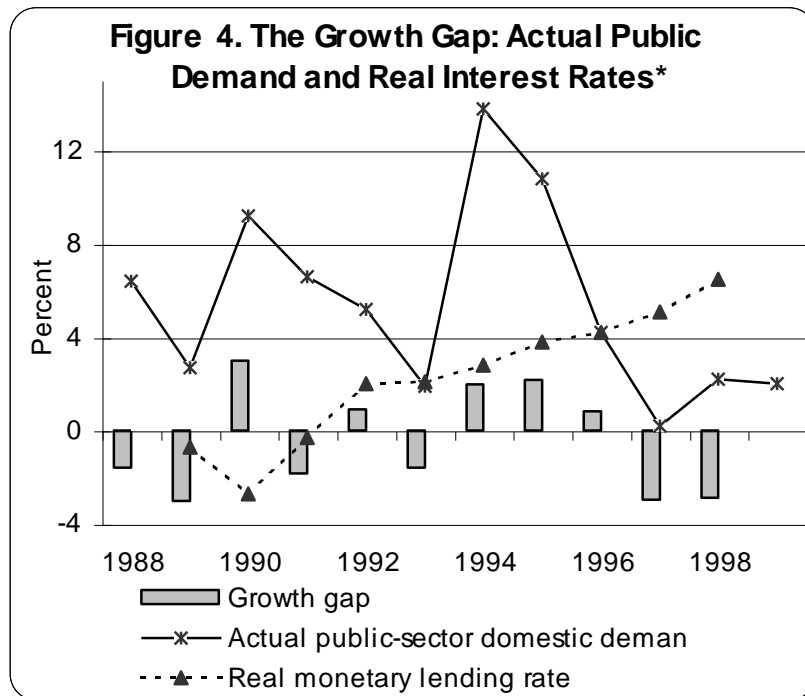
It is important to emphasize, at the start of any assessment of the 1998 fiscal policy, that there is a broad consensus that the slowdown was exacerbated by budgetary and monetary restraint that led to a rise in real interest rates.⁴ In fact, the influence of the “automatic stabilizers” (which should have increased the

³ “The only way to get out of this situation [of economic downturn] is by cutting government expenditure and reducing the deficit. . . . Only the business sector can return the economy to a path of growth” (Finance Minister Yaakov Neeman, *Ha'aretz*, May 22, 1998 and June 7, 1998). “Low inflation and price stability are the key to placing the economy back on the growth track. . . . Unemployment should not be fought by increasing the budget deficit or by lowering interest rates rapidly” (Remarks by the governor of the Bank of Israel, Jacob Frenkel, when presenting the 1997 report; see also *Yedioth Ahronoth*, May 22, 1998, and *Globes*, June 10, 1998).

⁴ Bank of Israel Annual Report, 1997.

budget deficit during a downturn) was neutralized by a decrease in expenditure as well as by an increase in taxes. If it is agreed that fiscal policy can have an effect on economic activity, at least in the short-term, why was it categorically ruled out as an option for stimulating the economy to climb out of the slump? This question arises with greater intensity because, in contrast to the pro-cyclical fiscal policy adopted by Israel in 1997-1998, in developed countries the budget usually has a stabilizing-counter-cyclical-effect on economic activity. When there is a slowdown or recession, tax revenues decrease; this along with a certain rigidity in government spending, acts as an “automatic stabilizer” of economic activity.⁵

⁵ Riccardo Fiorito (1997), “Stylized Facts of Government Finance,” G-7 IMF Working Paper WP/97/142, October.



*The growth gap is the difference between the actual and optimum growth rates of business-sector product.

The non-application of a counter-cyclical fiscal policy seems even more enigmatic when we consider that the budgetary restraint was implemented simultaneously with a policy of monetary restraint that maintained high real interest rates and encouraged large-scale capital imports, which pushed the exchange rate toward the bottom of the diagonal band.

A detailed analysis of the monetary policy of the last two years is beyond the scope of this chapter. We should emphasize, however, that monetary restraint that does not take account of the state of real activity is an aberrant phenomenon among the

central banks of developed countries.⁶ Evidently both the Bank of Israel and the Finance Ministry applied restraining measures to attain long-term goals of growth, productivity, and price stability, irrespective of the state of economy and without the degree of coordination appropriate when policy tools that have direct effects on real activity are being used.

The fiscal (and monetary) policy applied must be assessed within the context of a cost-benefit analysis that weighs the long-term benefit against the short-term cost. Such an assessment must relate separately to two questions:

1. What is the sacrifice ratio between the slowdown in growth and upturn in unemployment (both caused by short-term contractionary measures), on the one hand, and the contribution of disinflation and a reduction in the scope of government economy (the objectives of the contractionary measures), on the other, to stimulate economic growth in the longer term. In order to achieve maximum transparency of the anticipated negative and positive effects of the policy measures adopted, the public should be apprised of policy-makers' assessments of these expected effects.
2. Assessments of the impact of policy on real activity should be supplemented by more subjective assessments of costs and benefits that are not amenable to simple measurement. For example, various damages – from the impingement on the human capital of unemployed persons to the long-term psychological damage incurred by them – must be estimated. At the same time, the capacity of the economy to withstand world economic turmoil and

⁶ Ben S. Bernanke and Frederic S. Mishkin (1997), "Inflation Targeting: A New Framework for Monetary Policy?" *Journal of Economic Perspectives* 11(2), pp. 97–116.

the speculative attacks – a result of a contractionary fiscal policy – is a benefit that is difficult to quantify. However, the difficulty of supplementing estimates of quantifiable effects with subjective assessments of other damages cannot justify the failure to provide the general public with a detailed cost-benefit analysis of the policy of restraint.

3. State Budget Framework for 1999

As of the present writing (late 1999), the Israeli economy is remote, not only from its growth capacity of the first half of the 1990s, but even from utilization of its reduced growth capacity, and is immersed in a deep slump. Total public expenditure should be derived from the sluggish state of the economy and should contribute to stimulating demand and activity in the short term.

Just as with inflation, privatization, and various economic reforms, it is important to set a multi-annual target for the level of public expenditure in Israel. When this target is set, appropriate consideration should be given to the importance – indeed the essential nature – of various categories of expenditure, such as defense, education, health, law and order, infrastructure investment, and transfer payments to disadvantaged sectors. The equilibrium between the growth of these services and the growth in private consumption of goods and services – an equilibrium that was seriously perturbed after the introduction of the economic stabilization policy in the mid-1980s – should be restored.

Civilian Public Services and Private Consumption, 1986–1997

Type of consumption	Real per-capita growth rate	
	Cumulative growth	Annual Average

		growth
Households	41.7	3.2
Nonprofit organizations	4.2	0.4
Civilian public consumption	19.5	1.6

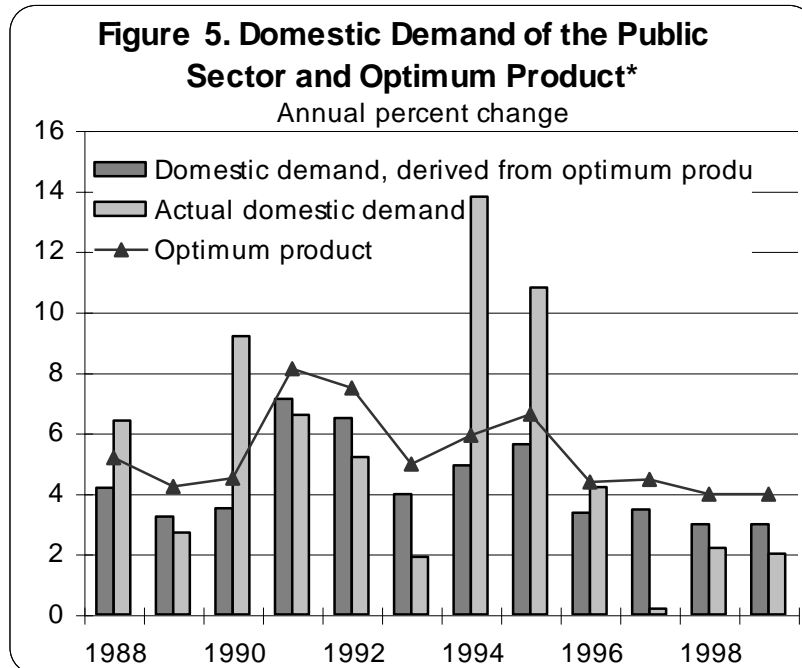
By the same token, one must not ignore the possibility that growth of the public sector will deter business-sector growth: the scope of the damage will be proportional to the size of the public sector. Of course, long-term economic growth will depend not only on the size of the sector but also on the composition of its expenditure. Finally, one must consider the ability of the public sector to finance these expenditures by means of taxation: here too, the negative impact on productivity and growth will be proportional to the weight of the tax burden.

In the shorter term, one should take into consideration the rigidity of many expenditure items that cannot be increased immediately and without planning – such as investments in infrastructure, which require complex educational activities, land acquisitions, equipment procurement, and so on. It would be even more difficult to cut back expenditures after they were increased in order to encourage economic activity, if and when the economy requires greater budgetary restraint.⁷ In these conditions, and on the basis of experience in many developed countries, the best course of action is to adopt a fiscal policy that sets a stable annual growth rate of expenditure, in real terms, for several years in advance, in accordance with the growth capacity of the economy; the counter-cyclical aspect of the policy would

⁷ Martin Eichenbaum (1997), “Some Thoughts on Practical Stabilization Policy,” *American Economic Review* 87(2), pp. 236–239.

imply that, as long as the downturn lasts, any increase in revenue would be smaller than the increase in expenditure, producing a temporary increase in the public-sector deficit.

*Domestic demand of the public sector is derived from the optimum product and is equal to one percent less than the increase in the optimum product



Assuming a future optimum growth rate of four percent a year, a reasonable growth rate for government spending in the years to come can be derived, as a first stage in the elaboration of a long-term policy for determining the appropriate size of the public sector.

The reasonable long-term growth rate should be subject to the following constraints:

- Public expenditure should grow at a slightly lower rate than the optimum for business-sector product. As a result, there

will be a slight decrease in the share of public expenditure, relative to business-sector product, during these years.

- For many years, a portion of public-sector expenditure has been financed by domestic and foreign borrowing. Consequently, a large foreign debt has built up. The increase in tax revenues, at the existing tax rates, should make it possible to finance public expenditure and also to gradually reduce public debt as a share of GDP. Initially this can be attained by a lower deficit; later, as the economy places itself on the optimum growth trajectory, or perhaps above it, this can be done by means of a budget surplus.

Public-consumption growth of three percent a year should make it possible to satisfy these constraints during the transition period. After the economy returns to a higher optimum growth rate, it would also make it possible to lower tax rates gradually. The transition period should be utilized for drafting detailed multi-annual plans that set the appropriate size of the public sector and allocate expenditure among defense, social services, transfer payments, and infrastructure investment.

Assuming that we set a multi-year ceiling for budget expenditure that permits a slight increase in real spending above the level of the past two years, what budget items should be increased in the short term in order to stimulate economic activity as quickly as possible? An expenditure item is better suited for promoting economic activity during a slump in proportion as (1) it can be increased more rapidly; (2) it stimulates greater domestic demand; (3) it can be pared back again when this becomes appropriate; and (4) the increase corresponds to long-term priorities. One point worthy of emphasis is that an increase in transfer payments to the disadvantaged increases demand for business-sector product only, without augmenting public-service production and labor force.

Ways of Financing a Three Percent Rate of Expenditure Increases

How should the government finance a three-percent growth rate of public expenditure as long as the economy is sluggish and the business sector is growing by only one to two percent a year? If this policy is adopted, a slight increase in the budget deficit, entailing larger raising of capital by the government, will be inevitable.⁸ If the increase in expenditure is perceived as permanent, it is liable to generate expectations of higher interest rates subsequent to a rapid growth of domestic debt, higher expectations of inflation, and a deterioration in the balance of payments – the “twin” deficit phenomenon.⁹ Hence it is important that the government make it clear that the three-percent budgetary growth rate will be maintained even after the economy comes out of its slump. If this rate is indeed maintained, the increase in the deficit will be temporary; when growth resumes, tax revenues will climb along with the increase in economic activity and make it possible to cover the deficit – and perhaps even generate a surplus. It is important that the controlled expansionary fiscal policy be accompanied by a less-contractionary monetary policy that will make it easier to finance the budget deficit and make its own contribution to stimulating business-sector demand in general and for investments in particular. A moderate expansionary policy of this type will not undermine domestic and external economic stability and will strengthen the economy during a period when

⁸ It is true that, in an economy growing by at least four percent a year, some of the budget deficit can be covered by printing money. In view of Israel’s long history of inflation, however, this option should probably be forgone for now.

⁹ The “twin” deficit phenomenon is the effect that increasing the budget deficit (which usually reflects a decline in public-sector savings) has on increasing the balance-of-payments deficit, and vice versa.

there is a slowdown in many world economies and especially in world trade.

During the past two years, the important role of government in enhancing the future production capacity of the economy has to some extent been confounded with its responsibility for enabling the economy to utilize the existing production capacity. Policies are needed that will increase production capacity in the longer term; so are policies that encourage the use of existing production capacity. But one should not expect that the same policies can promote both goals concurrently. The opposite is frequently the case: measures such as enhancing competition, greater exposure of domestic manufactures to imports, privatization – accompanied by streamlining – of public-owned companies, and the like will increase productivity in the long term but may be detrimental to economic activity and increase unemployment in the short term. One certainly should not expect such a policy, and the significant disinflation – welcome developments in themselves – to lift the economy out of the slump in which it has been mired since the middle of 1996. Hence it is important that the creation of conditions that permit more vigorous growth be accompanied by a more expansionary macroeconomic policy in the more distant future, one that will mitigate the detrimental effects of efficiency measures and ensure public support for the requisite structural changes.

Social Expenditure and Its Composition

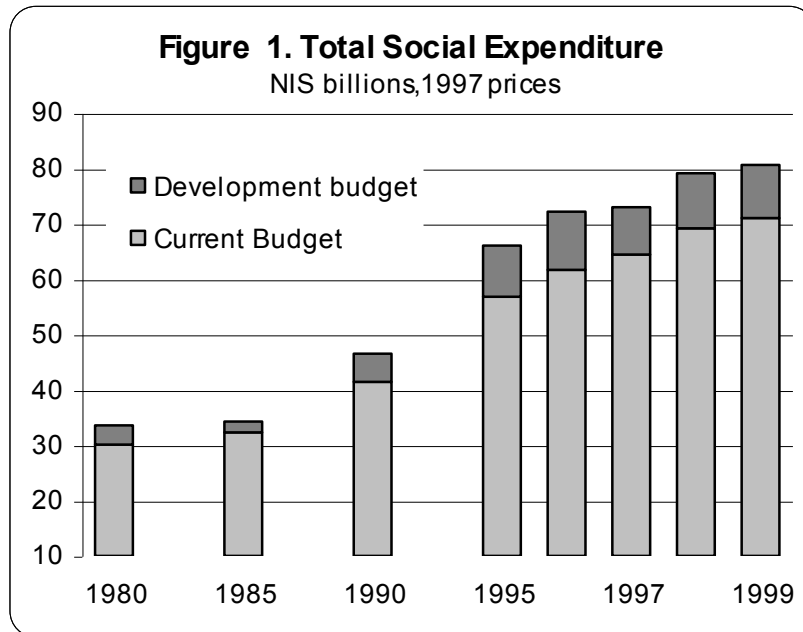
1. The Expenditure Trend

The draft budget submitted to the Knesset each year covers the totality of spending by government ministries in all domains. Much of this spending is devoted to the social services – education, health, personal social services, housing, and immigrant integration. In addition to these functions, there are the benefits paid to individuals and families by the National Insurance Institute, partly funded from the State budget. The aggregate of these two large categories constitutes the central-government social budget of the State of Israel.

The 1999 social-service budget is NIS 90 billion, 39 percent of the total budget. To facilitate a comparative assessment of this figure over time and across domains, we have adjusted the nominal values, here and below, in accordance with the relevant price indices (see appendix for a detailed explanation). The adjusted figures are presented in constant (1997) prices, the last year for which there are final data on government spending and the various price indices. Accordingly, the adjusted figure for total expected social spending in 1999 is NIS 81 billion, following NIS 79 billion in 1998 and NIS 73 billion in 1997.

The State budget actually comprises two budgets – an “ordinary budget” of current expenditure and a “development budget” that includes investment activity such as construction. Most of the social budget is part of the current budget; that is, the budget excluding investment in buildings and equipment. To simplify the presentation, therefore, we shall deal mainly with current expenditure, or the current budget.

Total current social spending in 1999 will be NIS 71 billion, up from NIS 69 billion in 1998 and NIS 65 billion in 1997. Of this sum, NIS 40.5 billion is allocated for the aggregate of in-kind social services – education, health, welfare, and so on. This figure is unchanged from the final budget of 1998 and NIS 2 billion higher than the actual 1997 expenditure.



Extending the comparison to the entire decade reveals the sharp distinction in the evolution of in-kind services between its two halves: an annual average increase of seven percent in the first five years, and of only 4.3 percent in the second half of the decade. If we take population growth into account, there was an

Table 1. Social Expenditure in Total and Current Budget
(NIS millions, 1997 prices)

	Overall budget	Current budget	In-kind services	
			Total Budget	Current Budget
1980	33,594	30,101	24,653	21,160
1990	46,538	41,446	30,700	25,609
1995	66,099	56,868	43,447	34,216
1996	72,237	61,706	48,023	37,492
1997	72,996	64,505	46,858	38,367
1998	79,169	69,144	50,890	40,865
1999	80,678	70,992	50,221	40,536

Table 2. Social Expenditure as Percent of Total Budget
(excluding debt servicing) **and of GDP**

	Percent of budget	Percent of GDP
1980	31.7	17.7
1990	45.2	18.7
1992	51.7	22.7
1994	53.1	21.3
1996	53.2	21.9
1998	52.8	23.1
1999	55.7	23.1

annual average growth of 2.75 percent in per-capita expenditure for the entire decade, but most of the increase was in 1994-1996. Since 1996, per-capita expenditure has been almost unchanged at about NIS 6,600.

Another manifestation of the dynamics of social spending is provided by the relative data, and especially in a comparison with the increase in the total budget and of the national economy. At the beginning of the decade, total social expenditure accounted for 45 percent of total disposable spending (excluding debt servicing) by the government; by mid-decade the proportion had risen to 53 percent. Expenditure has been frozen at this new level for the past three years. As a percent of GDP, social expenditure climbed from 19 percent to 23 percent.

The relative and absolute increase in government expenditure for social services was made possible by a decrease in the other components of government spending. The defense budget, which accounted for 30 percent of government expenditure at the beginning of the decade (after a steep decrease from 40 percent in 1980) declined steadily, reaching 24 percent of this expenditure in 1998. The share of the other components of expenditure has also decreased.

Table 3. Social Expenditure and Defense Expenditure
(as percent of total budget)

	Social expenditure	Defense expenditure
1980	31.7	39.5
1990	45.2	31.3
1995	52.4	24.6
1999	55.7	23.0

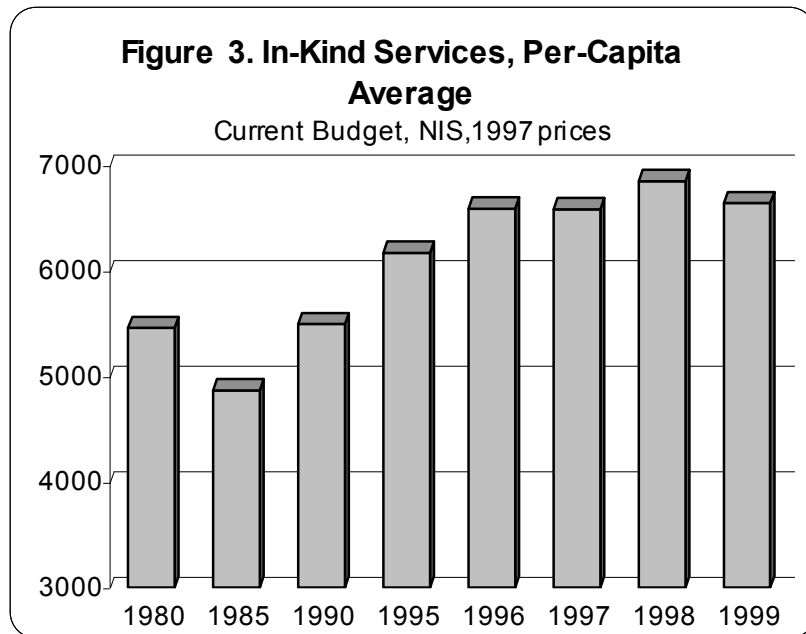
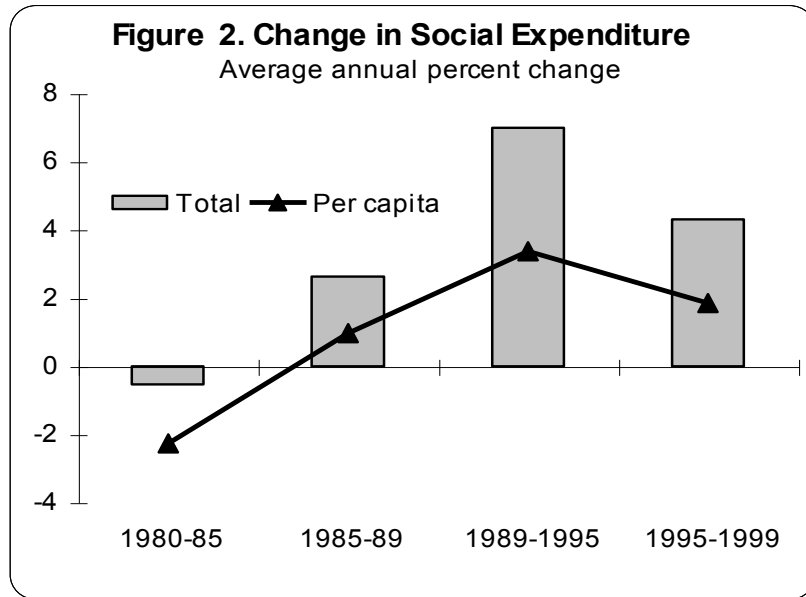


Figure 4. Social Expenditure as percent of GDP and of Total Government Expenditure

(excluding debt servicing)

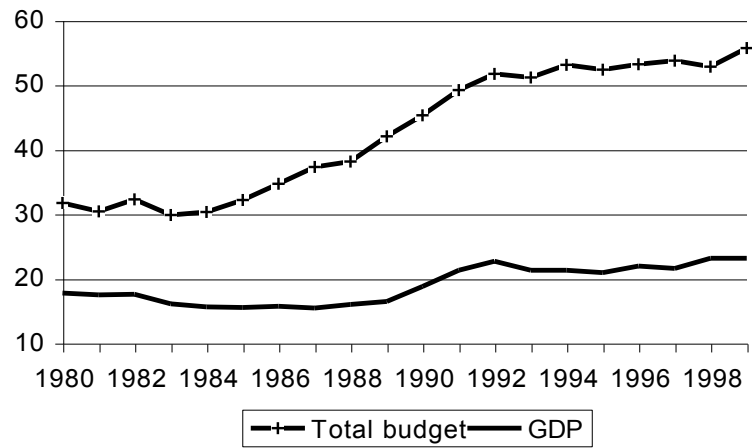
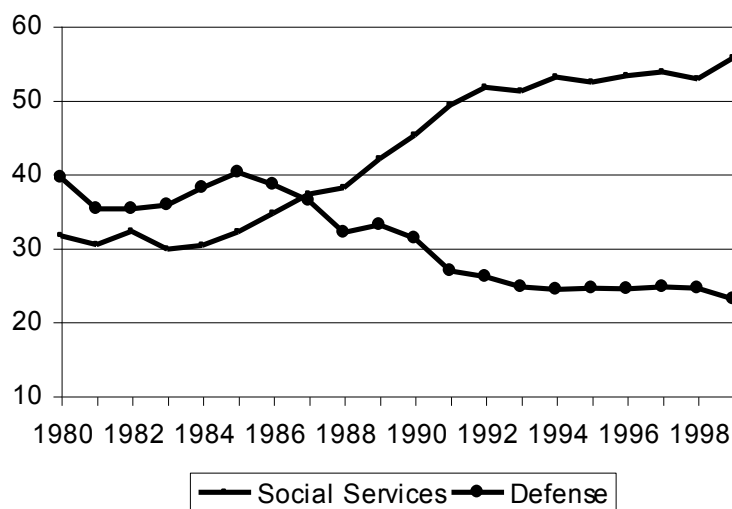
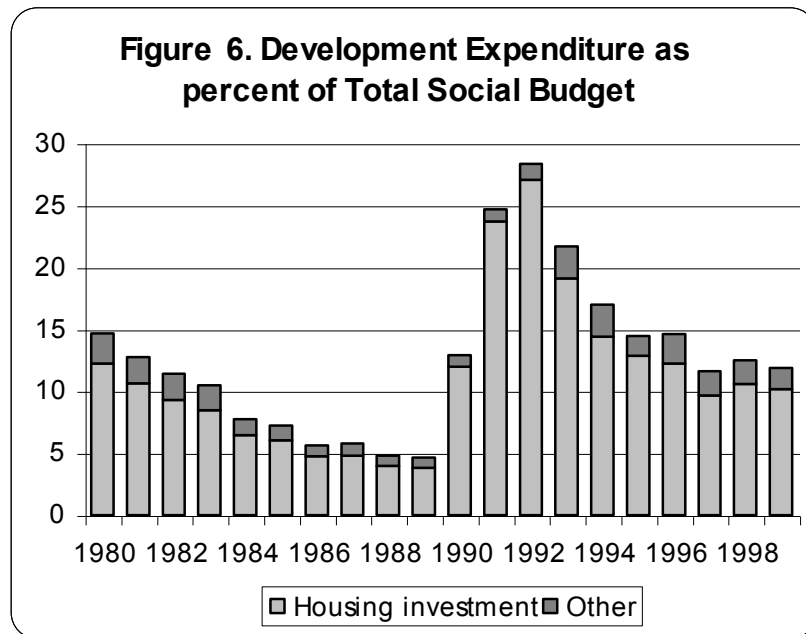


Figure 5. Social Services and Defense as percent of Total Government Expenditure



As stated, these changes were not spread out uniformly across the entire period, which was an extremely diverse era in social, political, and economic terms. In the first half of the 1980s, Israel suffered triple-digit inflation; the attempts to arrest it included a contractionary fiscal policy. Toward the end of that decade, government social expenditure began to rise in both absolute and relative terms. This trend accelerated with the start of large-scale immigration, resulting in a significant increase in the housing and immigrant-integration budgets. Even after the flow of immigration tapered off, the impressive growth in government social spending continued, a reflection of the Government's overt policy of changing priorities, against the background of the peace process that began in 1993 and the accelerated economic growth of 1993-1996. In the second half of the 1990s, the growth in government social expenditure slowed. At the same time, the economic slump generated an increase in the income-maintenance component of social expenditure; but there was also an increase in spending for education, especially in the 1998 budget.

During the course of the past two decades, there has been strong volatility in the investments component of social expenditure. At the beginning of the 1980s, investments accounted for 10–15 percent of social spending, but by the end of the decade the figure was only 4 percent. One reason for the decline was the budget cuts imposed as part of the economic stabilization program. In the early 1990s, this investment component soared, reaching 28 percent of total social expenditure in 1992. This was due to the immigrants' housing needs. When the magnitude of immigration ebbed, the investment component decreased to 12 percent in the last two years.



As stated, there are two major categories of governmental social expenditure: income maintenance and in-kind services. The essential difference between the two is that the former includes most transfer payments by the central-government sector, whereas the latter includes services delivered directly or funded by the government, in part or in full. In addition to this difference, and other philosophical and practical aspects, there is another important difference between them: transfer payments are made on the basis of universal criteria that set defined parameters, usually by means of laws, whereas in-kind services are determined with a more specific reference to the particular service itself and to the relevant expenditure line. Consequently, the level and composition of government expenditure for in-kind services largely reflect current needs and the priorities of the Government and Knesset coalition. In contrast, income-maintenance expenditure is dictated by the approach of those who, at some time in the past, laid down the rules and

parameters of the expenditure, on the one hand, and by exogenous factors associated with demographic changes and the macroeconomic situation, on the other hand. Hence the fluctuations in the relative weight of each of these components (see Table 4) reflect the interworking of these factors. In the past five years, there has been a slight uptrend in the relative size of income-maintenance expenditure and a downtrend in expenditure for in-kind services

Table 4. Trend of Social Expenditure in the Current Budget
(Average annual percent change)

	Total	Income maintenance	In-kind services
1980–85	1.4	5.5	-0.5
1985–89	4.5	7.6	2.6
1989–95	6.7	6.3	7.0
1995–99	5.7	7.7	4.3

2. In-Kind Social Services

As noted, social expenditure accounts for 53 percent of central-government expenditure (excluding debt servicing) and for 23 percent of GDP, and has been rising in both absolute and relative terms. Within this category, expenditure for in-kind services comes to 64 percent of total government spending for social services and to 14 percent of the total output of the Israeli economy.

The in-kind social services delivered by the government include education, health, personal welfare services, employment, immigrant integration, and housing. Government involvement in the provision of these services is implemented by direct supply of the service or by full or partial funding of services provided by other agencies – nonprofit organizations or businesses.

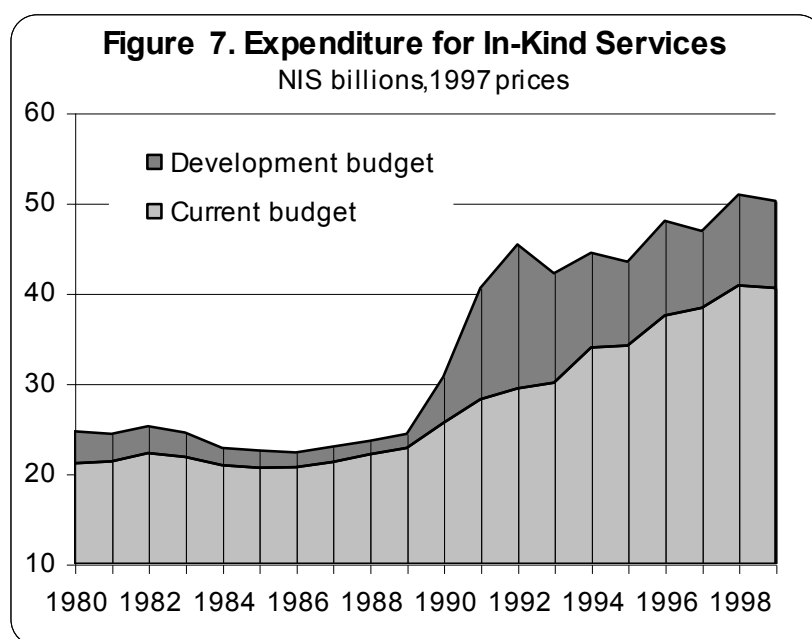
Table 5. Expenditure for In-Kind Services in the Current Budget, by Type of Service (NIS million, 1997 prices)

	Total	Education	Health	Personal Social Services	Other
1980	21,160	11,406	7,833	1,364	556
1990	25,609	12,781	8,417	1,786	2,625
1995	34,216	18,330	11,235	2,518	2,132
1996	37,492	20,852	11,918	2,620	2,102
1997	38,367	21,343	12,121	2,834	2,070
1998	40,865	23,038	12,286	3,159	2,382
1999	40,536	22,584	12,361	3,371	2,220
Average percent change					
1980–85	-0.5	-0.5	-0.3	-2.6	0.1
1985–89	2.6	2.0	1.2	8.8	16.4
1989–95	7.0	7.2	5.6	7.0	13.0
1995–99	4.3	5.4	2.4	7.6	1.0

For 1999, the government allocated NIS 50 billion (in 1997 prices) for in-kind social services. Of this sum, NIS 10 billion is earmarked for investment through the development budget. By far the largest part of this investment is for housing; the rest is mainly for education and health.

In the course of the decade, average per-capita government expenditure for the provision of social services has risen from NIS 9,986 in 1990 to NIS 13,268 (constant 1997 prices – a cumulative increase of 33 percent, most of it in the first half of the decade.

Education. The education line is the second-largest item in the State budget, after defense. The absolute gap between these two sectors has been narrowing over the years; if the trend continues, the two budgets will be of equal size in the not-too-distant future and education may even overtake defense. For 1999, the Government allocated NIS 23 billion for education,



equal to 31 percent of government social expenditure and 16 percent of total government expenditure (excluding debt servicing), or seven percent of GDP. By comparison, total national expenditure for education – including private and other public spending for education, in addition to central-government spending – comes to 10.5 percent of GDP. This figure in itself indicates the ongoing increase in the share of the education system in the national economy.

Health. The health budget for fiscal 1999 will be NIS 12.3 billion – a sum very similar to direct government expenditure in each of the past three years. In other words, the absolute level of health spending has been constant since 1996; in view of population growth, this means a cumulative decrease in per-capita spending. A view across the entire decade shows that, in the first half, health spending increased at an annual average rate of nearly six percent, but by only 2.4 percent per annum in the second half. A more detailed analysis of developments in this important social field is provided later in this report, in the

section that focuses on recent developments in the health system.

Personal social services. The third-largest social-service component in the current budget – NIS 3.4 billion – goes for special treatment of the most disadvantaged and vulnerable groups in Israeli society. This funding covers a range of services for special groups, including the retarded, teenagers in distress, elderly in need of community or institutional assistance, and relief services for individuals and families. At the beginning of the decade, NIS 1.8 billion was allocated for these services, meaning that the sum has nearly doubled over the course of the decade. Growth of this category has outpaced that of the other components of social expenditure. It should be emphasized, however, that most of it is directed to one target group, under the Long-Term Care Insurance Law, and substantial hardship is evident in other services.

Housing. Almost all of this item appears in the development budget, since by its very essence it is meant mainly for long-term investment. Total expenditure will be NIS 8.5 billion in 1999, similar to the allocation for the past five years. It should be noted that government-sector activity in this field was very small in the 1980s – NIS 2 billion to NIS 3 billion per year; with the onset of large-scale immigration it increased immediately to more than NIS 10 billion. The peak expenditure was NIS 15.5 billion in 1992 – comparable to the sum allocated for the education system that year and 1.5 times larger than the appropriation for health services.

3. Income Maintenance

Our discussion of the income-maintenance component of government social expenditure includes all benefits paid through the National Insurance Institute (NII). In recent years this component has accounted for about 35 percent of social expenditure and is on the rise. In 1998, for example, the NII paid out NIS 28 billion (in 1997 prices) in benefits, or 36 percent of total government social expenditure. The budget for 1999 is NIS 31 billion.

State expenditure for income maintenance, along with the tax system and its social parameters, manifest the State's involvement in and contribution to the attainment of social justice. The progressivity of the tax system has a bearing on the inequality of income distribution. This is also one of the important goals of the transfer-payments system; according to NII reports, it does play a meaningful role in reducing income disparities. Transfer payments also fill other functions that have broader significance. They constitute the social safety net of the economy and prevent the emergence of a situation in which citizens find themselves with no source of income. They fill additional functions as well, some of them technical, such as adjusting the tax base to correspond to family size and correcting market failures in savings and insurance.

Total expenditure for income maintenance has doubled in the present decade, while the population grew by only 35 percent. As a per-capita average, the government spent NIS 3,400 (in 1997 prices) on this component at the beginning of the decade, and NIS 5,000 in 1999 – a 50 percent increase. During the same period, per-capita GDP rose by 13 percent and per-capita private consumption by 29 percent. Do these figures mean that the burden of transfer payments has ballooned beyond the appropriate level? The answer depends largely on the respondent's socioeconomic world view. It should be borne in

mind, however, that the total burden of public expenditure has decreased in the past two decades, so that the relatively swift growth of the income-maintenance component reflects a change in preferences that modified the composition of public expenditure but not necessarily increased the associated burden.

The largest component of income-maintenance outlays goes for old-age pensions and survivors' benefits. These outlays, which reflect the role of National Insurance as a pension-insurance provider, will come to NIS 11.5 billion in 1999 (in 1997 prices). The sum of this expenditure hinges on the national average wage, to which old-age pensions are indexed, and on the size of the benefit-eligible population, which is a function of demographic changes.

Table 6. Income-Maintenance Expenditure, by Main Components (NIS millions, 1997 prices)

	Total	Old-age and survivors	Children	General dis- ability	Un- employ- ment	Income mainte- nance	Other National Insurance	Holo- caust- Victims
1980	8,941	4,019	2,700	983	163	0	794	283
1990	15,838	7,071	3,511	1,788	1,158	526	1,423	362
1995	22,652	9,181	5,156	2,627	1,508	1,340	2,241	599
1996	24,214	9,608	5,386	2,913	1,681	1,430	2,431	765
1997	26,138	10,046	5,649	3,204	2,248	1,592	2,580	819
1998	28,279	10,763	5,734	3,540	2,656	1,890	2,842	854
1999	30,456	11,482	5,921	3,934	2,981	2,142	3,052	945

The size of the elderly population of pension recipients has been rising by 4 percent per year, a rate exceeding that of the population at large (2.6 percent annually), and has reached 513,000 persons. Today, the 65+ age group accounts for about 10 percent of the population. Given the rise in life expectancy and decline in birth rates, this proportion is expected to grow. Consequently, the share of this expenditure item within total

public expenditure is also expected to grow. It is true that the share of old-age pensions in total transfer payments has decreased during the last three years, but this results from the relatively swift increase in items such as unemployment compensation and income-maintenance payments, with which we deal below, rather than from a decline in this spending component.

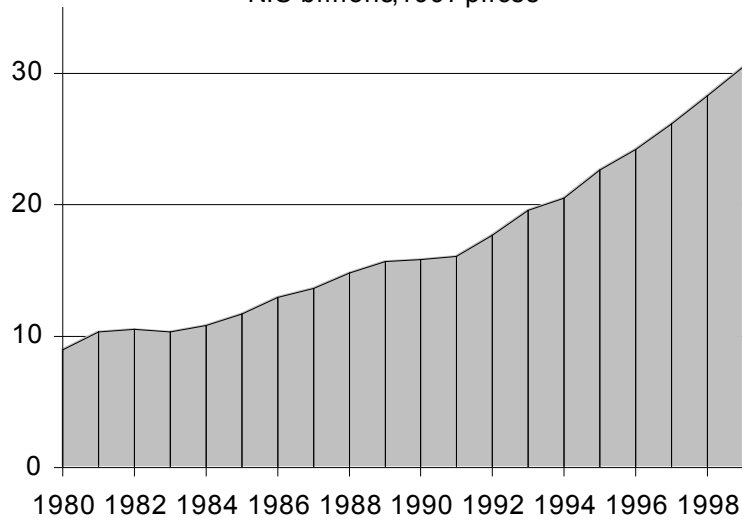
Child allowances are the second-largest component of income-maintenance expenditure. The chief purpose of these benefits is to adjust the base for income tax, whose rates almost totally disregard taxpayers' family size. Nevertheless, child allowances have served as an instrument of government macroeconomic fiscal policy. Thus, in the 1980s, as part of the efforts to fight inflation and government deficits, allowances for the first and second child were abolished, only to be restored in 1993. The issue of child allowances remains on the agenda, however; at frequent junctures, when a fiscal need arises, various alternatives are explored, ranging from their partial abolition to conversion to taxable income to leaving their current status untouched.

The average outlay in 1998 on account of child allowances was NIS 5.8 billion (in 1997 prices). During the last two years it increased by an annual average of four percent, even though the number of families receiving child allowances grew by only 2.4 percent. In 1998, 872,000 families received child allowances, of whom the large majority, 566,000 received them for only one or two children, while another 162,000 received an allowance for three children.

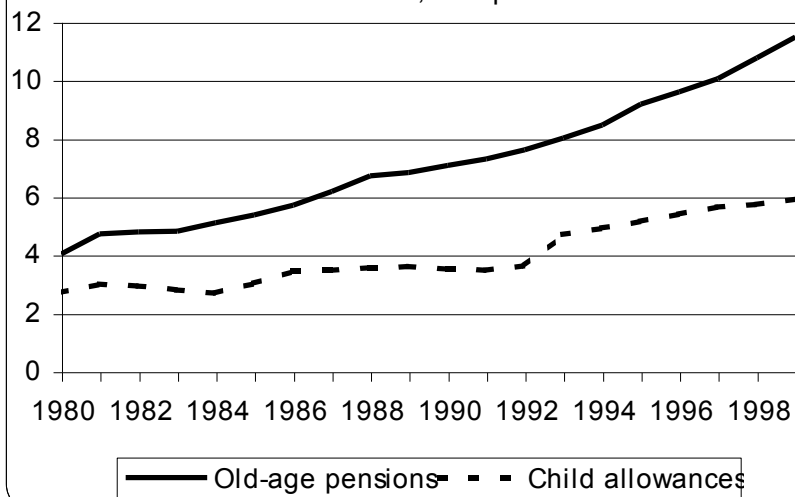
The aggregate of transfer payments in table 6 above includes unemployment compensation, as well as payments under the Income-Maintenance Law and a column headed "other NII payments," which covers workers' injury compensation, maternity benefits, and other payment categories. The trend in the first two of these reflects the magnitude and depth of the

Figure 8. Income-Maintenance Expenditure

NIS billions, 1997 prices

**Figure 9. Old-Age Pensions and Child Allowances**

NIS billions, 1997 prices



unemployment problem. While unemployment-compensation payments reflect the magnitude of the acute and usually transient problem of unemployment, payments under the Income-Maintenance Law mark the problem of chronic and permanent unemployment, which is almost intractable to macroeconomic means or employment policy.

Table 7. Expenditure for Unemployment Compensation and Payments under the Income-Maintenance Law
(NIS million, 1997 prices)

	Unemployment compensation	Income- Maintenance Law
1994	1,292	1,175
1995	1,508	1,340
1996	1,681	1,430
1997	2,248	1,592
1998	2,656	1,890
1999	2,981	2,142

The figures in Table 7 reflect the sluggish state of the economy. The total amount of unemployment compensation paid out in 1997 was 33 percent higher than in 1996. The figures for 1994–1997 reflect actual payments, whereas that for 1998, is the sum originally budgeted. Every indicators predicts intensification of the slowdown in 1999, with rising unemployment; hence the size of this expenditure is liable to grow next year.

Total 1998 payments under the Income-Maintenance Law were budgeted at NIS 1.9 billion (in 1997 prices). This figure, too, is downward-biased. In the past few years, expenditure under the Income-Maintenance Law has been climbing by 10 percent per year. There is admittedly an internal dynamic for legislation-based expenditures of this type, but the numbers

unquestionably climb faster in periods of economic downturn than in “boom” years. Evidence of the internal dynamic can be found in Table 6, which shows that the two expenditure components discussed here rose from 10.6 percent of total transfer-payment outlays in 1990 to 16 percent in 1998. In real absolute terms, there was threefold growth during the course of the decade, with the largest jumps occurring in the years of greatest slowdown – 1992, 1996, and 1998.

Education System

The development of the education system since the mid-1970s reflects a long-term cyclicality, starting with momentum and growth, through decline and stagnation, and returning to a period of renewed growth in the first half of the 1990s. The second half of the 1990s has been under the sign of a slowdown in terms of budget growth and system expansion. This slowdown should be viewed against the backdrop of the retreat and cutbacks in other social services, on the one hand, and the protracted economic slump, on the other hand.

This year the education chapter focuses on the accelerating expansion of post-secondary and higher education. Our point of departure is post-primary education, especially the transition stage between it and higher education – the matriculation examinations – which must be passed in order to be eligible for the future possibilities available to graduates of the formal education system. The chapter begins with an analysis of the fiscal resources available to the education system and then reviews the system's non-financial development as a preface to discussion of issues in higher education.

1. Government Spending on Education

During the past decade, education has been showered with ample resources and special treatment by policy-makers responsible for resource-allocation. This has continued even in the past few years, when the Government has focused on cutting the deficit: not only has education spending not declined, it has in fact grown at significant annual rates. This increase in

government expenditure has been the decisive factor in the increase in total national spending for education, which now exceeds 10 percent of GDP – higher than the level in most Western countries, even after an adjustment for Israel's younger population.

Education did not always enjoy such budgetary priority. In most of the 1980s, the education budget remained more or less constant, despite the growth of the population and especially its school-age component. As a result, average per-capita government spending on education eroded. Current per-capita outlays for education decreased steadily, reaching their nadir in 1987, and have been rising steadily since then (see Table 1). In 1992, education spending returned to a level comparable to that of 1980 level; since 1994 it has been rising steadily and impressively, as part of the Government's declared re-ordering of priorities.

Table 1. Total Per-Capita Expenditure on Education
(Current Budget, NIS, 1997 prices)

1980	2,941
1987	2,618
1992	2,923
1994	3,364
1996	3,665
1999	3,699

Table 2. Education Expenditure, by Main Components
(Current Budget, NIS millions, 1997 prices)

	Total	Pre-school	Primary	Post-primary	Higher	Vocational	Yeshivot
1980	11,406	442	3,244	2,856	2,557	393	199
1987	11,437	574	3,131	4,097	2,103	260	457
1992	14,973	731	3,859	4,965	2,671	538	970
1994	18,161	876	4,632	6,525	3,163	543	917
1996	20,852	1,157	5,561	7,398	3,737	600	910
1999	22,584	1,236	6,238	7,886	4,022	631	970

In the breakdown by levels, the largest budgets go to the post-primary stage, not necessarily because it is the largest subsystem but because of the higher cost of study at this level, as reflected especially in teachers' wages and working conditions. This year, nearly NIS 8 billion was allocated to this sector, NIS 500 million more than in 1996. The main surge in costs at this level of education occurred between 1992 and 1994, when the post-primary education budget rose from NIS 5 billion to NIS 6 billion – a 30 percent increase within two years.

The second-largest category is primary schooling, which is the largest subsystem in terms of enrollment. Its budget for 1999 comes to NIS 6.2 billion, an increase of more than NIS 750 million since 1996. In this sector, unlike in post-primary education, this reflects a continuation of vigorous but more intermittent growth. One quantum leap occurred between 1992 and 1994, and another between 1994 and 1996, followed by another sharp increase in the past three years.

Higher education is slated to receive NIS 4 billion in 1999. In this sector there was a great lag for many years. Only in 1992-1996 was there a significant increase of NIS 1 billion, which merely compensated for the lag that had accrued before. Nevertheless, if we take into account the growth in enrollment in

budgeted universities, we find that the average per-student expenditure has still not returned to the level of two decades ago.

About NIS 1 billion is allocated for *yeshivot*, 40 percent higher than the allocation for this category in 1989. According to the *yeshiva* enrollment data included in the explanatory notes to the State budget, there seems to be a lag in adjusting the expenditure. A comparison of this figure with enrollment in *haredi* primary schools, however, suggests that something is out of kilter and requires further study (the findings of the inquiry will be reported separately, after it is completed).

Among the levels of the education system, preschools appear to be the most resistant to erosion. Expenditure for preschools did not suffer from the erosion of the early 1980s and has risen steadily, both in absolute terms and as a per-pupil average.

The average per-pupil expenditure at the beginning of the 1980s – i.e., before the great erosion – was not matched again until 1992 in primary education and until 1994 in post-primary education. In higher education, in contrast, the previous level has still not been regained. Per-student expenditure in higher education was still about 20 percent lower in 1998 than it had been 1980. The sections below examine the nonfinancial evolution of the various levels of education.

Table 3. Per-Pupil Education Expenditure, by Level of Education (Current Budget, NIS , 1997 prices*)

	Pre- school	Primary	Post- primary	Higher
1980	1,675	5,810	13,308	45,740
1985	1,974	4,591	10,916	37,625
1990**	2,113	5,567	11,169	32,399
1991	2,133	5,720	11,198	33,157
1992	2,314	5,974	11,293	33,968
1993	2,598	6,157	12,489	31,381
1994	2,814	6,874	14,184	34,577
1995	2,686	7,628	13,580	33,001
1996	3,623	8,039	15,450	36,750
1997	3,840	8,184	15,404	35,281

*Deflated by the Civilian Public Consumption Price Index.

**Recategorized after the Education Ministry budget was restructured in 1987.

2. Evolution of the Education System

a. Preschools

Israel is one of the world leaders when it comes to the proportion of children enrolled in preschools. In the Jewish sector, participation is almost total in the 3-4-year-old, prekindergarten cohort (more than 95 percent in the mid-1980s) and verges on 100 percent at age 5 (kindergarten). Total preschool enrollment (children aged 2-5) in the Jewish sector in the 1997/98 school year was 300,000.¹

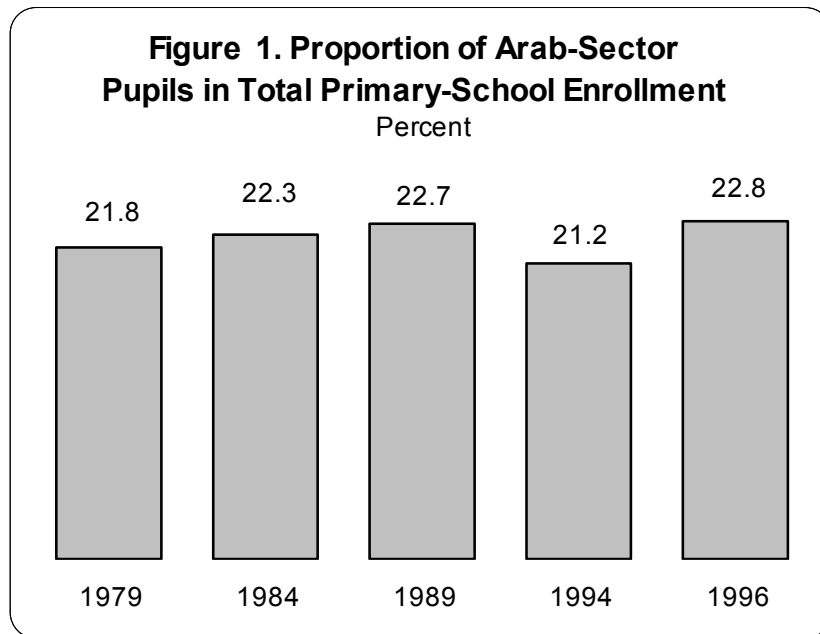
The preschool attendance rate in the Arab sector is much lower than in the Jewish sector – 44 percent among the three-year old, 71 percent of those aged 4, and about 90 percent of those aged 5, for a total of 60,000 children, of which 26,000 of compulsory kindergarten age (since 1994, no other official data have been issued on preschool enrollment rates).

The question of the funding of tuition in preschools for children aged 3-4 (prekindergarten) should be examined in view of the intention of enacting a compulsory education law for this age, too. Today, there is a sliding tuition scale in preschools, with ten different payment levels that depend on the parents' income; the maximum discount can reach 90 percent of tuition. In 1997, 8,831 children received this maximum discount as part of Project Renewal; another 41,729 children were fully exempt as residents of localities in Class A national priority areas (source: Draft Budget for 1998). In all, parents paid 67 percent of tuition that year; the total budget was NIS 385 million.

¹ The Ministry of Education and Culture defines school years according to the Jewish calendar. In this study we refer school years to the Gregorian calendar years, as follows: 5757 (Sept.1996 – Aug.1997) is 1997, 5758 (Sept.1997 – Aug. 1998) is 1998, and so on.

b. Primary Schools

Enrollment in the primary education system was about 700,000 in 1998, up from 626,000 in 1990 and 560,000 in 1980. The total increase in the 1990s (1990-1998) was 14 percent, all of it due to natural increase and mass immigration, as the enrollment rate for this age group has long since reached 100 percent.



In the Jewish sector, total primary-school enrollment increased from 480,000 in 1990 to 540,000 1998 – an increase of 12 percent. The Jewish sector has maintained its 78 percent share of all primary-school pupils during the 1990s, largely thanks to the wave of immigration. During the same period, however, the proportion of Arab **first-graders** rose to about one-fourth by the end of the period. The total number of

primary-school pupils in the Arab sector in 1998 was 165,000, up 19 percent from 139,000 in 1990. In this sector, the continual increase throughout the period, all of it stemming from natural increase, is unmistakable.

Within the Jewish sector, the education system is divided into two main streams – State and State-Religious – plus the relatively small *haredi* systems. Any attempt to compare the size of the streams runs into two problems. One is that many of the schools have not yet made the transition to the tripartite arrangement of primary school, junior high, and senior high. Furthermore, this transition is less complete in the State-Religious system. Hence official statistics may produce a misleading picture. To circumvent this limitation, we took the enrollment data of each sector by grade level and summed them into three aggregates that correspond to a structure of 6 + 3 + 3 grades, corresponding to primary, junior high, and senior high school. Our results show that the lowest aggregate, grades 1-6, had a total enrollment of 485,000 pupils in 1996 – 335,000 in the State system and 103,500 in the State-Religious system. At the beginning of the decade, the corresponding figures were 421,000, 299,000, and 89,000, respectively. In other words, the State system has remained dominant, with about 70 percent of total enrollment.

The second problem has to do with measuring the magnitude of the two main *haredi* systems – the “Independent” system and “El Hama’ayan”. The data reported for their institutions are irregular. For example, in 1988, first-grade enrollment in *haredi* schools was reported as 4,646. The next year, however, the figure for second grade was 1.5 times as large – 7,145. A year later, the number of third-graders reported was 15 percent less. In 1991, the reported size of this group (then in fourth grade) had returned to its initial level, only to swell again by 25 percent the next year. Hence the true evolution of this sector of the Jewish school system requires further study.

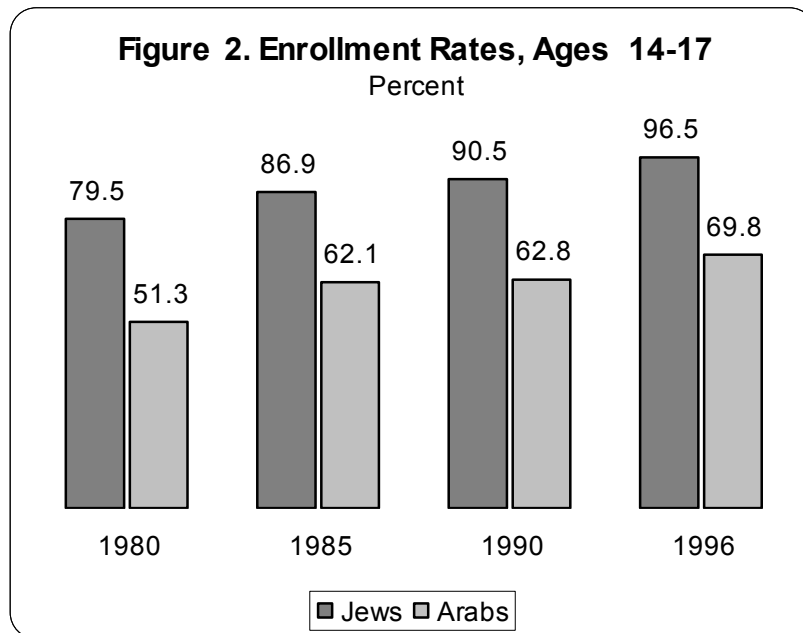
c. Post-Primary Schools

The average growth rate of the post-primary age groups was quite similar for the two education sectors in the period 1984-1996 (about 2.5 percent). In 1998, 517,000 youngsters attended post-primary schools – 220,000 in junior high, the rest in senior high.

In the Jewish sector, which accounts for 80 percent of post-primary enrollment, total enrollment has grown by an average of four percent a year in the 1990s, as against three percent in the second half of the 1980s and more than five percent in the first half of that decade. The growth pattern is similar in junior and senior high, but varies in its relative intensity from period to period: junior-high enrollment grew vigorously, at an average of more than seven percent a year, until the mid-1980s. Afterwards, growth slowed until the end of the decade, only to accelerate again in the early 1990s, due to the arrival of large numbers of immigrants and more vigorous application of the structural reform that created the junior-high level.

In the Arab sector, the growth rates have been higher, with clear differences between the junior and senior levels. In junior high schools, there has been persistent annual growth rate of seven percent since 1980 – in other words, a steady and impressive expansion. At the senior-high level, in contrast, the earlier marked growth tailed off significantly, declining from eight percent a year in the late 1970s to an annual average of about two percent in the 1990s.

As stated, the persistent growth, began in earlier periods, was nurtured by three complementary processes: demographic growth (augmented size of the relevant age groups as a result of natural increase and immigration), socioeducational progress (increase in enrollment rates), and structural change (continued conversion of seventh and eighth grades into junior high).



Enrollment rates: There has been significant improvement in this domain during the last two decades. Generally, it seems that the major effort invested by the education system in the past decade to stem the post-primary dropout phenomenon has focused mainly on the Jewish sector; progress in the Arab sector has lagged far behind.

In both sectors, there is a conspicuous difference between the sexes. The enrollment rate of girls at the post-primary level is higher than that of boys: 94.3 percent and 88.4 percent, respectively, in the Jewish sector, and 72.2 percent and 68.5 percent, respectively, in the Arab sector.

Dropping out: It is possible to trace dropping out cumulatively through data on a given age group over time. For example, of the age cohort that attended ninth grade in 1985, only 83 percent were enrolled in twelfth grade three years later,

in 1988. In other words, more than 15 percent of members of the cohort had dropped out before the end of high school. In subsequent years, the retention rate rose considerably – to 86 percent in 1990, 91.5 percent in 1992-1994, and 93.5 percent in 1995 and 1996 (bear in mind that the post-primary education system took in large numbers of immigrant pupils during those years).

A similar inquiry reveals that dropout rates are lower for the State system than for the State-Religious system. Of the cohort that attended ninth grade in 1985, three years later, at twelfth grade, we find 83 percent still enrolled in the State system (similar to the average for the entire Jewish education system), but only 71 percent in the State-Religious system. A few years later, for the cohort that attended ninth grade in 1989, in the State system 90 percent completed their studies, but in the State-Religious system only 79 percent. Finally, for the cohort that began in 1993 and completed their studies in 1996, in the State system 95 percent completed twelfth grade, and in the State-Religious system 82 percent.

The disparity between the systems is conspicuous also when they make progress on reducing the dropout rate, as a result of the change in policy and reinforced by the intake of immigrants. It is almost certain that these figures do not express only developments within each system; there must also be some element of movement between the systems.

Structural Changes: After more than 30 years, the structural reform is still not complete throughout the system. Nevertheless, the proportion of pupils attending junior high schools has risen steadily, to 70 percent of all seventh-to-ninth-graders in the Jewish sector and 77.5 percent in the Arab sector. For comparison, in 1985 the proportions were still as low as 54 percent and 43 percent, respectively. Since then, the reform has made more headway in the Arab sector. Within the Jewish sector, there is a notable difference between the State system, in

which 79 percent attend junior high schools, and the State-Religious system, in which only 63 percent do so.

The increase in the number of classes corresponded – albeit not fully – with the large increase in the number of pupils. At the senior high level, the number of classes grew more rapidly than enrollment, so that average class size decreased; at the junior-high level the picture is the opposite.

Table 4. Average Class Size, Post-Primary Level, by Sector

	Total		Arab sector		Jewish sector	
	1990	1997	1990	1997	1990	1997
Junior high	30.6	31.2	30.0	30.4	33.1	34.0
Senior high	28.7	28.1	28.1	27.7	32.4	30.6

3. Matriculation Examinations

a. Matriculation-Certificate Eligibility

The transition to higher education begins with the entry pass to that level – the matriculation examinations. The matriculation certificate is undoubtedly the key to socioeconomic progress of young Israelis in general, and not only to higher education. Major advances have been registered over the years, reflected in part in the introduction of diverse study tracks. This has led to increased enrollment rates at the senior-high level and in the proportion of high-school students who take the matriculation exams.

The past decade has witnessed significant progress in the percentage of twelfth-graders among members of the age cohort, in the percentage of students who take matriculation exams, and in the percentage of those who earn matriculation certificates among those who take the exams (the last has risen more slowly

than the rate of those who take the exams). Twelfth-grade enrollment grew more rapidly at the beginning of the period, while the number of exam-takers increased more rapidly at its end.

Table 5. Twelfth Graders, Taking and Passing Matriculation Examinations, as Percentage of 17-year-old

	Twelfth-grade enrollment rate	Taking matriculation exams	Eligible for matriculation certificate
1965	33.8	—	16.2
1973	41.0	—	16.3
1980	54.2	—	21.3
1985	67.9	—	27.7
1990	71.8	51.8	31.4
1995	76.2	61.1	37.9
1996	79.5	65.6	38.7
1997	79.7	65.2	37.7

The overall increase in the rates of those earning a matriculation certificate is not uniform in all parts of the system. Despite efforts to narrow them, perceptible disparities remain.

If we look at certificate eligibility as a percentage of those who take the tests (rather than of the age group), the data reveal other disparities at the post-primary level: for example, a difference between the academic and vocational-technological tracks.

Table 6. Matriculation-Certificate Eligibles* as Percent of 17-year-old, by Population Group

	1986	1991	1994	1995
All 17-year-old	29	33	39	41
Jews	34	38	44	47
Boys	30	32	38	41
Girls	39	43	51	53
Origin: Israel	45	49	51	52
Asia-Africa	23	28	34	39
Europe-America	42	40	50	51
Arabs	14	16	19	20
Boys	14	15	16	16
Girls	13	16	21	23
Religion: Muslim	11	13	16	17
Christian	—	34	29	30
Druze	—	17	30	30

* There are some differences between these data and those in Table 5; they originate in variant definitions and methods of data collection and processing.

Here the students of the academic track show a clear advantage over their peers in the vocational-technological track among both Jews and Arabs. This is related to the strong emphasis placed on the matriculation exams in the academic track, but it also points to differences in the technological track with regard to the pupil population. There are some technological institutions on a high level, while many others, of a lower caliber, generally attract students who were not accepted by academic programs.

b. Students who are Almost Eligible

In recent years, the Ministry of Education has begun to report not only the number of those earning matriculation certificates among those tested, but also the number of those who almost make it. The Ministry has created four categories:

- * Earned a matriculation certificate
- * Level A eligibility: only one subject short of earning a matriculation certificate
- * Level B eligibility: passed tests representing more than 13 credits.
- * Other: 13 credits or fewer

These figures indicate the potential number of certificate eligibles in the age group. Presumably, most students defined as “level A” and many of those at “level B” are likely to earn a full matriculation certificate in a matter of a few years (after their military service). According to a rough estimate, at least 50 percent of the members of every age cohort become eligible for a full matriculation certificate after making up missing subjects. Hence the potential number of candidates for post-secondary and higher education will exceed 50,000 a year.

Table 7. Percent Taking Matriculation Examinations, by Level of Eligibility, Study Track, Sex, and Ethnic Group, 1997

	Academic	Techno-logical	Boys	Girls	Jews	Arabs
Total	100	100	100	100	100	100
Certificate-eligible	64	43	55	61	60	45
Almost eligible						
Level A	8	9	8	9	9	7
Level B	12	22	17	15	15	18
Other	16	26	20	15	15	30

The share of Level-A “almost-eligible” students is similar in all groups, although slightly lower among Arabs. As for Level-B “almost-eligibles,” the situation is better in the academic than in the technological track, better among girls than among boys, and better among Jews than among Arabs.

c. Diverse paths to the matriculation certificate

Special allowances on tests. The issue of students with learning disabilities exists all over the world, as a result of the ongoing attempts of the institutionalized system to provide appropriate solutions for students with various problems to integrate in society as citizens with equal rights and obligations. One aspect of this attempt is to allow various leniencies in matriculation examinations.

The past few years, marked by increased attention to the issue of those suffering from various learning disabilities (passage of the Special Education Law and implementation of the policy of mainstreaming), have seen a rise in the number of special allowances extended to examinees: of the total of 1,075,699 tests administered in 1997, special allowances were made in 131,785 cases, 12.2 percent of all tests. Data in our possession indicate an increase between 1995 and 1998: during those four years, the total number of special allowances made rose by 150 percent, and by 400 percent for some types of allowances.

There are eight types of special allowances: (1) use of an English language tape, (2) overlooking spelling mistakes, (3) oral testing, (4) reproduction, (5) 25 percent extra time, (6) reading the test form aloud, (7) school-level test form, (8) use of electronic dictionary.

Table 8. Types of Special Allowances on Matriculation Examinations

	1995	1996	1997	1998
Total	57,857	82,915	113,229	131,785
1	235	433	564	623
2	10,580	15,215	21,569	26,107
3	5,009	7,886	9,745	11,069
4	6,161	7,653	8,970	8,549
5	31,071	44,160	59,872	69,678
6	3,709	5,368	8,897	10,913
7	742	1,395	2,259	3,125
8	350	805	1,353	1,721

The most common special allowance is an extra 25 percent of time. This item accounts for 53 percent of all special allowances. The number of students receiving it rose by 125 percent over four years. From the educational standpoint, the question of whether there is any point at all to a time limit on matriculation exams remains open.

The second most common special allowance is to disregard spelling mistakes. This accounts for 20 percent of all special allowances; the number of students benefiting from it has risen by 147 percent in four years.

The large increase in the number of students enjoying special allowances may originate in the novelty of the system's willingness to do so. The situation has evidently been exploited by pupils who in the past were in an inferior position relative to other pupils. No study of why certain schools offer special allowances to their students at a different rate than other schools, with similar pupil populations, has been performed. Nor is it clear whether the results of tests in these schools are better.

External examinees. Another development that bears on the question of eligibility for a matriculation certificate has to do

with external examinees. The idea that guides this approach is that providing an opportunity for more young people to obtain a matriculation certificate requires multiple paths leading to this goal, and the external track is one additional possibility. The Center for Social Policy Studies was involved in an examination of policy toward external examinees, as part of the work of a subcommittee of the Knesset Education Committee that dealt with the subject. The goal was to relate to the correlation between the Ministry of Education policy to increase the number of those earning matriculation certificates and activities in the external secondary-education system: whether external secondary education can be improved in a way that would augment its students' prospects of earning a matriculation certificate.

Each year, many people are enrolled in external programs; some of them take matriculation exams. Every year, between 1,500 and 2,000 people earn matriculation certificates after passing all or some of the tests externally. External students face a substantial difficulty, and the time they take to reach their goal – that is, passing the tests required to be eligible for a matriculation certificate – is lengthy.

Table 9. External Matriculation Tests: Persons Tested and Persons Eligible

	Tested	Eligible for Certificate	Percent Eligible
1995	17,706	1,456	8.2
1996	19,671	1,995	10.1
1997	15,802	1,850	11.7

As we see, only a small percentage of external students who take matriculation exams earn a full matriculation certificate. However, most students earn a partial matriculation certificate and pass some of the tests. Obtaining a partial certificate is an

important achievement, too, and the regular system also devotes great efforts to this, as we shall see below.

The number of external testees should be augmented by students of the regular system who take retests (in 1993 there were 30,000 retests). Some of them are twelfth-graders seeking to improve their scores from eleventh grade; others are seeking to improve a passing grade (and were already counted among those eligible for certificates). This large number, and especially its steady growth from year to year, is evidence of the growing demand for a matriculation certificate among those ineligible and of the high motivation among those earning certificates to gain admission to post-secondary studies by improving their test scores.

Special programs to help weak students. As part of the system's efforts to improve the rate of matriculation eligibility, special programs to help pupils attain a matriculation certificate have been introduced or expanded in the past two years. Several programs are conspicuous in this respect: *Mabar* – which helps pupils switch from a partial – to a full-matriculation track (the program, run in the senior-high-school grades of the regular system, involves smaller classes that focus on a different approach and intensive study of one subject at a time); *Tahal* – intended for those who are short one to three subjects; pre-university preparatory programs, which give demobilized soldiers as second chance; and *Michael* – a special programs to exploit outstanding capabilities.

Table 10. Pupils in Special Programs

	1994	1995	1997	1998
<i>Mabar</i>	3,500	6,690	12,790	15,000
<i>Tahal</i>	820	1,200	3,600	4,000
Pre-university	8,150	8,325	10,800	10,800
<i>Michael</i>			6,000	6,000

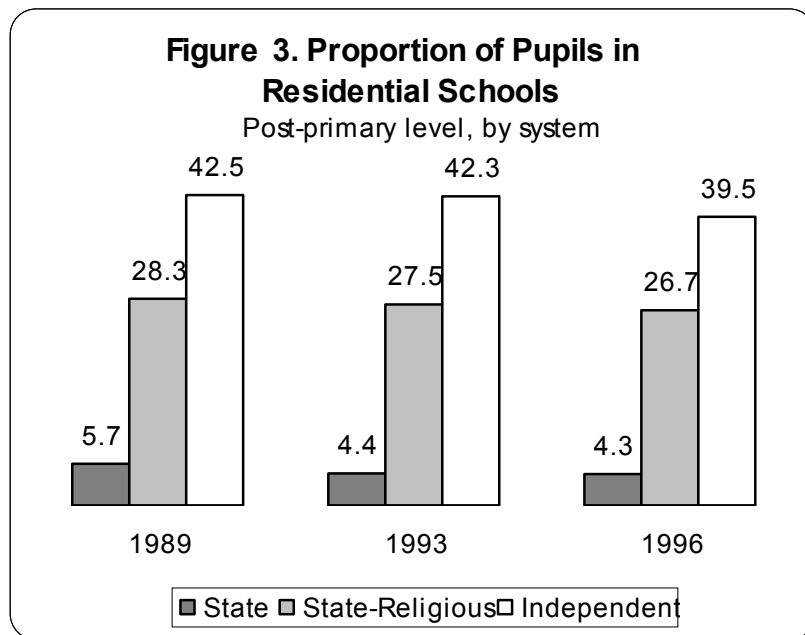
The figures show that in the past few years there have been increased efforts to “lure” weaker population groups to earn matriculation certificates. The efforts seem to be paying off: among the 3,500 pupils who participated in the *Mabar* program and took matriculation examinations in 1997, 1,330 passed the tests and earned their certificates. Another 455 students failed one subject only. These achievements are notable in view of the fact that the pupils admitted to *Mabar* classes are not defined, according to the standard criteria (prior achievements, scholastic ability, teachers' assessments), as suitable for placement in high-school matriculation tracks.²

It is also noteworthy that 55 percent of students included in the second-chance framework (1,842 out of 3,350) earned matriculation certificates. As stated, this set of programs is accompanied by a willingness to increase the special allowances to students with learning disabilities and difficulties. In addition, there have been changes in the past few years, some of them rather sizable, in the format of the tests and their distribution over the three years of senior high school.

Residential schools. In the past, the education system assumed that referral to residential schooling would help some pupils focus their scholastic efforts, in part, on earning a matriculation certificate. A large proportion of the residential facilities focused on taking in young people referred to them in a last attempt to keep them from dropping out of the education system totally; some of the young people were referred by welfare officers because of home and family problems. Over time, this idea was eroded; today, many of the residential schools established to help weaker population groups have become channels for the advancement of the well-off. This is reflected especially in the concentration of residential facilities

² Nora Rash, “Evaluation of an Experiment: Winter Matriculation Tests for Students in *Mabar* Classes,” Institute for Innovation in Education, School of Education, The Hebrew University of Jerusalem.

in the religious sectors. A perceptible difference is found between the various systems in the rates of referral to residential study: a higher proportion of the pupils in the State-Religious system attend residential schools, with the referral being voluntary (see Figure 3).



The increase in the number of students attending residential schools has far-reaching implications. It is almost certain that the socioeconomic and ideological profile of those enrolled in the religious residential schools, where leaving home for *yeshiva* is a social norm, is very different from that of pupils in residential schools of the State system, as well as from that of State-Religious pupils who attend regular (nonresidential) schools. In the State system, the overwhelming majority of residential students are still those referred to the schools because

of scholastic, behavioral, and social problems. By contrast, a majority of students in the religious residential schools applied to *yeshivot* of their own volition and many of them belong to the scholastic and intellectual elite of the religious community. Concentration of this group in such an educational facility has, of course, far-reaching educational, political, social, and economic implications, but it is not our intention to discuss these in the present study. Suffice it to say that the educational and financial investment in each pupil in a residential school is much larger than that in pupils in a regular community school.

4. Higher Education: Its Expansion as a Key Path to Social Mobility

The higher education system includes students in universities, colleges (public and private, regional, technological, and teacher training colleges), and extensions of foreign universities. Undoubtedly, the most interesting – and perhaps most important – developments in the education system are taking place today in post-secondary and higher education. These developments are reflected in several salient processes: first, the growing enrollment in all post-secondary, college-, and university-level institutions, with the concomitant increase in the number of degree recipients; second, the growing diversification of post-secondary institutions, as reflected in their types, locations, and study programs; third, the growing privatization of higher education.

These three processes are totally transforming the face of post-secondary and higher education in Israel. This development is associated with population growth and especially the increase in the number of those earning matriculation certificates and the advent of new groups interested in acquiring a college or university education. Of course, it reflects the social demand for

greater equality of access to higher education. Another impetus for the process comes from the professionalization of various occupations, manifested in the growing demand for an undergraduate degree in some fields (teaching, nursing, insurance, optometry, and others), on the one hand, and the desire to enjoy the significant financial return that accrues to degree holders, on the other hand.

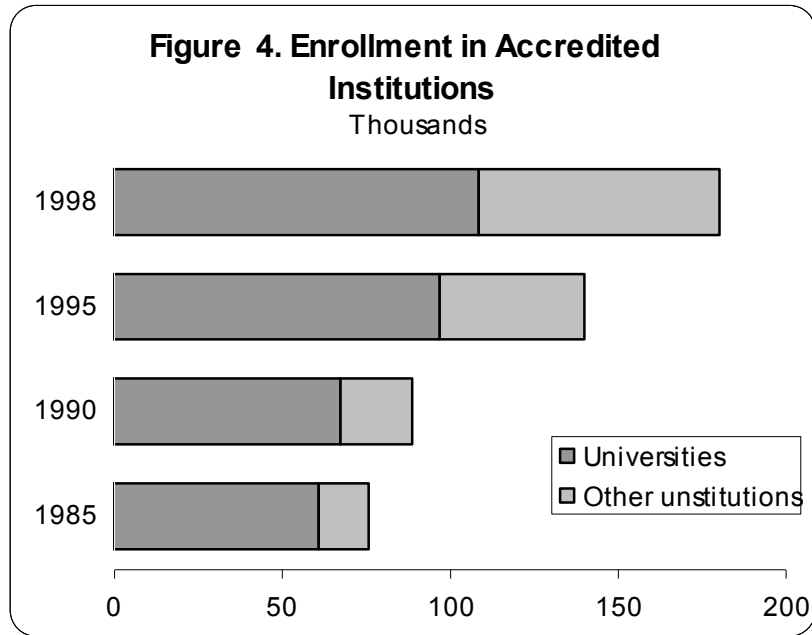
a. Growth of enrollment

The most conspicuous indicator of progress in higher education is the rise in enrollment and the great differentiation in the growth rate from one type of institution to another.

Table 11. Students in Accredited Institutions

	1985	1990	1995	1997	1998	Average annual percent change
Total	76,120	89,063	140,288	164,994	180,561	7
Universities	61,205	67,770	97,250	104,900	108,880	5
Colleges: total	2,881	8,286	19,402	31,616	41,108	23
Teacher training	1,033	4,618	10,127	14,257	17,735	24
Other colleges	1,848	3,668	9,275	17,359	23,463	22
Open University	12,034	13,007	23,363	28,478	30,473	7

Since 1985, university enrollment has increased by 77 percent, with main growth occurring in 1990-1995, when the average annual growth rate was 7.5 percent. Since then, the growth rate has dropped to only 3.8 percent. In contrast, enrollment in other accredited institutions has increased by 380 percent, with an average annual growth rate of 15.1 percent between 1990 and 1995 and 18.5 percent in 1995-1998. The statistics on enrollment in non-university institutions are actually



biased downward, because they do not take account of the thousands of students enrolled in the degree-awarding extensions of foreign universities. The number of such extensions is growing steadily, as is their enrollment.

It is interesting to compare the growth in enrollment for the various degree-awarding institutions:

The vast difference in the growth rates of the seven universities stands out, and especially the vigorous growth of three universities: Ben-Gurion, Bar-Ilan, and Haifa. None of them, however, has even come close the growth rates of the non-university institutions.

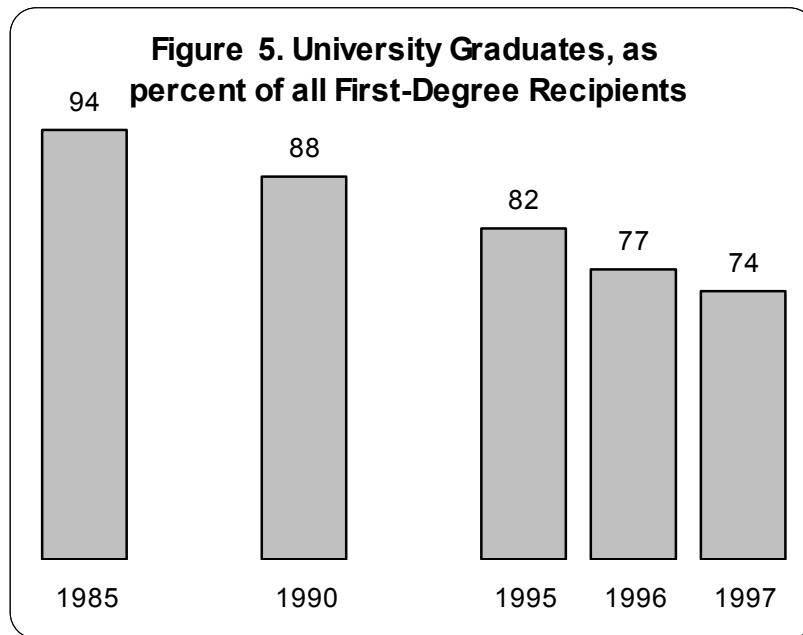


Table 12. Students and Degree Recipients in Universities and Other Institutions, 1990–1997

	Students		Percent increase	Undergraduate degree recipients		Percent increase
	1990	1997		1990	1997	
Universities – total	67,770	108,880	61	10,192	16,478	62
Hebrew University	16,780	21,730	29	2,412	31,000	29
Technion	9,080	11,840	30	1,313	1,655	26
Tel-Aviv	19,270	25,610	33	2,940	4,154	41
Bar-Ilan	9,330	20,700	122	1,266	3,120	146
Haifa	6,780	13,390	97	1,160	2,401	107
Ben-Gurion	5,890	14,870	152	1,101	2,048	86
Weizmann Inst.	640	740	16			
Colleges	8,286	41,108	396	1,055	4,760	351
Open University	13,007	30,473	134	281	1,048	273

Table 13. Undergraduate Degree Recipients from Universities and Other Institutions

	1985	1990	1995	1996	1997
Total	8,601	11,528	22,397	19,738	22,286
Universities	8,113	10,192	18,339	15,138	16,478
Colleges: total	457	1,055	3,443	3,950	4,760
Teacher training	139	655	2,144	2,456	2,884
Other	318	400	1,299	1,494	1,876
Open University	31	281	615	650	1,048

Generally, one may say that the same trends are also reflected in data on recipients of undergraduate degrees. Whereas only 5.6 percent of 1985 bachelor's degrees were awarded by colleges, in 1998 about a quarter of them were. Here too we should emphasize that the figures are biased downward, because they do not include students in extensions of foreign universities, which have recently been publishing lists with the names of hundreds of graduates.

b. Enrollment Rates

Thus far the figures have pointed to the growth of higher education, and an expansion beyond the confines of the long-accredited universities and colleges to new institutions and to extensions of foreign universities. We do not have figures and parameters on the composition, age, ethnic origin, and sex of students in these institutions. Hence we should be aware of major biases in any analysis of the trends indicated by the following data, which pertain to universities only.

Table 14. University Enrollment Rate among Jews
(Percent of 20–29 age group)

	1975	1985	1990	1993	1996
Total	7.2	7.6	8.0	8.9	9.8
Men	8.0	7.5	7.3	7.8	8.1
Women	6.3	7.6	8.7	10.1	11.5
Israel-born, by father's origin					
Israel	10.0	13.4	14.0	15.3	14.8
Asia-Africa	3.0	3.7	3.9	4.7	5.8
Europe-America	14.0	14.9	14.2	14.8	15.1
Asia-Africa born	2.1	2.8	3.1	3.3	5.8
Europe-America born	8.4	8.3	9.5	8.4	8.8

The university enrollment rate for the 20-29 age cohort rose from 7.6 percent in 1985 to 9.8 percent in 1996. There are significant differences in the rate by sex and by ethnic origin:

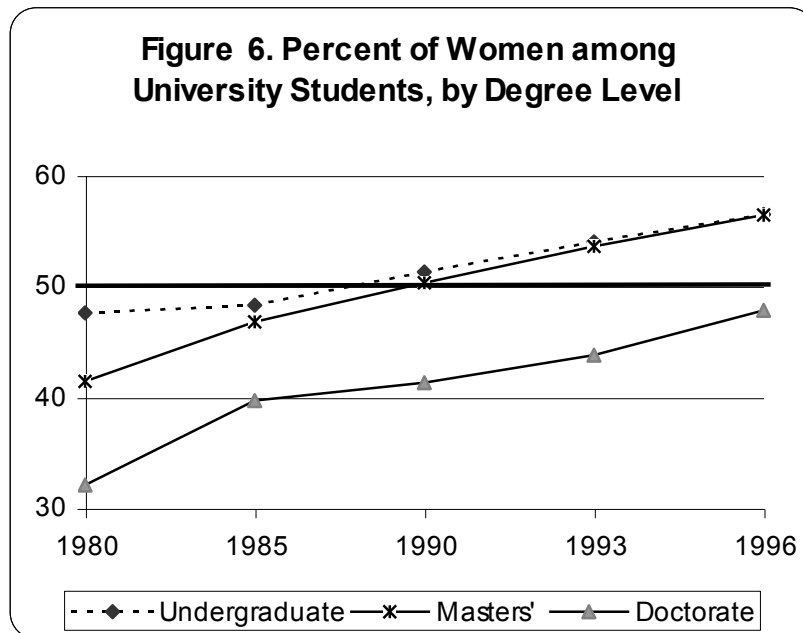
The data reveal a narrowing of gaps among population groups. In fact, the disparity between the sexes has actually reversed its sign; women's enrollment rates now far exceed those of men. This phenomenon is reinforced by the colleges, many of which are still teacher training colleges, with their predominantly female enrollment. The situation is different with regard to ethnic gaps: Israel-born children of fathers who came from Asia or Africa remain far behind, and the rate at which they have been catching up during the last 15 years does not bode well for the future. Admittedly, there may be some compensation for this in the proportion of students of African or Asian extraction in institutions that supplement the universities – the colleges and other institutions – but we have no data to prove this.

The growth in enrollment does not stem only from new undergraduates. There has also been a rather strong uptrend in the number of masters' and doctoral students. In other words, there is a growing tendency to proceed to graduate studies beyond the first degree. The increase in the number of graduate students is manifested in their rising proportion of total enrollment: in 1985, there were 15,000 graduate students at all the universities, or about one-quarter of their student bodies. The 34,790 graduate students of 1998 accounted for about one-third of total enrollment.

The rising proportion of women is conspicuous at all levels of study and degrees. Women have become a majority even in masters' studies. To judge by the trend of the past decade, the disparity between men and women at the doctoral level, too, is fated to vanish (in 1996, 47.8 percent of doctoral students were women).

Table 15. Women in University Enrollment, by Degree Level
(Percent)

	Total	Undergraduate	Master's	Doctorate
1980	46.2	47.6	41.4	32.1
1985	47.9	48.3	46.8	39.7
1990	50.8	51.3	50.3	41.3
1993	53.6	54.0	53.6	43.8
1996	56.3	56.5	56.4	47.8



Applicants. A particularly interesting figure involves applicants: a larger percentage of applicants are being accepted today. On the other hand, the yield – the percentage of those admitted who elect not to enroll – has remained stable. There are two possible explanations for the first finding. Universities may have decided to lower the admission threshold and are today accepting students whom they would have rejected in the past. Second, because those interested in college – or university-level studies have more options available today, they may apply to the universities only when they believe they stand a good chance of being admitted.

Table 16. Persons Accepted and Rejected by Universities

	1980	1990	1995	1996	1997	1998
Accepted and enroll	48.2	55.9	60.0	62.9	63.5	63.5
Accepted but do not enroll	17.4	17.0	18.9	17.6	17.8	17.2
Rejected	31.1	22.9	21.1	19.4	18.7	19.3

c. Greater Diversity among Accredited Institutions

One of the most conspicuous trends in the development of higher education is the increasing number and diversity of the institutions that award degrees. In the main, this has stemmed not from long-term social planning but rather from the growing demand by large segments of the population for post-secondary studies, especially on the undergraduate level. The rapid change was manifested not only in the number of students and institutions but also in the diversity, level, geographic distribution, ownership, course offerings, and teaching methods of the latter.

In addition to these institutions, there are other important frameworks of post-secondary education, some of which do not award academic degrees or diplomas, which fill the needs of many people who are eager to broaden their education or prepare for degree studies. The most notable of these are the pre-academic preparatory programs of the universities, similar programs in colleges, vocational training programs run by the Ministry of Labor and Social Affairs and by private entities, on-the-job vocational training, post-secondary diploma programs, and post-secondary programs that do not lead to a diploma.

As stated above, only some of this development was planned and came about as the implementation of the master plan for the development of colleges, elaborated by the Council for Higher Education and Ministry of Education, Culture, and Sports in 1993. This plan, approved by a Government resolution on

September 28, 1994, envisioned three categories of colleges: regional, technological, and teacher training. The plan did not deal with private (“non-budgeted”) colleges and with the extensions of foreign universities. In February 1995, the Council for Higher Education Law was amended to provide a firm basis for the status of the colleges. The three main provisions of the law define an academic college, set equal criteria for budgeting, and stipulate equal status for the degrees granted by different institutions. Another amendment, enacted in 1998, regulates the activity of the extensions of foreign universities in Israel and places them under various restrictions, whose crux is to assure that the caliber of the extensions in Israel and of the parent institution overseas – in curriculum, level of teaching, and status of degree awarded – is equal.

Discussion of the issue of the compass of higher education and of its anticipated impact on the quality and level of studies is neither new nor unique to Israel. This debate has traditionally accompanied every expansion of educational facilities, not necessarily at the college and university level, pitting the “defenders of ramparts,” representing the existing establishment, against those who are pounding at the gates of education.

The Center for Social Policy Studies drafted a document, followed by a discussions of the issues raised in it, as long ago as 1994. According to the preface to that document, “strengthening higher education, on the one hand, and opening its gates to the population at-large, on the other hand, are not necessarily mutually exclusive. The crux of the dilemma that we wish to discuss today is in what manner to continue developing higher education, inter alia by means of colleges, and in so doing to increase the percent of those studying in the higher-education framework. Special thought should be given to population groups that have not had adequate access to higher education thus far.”

The discussants correctly foresaw the growth in demand for higher education and the need to find new organizational and institutional solutions – chiefly in the form of colleges. However, they failed to express the intensity and extent of the growth in demand and the massive penetration of the higher-education market by private institutions.

In 1998, more than 80 degree-awarding institutions were active in Israel, as follows:

Type of institution	Number
Total	82
Universities	7
Open University	1
Teacher training colleges	18
Other higher-education institutions, including regional colleges	22
Extensions of overseas universities	23
Authorized distance-learning institutions	11

This section deals mainly with teacher training colleges and other institutions of higher education. As stated above, we do not have adequate data on the extensions of overseas universities in Israel and on authorized distance-learning institutions. A comprehensive and full discussion of higher education issues in Israel in 1998 would require a credible and precise picture of these institutions too, at least in terms of the variables noted above.

While the enrollment in non-degree-awarding post-secondary institutions increased by 15 percent, and actually declined in some fields, enrollment in non-university institutions increased by 111 percent within four years, and in certain disciplines doubled, tripled, or more.

Table 17. Students in Post-Secondary Institutions that do not Award Degrees

	Total	Teaching	Practical engineering, technician-ship, etc.	Secretarial, law, administration, economics, etc.	Arts, design, architecture	Other
1995	42,548	9,446	18,245	6,905	4,541	3,411
1996	46,514	10,819	19,310	7,720	5,197	3,468
1997	48,377	9,733	20,671	8,132	5,781	4,060
1998	48,850	7,591	22,788	7,988	5,837	4,646

Table 18. Undergraduate Students in Non-University Institutes of Higher Education

	Total	Teaching	Practical engineering, technician-ship, etc.	Secretarial, law, administration, economics, etc.	Arts, design, architecture	Other
1995	19,402	10,127	1,750	4,693	1,912	920
1996	23,747	10,781	2,497	5,896	2,201	2,372
1997	31,616	14,257	3,624	7,972	2,495	3,268
1998	41,108	17,735	6,231	9,942	2,501	4,699

The most conspicuous increase was in teacher training colleges. This increase is the result of the accelerated academization policy of the Ministry of Education and Culture, as a result of which many of these institutions were authorized to award undergraduate degrees (B.Ed.). This policy began, practically speaking, after submission of the Etzioni Report in 1979. The goal of the Ministry of Education is a situation in which teacher training at the various levels will involve a four-year curriculum. To encourage teachers to complete their schooling and earn academic degrees, the ministry participates

in the attendant expenses, including tuition, partial remuneration for travel expenses, a reduction of several hours in their weekly teaching load, and the advanced-training fund. (It is important to note that the Education Ministry is not exceptional in this respect; other government ministries and public employers also extend assistance to employees who return to school while continuing to work.)

d. Privatization of Higher Education

The most revolutionary change in the higher-education system would seem to lie not in the expansion of the colleges but in the growing intrusion by private, for-profit systems into a field that was until recently the absolute monopoly, both practically and ideologically, of the public service.

Any discussion of the issue of private institutions – especially the extensions of foreign universities – in the social reality of Israel is complex and difficult. These institutions tend not to publicize their enrollments, the number of those who fulfill degree requirements, or data on their faculties, and do not provide information about the academic services and facilities available to their students.

Since we have only fragmentary data,³ we shall focus on several issues that may have a general impact on the higher-education system, as a result of the invasion of higher education by private institutions. We should emphasize that this discussion is preliminary; a more comprehensive treatment would require more detailed data.

Supply. In Israel today there are eight private colleges, 23 extensions of foreign universities, and 11 distance-learning institutions. The number of extensions is growing rapidly; the

³ The official data in our possession concern the number of private institutions that have been authorized to operate and the fields in which the Council for Higher Education allowed them to award degrees.

most recent amendment to the Council for Higher Education Law is intended to scale down the phenomenon or at least to guarantee, as far as possible, the academic level. The range of subjects offered by these institutions is vast, with a tendency to focus on areas that do not require expensive laboratories, workshops, and facilities. Particularly prominent is the number of extensions that offer programs in education, public administration, law, and economics. There are also colleges that specialize in highly specific field such as insurance, tourism, and design.

Operating method. The private colleges and extensions of foreign universities are run by Israeli operators – some of them private, some institutional, and some public – for profit. Some of these entrepreneurs run extensions for several foreign universities. The foreign universities receive a fixed percentage of the tuition; the local operators receive their share after deducting expenses for faculty salaries, rental of facilities, advertising, and administration.

Tuition. Tuition runs between \$6,000 and \$8,000 per year. However, the “year” is usually a full calendar year (two semesters, or three trimesters plus a summer session). Some of the institutions, especially those affiliated with American universities, require a period of residence at the parent university to complete the degree requirements. Many institutions promise a one-year masters’ degree. Institutes that offer degrees in education speak of completing the bachelor’s degree on the basis of credit given for practical experience and courses taken at the college. Public agencies that have concluded various agreements with some of the institutions offer scholarships to students who come from their own ranks. Students employed in public institutions are also eligible for a full or partial refund of tuition.

The level of tuition fees is not uniform and varies among the institutions, among disciplines, and between undergraduate and advanced degrees. Installment plans are available.

Structure of study. Most of the extensions and colleges make an effort to concentrate courses on one or two days a week, across a full year, and promise to make it possible to obtain a master's degree in one calendar year. In many of the universities, the requirements for a master's degree omit all knowledge of statistics and quantitative research methods, based on the contention that the thesis is based on qualitative research methods. At the Ph.D. level, duration of studies and residency requirements are usually stricter. Some of the extensions give a small fraction of their courses in the language of the parent university – mainly English – and require that some of the papers – or at least an abstract – be submitted in English.

Degrees. The extensions award degrees ranging from B.A. to Ph.D. Many of them concentrate on courses to complete the requirements for an undergraduate degree, and offer credit for studies in post-secondary institutions (teacher training colleges and schools for practical engineers and technicians) and for practical experience in these occupations. All of the institutions state that the degrees they award are recognized by government ministries for wage and promotion purposes. The degrees given by the extensions allow their recipients to continue advanced studies at the parent university. However, these degrees usually do not entitle their recipients to continue graduate work in Israeli institutions of higher education, because the quantity of prerequisites that would have to be made up is tantamount to redoing the undergraduate degree.

Libraries and other academic services. Most of the extensions operate out of rented quarters in public buildings such as community centers, high schools, and teacher training colleges. This fact alone indicates that they do not have academic libraries worthy of the name. Some of the extensions

have reached agreements with local universities to allow their students to use their libraries.

In view of the foregoing, the question is what attracts Israeli students to these institutions, which charge such high tuition, which offer an education (some of them, at least) of dubious quality, and whose promises as to the various entitlements conferred by their degrees do not always pass the test of reality?

There seem to be several reasons, which have different weights for different students:

1. Convenience – in terms of schedule and geography. Many of these institutions are near the students' places of residence. The possibility of completing degree studies within a year, with the courses clustered on one or at most two days a week, is enticing.
2. Access to fields in demand. Many of the private institutions and the extensions have gone into the fields most in demand in academic studies, those in which the universities are severely selective. These include law, business administration, communications, and computers, which until recently were an unrealizable dream and have now become a realistic possibility.
3. Academic requirements. The academic requirements at most private institutions are less rigorous than those of the universities. More credit is given for courses taken in non-academic post-secondary settings and for students' cumulative experience.
4. Personal attention. Most of the private institutions are still small and go out of their way to create closer personal relations between students and teachers.
5. Economics. Although the tuition at private institutions seems much higher than that at universities, there is in fact no substantial difference if one considers that degrees can be completed in one year at the former, as against three or four in the universities. Furthermore, all the ancillary expenses are

concentrated in a single year. If we add the fact that the wage increment for the sought – after degree (for teachers this is five percent for an undergraduate degree and 7.5 percent for a masters) is received starting after only one year, rather than three or four, we see that for individuals, the investment in studies at an institution that promises a degree within one year is well worth it. Another consideration, of course, is comparison of cost of studies in a sought – after discipline in Israel – denied to a student in the existing higher-education institutions and now possible with the establishment of the private institutions – against the cost of studying abroad, with everything this entails. Such a comparison immediately illuminates the preference for study in Israel over going abroad.

In the last-mentioned context, the issue of **university tuition** refuses to vacate the public agenda. Recently, demands for free tuition have gathered strength. The rising willingness of Israeli students to pay large sums to private institutions of higher education seems to contradict this demand. However, as we have already shown, this is not the case. In our estimation, a majority of students at private institutions belong to the well-to-do strata, which prefer to study in Israel even when these studies are more expensive in Israel than abroad, or are workers in the public or private services who can rapidly recoup the cost of their studies. If this assumption is correct, then expansion of the spectrum of higher education to public colleges and private institutions has not solved the problem of the high cost of academic studies for disadvantaged groups and actually hinders their full socioeconomic integration.

The demand for free tuition, although justified on many grounds, is problematic, because of its regressive effect on the distribution of national income. For example, the Central Bureau of Statistics has found that the value of “transfers in-kind of

services of universities and other institutions of higher education increases inequality in income distribution; a rather large share of these transfers are given to households in the upper deciles. This is because a higher proportion of students come from high-income households than from low-income households... The inequality may be greater than that reflected in the findings, since the Family Expenditure Survey considers students who live apart from their parents to be members of separate low-income households and accordingly ranks in the lower deciles.”⁴

Nevertheless, it should be borne in mind that university studies are free in many Western countries. In any case, it is worth to renew the discussion of the proposal advanced in a publication of the Center for Social Policy Studies in Israel by Prof. A. Razin, namely, that *all* students should be allowed to finance their *full* tuition, plus an allowance for basic needs, by means of a loan granted them irrespective of their current economic situation. The loan would be repaid over a lengthy term, and students with low repayment ability would be given a grant.⁵

This proposal would allow anyone capable of and interested in acquiring higher education to do so and would eliminate the budgetary constraint that limits the economically disadvantaged, without aggravating social disparities. Similar proposals have been put forward recently. Unlike the CSPS proposal, however, they speak of tuition loans only, make no provision for basic needs, and envision a much shorter repayment term than the original proposal did.

⁴ Central Bureau of Statistics, *The Impact of Social Transfers In-Kind on Income Distribution*, Special Publication No. 1049.

⁵ A. Razin, “Integration of Assistance Programs for the Young”, in *Israel’s Outlays for Human Services 1984*”, Center for Social Policy Studies in Israel (Jerusalem, 1985).

Health Services

1. Government Expenditure on Health

Ever since the passage of the State Health Insurance Law, the health system has been mired in deep crisis. Truth to tell, even before the law was enacted the health system suffered from ongoing crises, but this law was intended to solve the system's problems, at least from the financial standpoint, and has not done so. One of the salient parameters of the health system during these years has been the continual and consistent attempts by the government to cut back its budgetary involvement and increase the public's share in the funding of national health expenditure.

In our review this year, the presentation of health expenditures has been modified in order to bring it closer to the changes that have occurred in the past few years in the structure of system funding. One of the main changes was the elimination of health-fund membership dues and their replacement by the health tax. According to the principles of national accounting, there is an essential difference between these two types of levies: the former is voluntary, the latter obligatory. In the course of the changeover, various parameters of course changed, leading to a different incidence of funding. However, to permit a multi-annual comparative survey, the health tax can be presented as the successor of the direct private insurance (membership dues) in effect before the passage of the law. Accordingly, this study does not include National Insurance transfers on account of the health tax as part of government expenditure.

Another major change is the gradual erosion of the “parallel tax” system (the employers’ contribution to the employees’ health insurance) since the mid-1980s and its total elimination in 1997. In the course of the erosion of this tax, the government took over the payments to the health funds that had come from the parallel tax and forwarded them as direct support. To keep the presentation consistent, we have categorized this form of government spending – along with other direct transfer payments to the funds – as “co-payments of medical insurance.” (See Table 1).

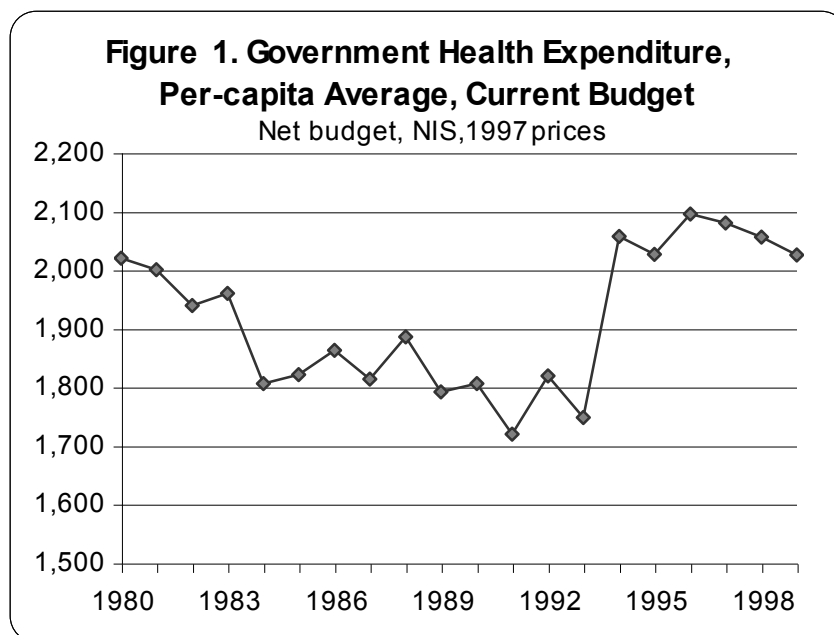


Table 1. Government Health Expenditure, Total and Per-Capita Average Current Budget (1997 prices)

	<u>Total expenditure (NIS millions)</u>			<u>Per-capita expenditure (NIS)</u>		
	Total	Co-payments	Direct expenditure	Total	Co-payments	Direct expenditure
1980	7,833	4,445	3,388	2,020	1,146	874
1990	8,417	5,995	2,422	1,806	1,286	520
1991	8,508	5,938	2,570	1,719	1,200	519
1992	9,320	6,457	2,863	1,819	1,260	559
1993	9,195	6,735	2,460	1,748	1,280	468
1994	11,105	7,860	3,245	2,057	1,456	601
1995	11,235	7,869	3,366	2,027	1,419	607
1996	11,918	8,611	3,307	2,096	1,515	582
1997	12,121	8,732	3,389	2,080	1,499	581
1998	12,286	8,568	3,718	2,059	1,436	623
1999	12,361	8,622	3,739	2,025	1,412	613

The table shows that government expenditure for health has reached NIS 12.4 billion, or 16 percent of total social spending by the government and 3.6 percent of GDP. The table also shows that, on a per-capita basis, the government spent NIS 2,025 (in the current budget) on health – similar to the figure of two decades ago. Between these two points in time, per-capita expenditure fell to a nadir of NIS 1,748 in 1993 before climbing back to its present level. The turnabout in 1994 was due to the health-fund crises that erupted that year and to the passage of the State Health Insurance Law; since then, however, government spending has increased only proportional to population growth. The implications of these findings should be examined in the context of the evolution of the health-care

sector in general, as reflected in data on national health expenditure, which epitomizes the activities of all sectors active in health care – government, other public, and private.

2. National Expenditure

National expenditure essentially reflects the economic side of the activity of the health-care sector. The way it is computed summarizes the totality of the financial activities of every unit of Israel's health-care delivery system. These activities include salary payments to physicians, nurses, and other employees of system facilities, complemented by purchases of the products and materials used by hospitals and clinics. All of these fall under the heading of current outlays, which represent the cost of daily upkeep of the system. Beyond this, the system spends various sums to expand its facilities and acquire durable equipment, such as computerized scanners and x-ray equipment. All outlays in the latter group are investments in capital goods, whose use is neither nonrecurrent nor confined to a single year.

The aggregate financial outlays therefore, represent the extent of activity of the health services in a given period and make it possible to assess the changes that occur over time. In an "environment" free of inflation and price changes, this would indeed suffice to provide the desired real picture. However, the real "environment" in Israel, as elsewhere, is very different. One way to correct for this is to use some other comparative magnitude; the accepted one is the total economic activity of the country as a whole. Juxtaposing health expenditure to the total outlays of the economy provides not only a real indicator of the extent of health-system activity but also represents the relative growth of this sector and measures the burden on GDP of permitting delivery of the services.

In previous decades there was a continual increase in the share of GDP devoted to the health system. This process was not

unique to Israel. It occurred in most countries, and to a certain extent was a source of concern for system planners, because on the one hand there is a wish to improve services as much as possible but on the other hand there are economic constraints that comprehensive planning must take into account. The effort to reconcile these two clashing goals reflects the desire to place health high on the national agenda, without causing excessive harm to other public or private systems. The incessant technological advances have heightened the pressure to devote more economic resources to the health system, while competition by other social and economic objectives have slowed the expansion to some extent.

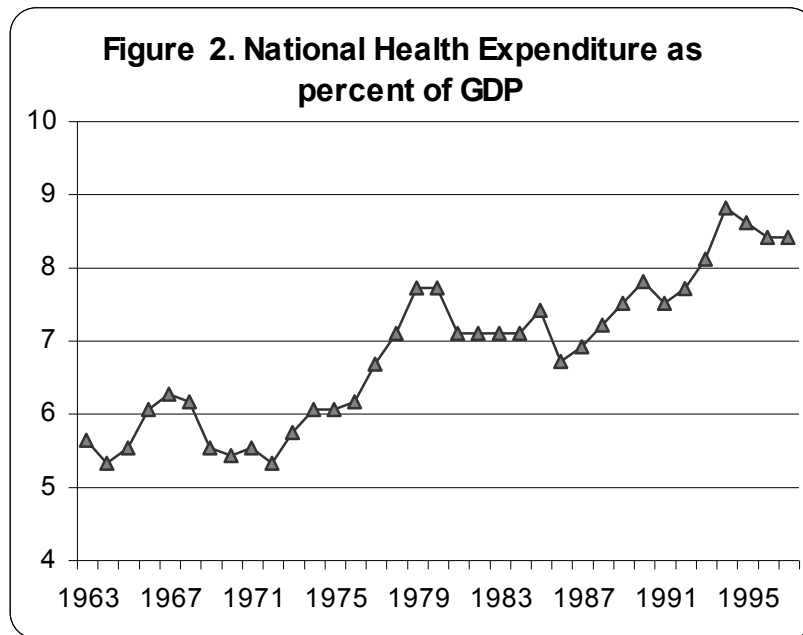
It may be stated empirically that the trend has traced a staircase pattern: from the 1960s until the mid-1970s, health expenditure as a share of GDP was stable at an average of 5.5–6 percent. In the 1980s, the level climbed to the vicinity of 7.5 percent. From the mid-1980s the level crept upward toward 8.5 percent. In practice, this level has prevailed since 1994, with a gentle downtrend in the last three years.

If we focus on the past two decades we find that in the 1980s the burden on GDP rose by 10 percent, from 7 percent to 7.8 percent. To gauge the matter more thoroughly, we should determine what was obtained for the added burden; this, too, can be compared with other uses of the national product. From this standpoint, it turns out that during the years when the burden on GDP grew by 10 percent, there was a vigorous increase in the prices of health services, outpacing the increases in other uses. This implies that each sheqel spent on health services purchased a smaller quantity of services than a sheqel spent on some other field, such as education or private consumption. Indeed, we find that while the burden on GDP rose by 10 percent, the scope of services actually generated was no higher than that generated in other economic sectors.

Table 2. Increase in National Health Expenditure Relative to GDP, (Percent)

	1980–90	1990–94	1994–97
Growth in burden on GDP	9.0	13.7	-3.4
Relative price increase (vs. GDP)	11.3	15.4	-3.9
Real relative increase	-2.0	-1.5	0.4

This process recurred – and perhaps with greater intensity – during the first half of the 1990s. Between 1990 and 1994, the burden of health on GDP grew by 14 percent, but the excess price increase in this sector, relative to others, meant that the actual expansion of service generated was slightly smaller than the real increase that occurred in other sectors of the economy. In the past three years, the trend has reversed direction: the burden on GDP has decreased slightly and the price increase of the sector has become less than that of GDP. The final result is that despite the reduced burden, the scope of service has not declined relative to overall economic activity.



3. System Funding

The health services in Israel have always been overwhelmingly public and only minimally included private services, mostly in dental health. The services are to a large extent provided by four health funds, of which the largest has been and remains Kupat Holim Kelalit (General Health Fund). In recent decades, the Maccabee Health Fund has gained ground on Kelalit. The situation today is no different from that preceding the 1995 reform; the main change has been manifested in the way the funds are financed. In contrast to the past, when the funds charged membership dues to the insured, today collection is by the state (through the National Insurance Institute), which forwards to the funds money commensurate with their

membership, with a slight adjustment made for differences in the members' age composition.

Another change occurred in the component known as "parallel tax." Originally, this was an arrangement between the funds and the organized employers, who participated in funding their workers' health insurance. As time passed, the arrangement was extended to the entire economy and tax was collected by the National Insurance Institute at an obligatory rate, which rose steadily until it reach 4.9 percent of wages. In the economic stabilization plan of 1985, employers were granted relief in the form of a reduced parallel-tax rate; the Finance Ministry compensated the NII for the lost revenue. Eventually, in 1997, the parallel tax was abolished altogether; today the Finance Ministry transfers the sum that would have been due were the tax still levied.

Because of these changes, no simple tracking of funding trends is possible; the various components must be categorized appropriately. The available statistics for this series are presented beginning in 1984 (to be precise, the fiscal year of the time, 1984/85). If we examine the trend over time, we find that in the mid-1980s households funded almost 40 percent of national health expenditure, most of this on private medicine (the largest part of which was for dental care) and the balance as health-fund membership dues. In addition, the "parallel tax" levied on employers produced a sum equivalent to 27 percent of national health expenditure. Finally, government funded about one-third of the total expenditure.

By the early 1990s, the sum paid directly by households as health-fund membership dues had risen to between 19 and 21 percent of total expenditure. As stated, the dues were replaced by a health tax in 1995; in 1997 the tax covered 26 percent of the expenditure. This may be regarded as an increase of one-quarter in the component paid directly by consumers, in the form of an earmarked tax. Offsetting this, the share of direct

government funding decreased to 25 percent of expenditure. (This refers to funding from general government sources as distinct from an earmarked tax. For the purposes of this computation we do not address ourselves to the elimination of the parallel tax in the past year, since in practice the tax had not been collected in full in previous years either).

Table 3. Funding of National Health Expenditure

	Government, total	<i>of which:</i> Parallel tax	Other government funding	Households, total	<i>of which:</i> Fund membership dues	Private services and medicines
1985/86	61	27	34	39	14	25
1989/90	53	27	26	47	19	28
1994	54	22	32	46	21	25
1997	48	22	26	52	26	26

Source: Based on CBS, "National Health Expenditure 1995–1997."

Notes: 1) The "health tax" has been included in the "membership dues" column.

2) The "Other" category in the original table (see: Appendix) has been classified under "other government funding."

If we disregard all the metamorphoses of the various components and address ourselves to the current situation only, we see that in 1997 the government, in various ways, covered about three-quarters of national health expenditure, while households paid for the remaining quarter directly. More than half of households' expenditure went for dental health; the balance was divided roughly equally between spending for private physicians and outlays for medical devices and medications.

In 1998, the health funds also introduced direct collection from patients, whether as a “tax” for visiting a physician or as co-payment for medicines. This solution deviates from the basic philosophy of national health insurance and is regressive. It should be emphasized that it was originally meant to cover the deficits that the health funds had built up. In a national health insurance regime, such a solution is unreasonable. If the funds’ expenses are justified, in the sense that the competent agencies acknowledge that they reflect the real cost of providing services at their existing level, then it follows that the collection and government-funding formula is flawed and needs to be amended to make up the shortfall. This assessment is supported by the fact that the formula for collecting the tax was determined in 1994, on the basis of the national expenditure data available to the planners at that time. These data usually become available at a lag of two years. In view of the aforementioned finding of steep price increases (which became apparent after the fact) in 1990–1994, it stands to reason that the sum needed to provide services at the existing level was underestimated.

The method chosen, which is regressive per se, cannot assure a fundamental solution to the problem. It is especially worth bearing in mind that once the principle of charging for service is entrenched, the way is clear for later increases in the rates and level of co-payment.

4. The Inpatient Care System

A considerable share of the activity of the health system takes place in the various inpatient institutions. It is conventional to classify these institutions according to two criteria – ownership and specialization. According to the first, it is possible to distinguish among five ownership groups: government, Kupat Holim Kelalit, other health funds, other nonprofit organizations, and private. According to the latter, there are four broad

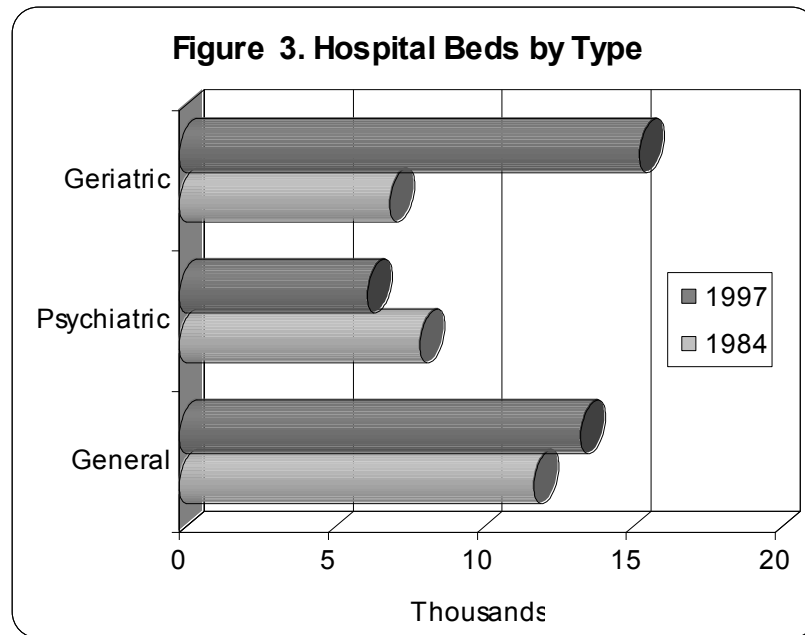
specializations with more detailed subdivisions within them: general, psychiatric, chronic care, and rehabilitation. In most statistical summaries, the two last categories are combined.

In fact, a separate description of the system according to these two criteria may be misleading; it is preferable to examine the matter in a combined fashion, i.e., a cross-categorization by these criteria, taking account of institution size. With regard to ownership, government institutions are a negligible minority: in 1997, the government owned 30 of the 300 inpatient institutions, or one-tenth of the total. However, the picture that integrates all three axes – ownership, specialization, and size (expressed in number of beds) – gives the government institutions a much more respectable place.

General hospitals have 13,500 beds today, about half of them in government-owned facilities. Kelalit owns 30 percent of the beds; most of the remainder belong to other NPOs, such as Hadassah. The share of beds in private institutions has grown vigorously in the past decade but still amounts to a tiny fraction – only four percent of the total.

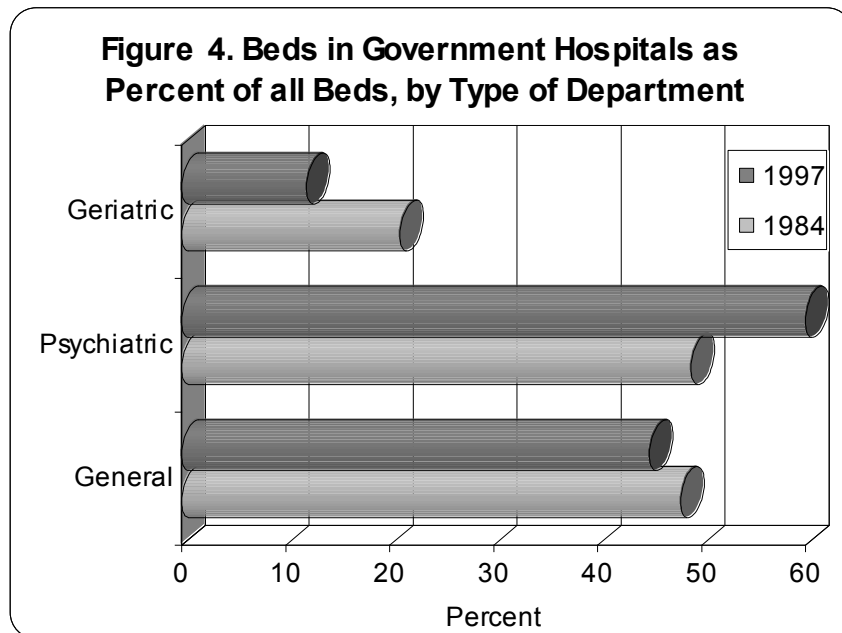
Table 4. Hospital Beds, by Type and Ownership
(Percent)

	General		Psychiatric		Geriatric	
	1984	1997	1984	1997	1984	1997
All	100	100	100	100	100	100
Government	48	45	49	60	21	12
Health funds	31	30	7	6	12	9
Other nonprofit	19	20	3	2	28	38
Private	3	4	41	32	39	40



Historically, the general hospitals accounted for a plurality of the beds: in 1984, there were 12,000 general beds, 8,000 beds in psychiatric institutions, and 7,000 in hospitals for the chronically ill. The balance has changed greatly since then; today hospitals for chronically ill (in fact, geriatric) rank first, with 15,500 beds, followed by general hospitals with 13,500 beds, and psychiatric institutions, with only 6,300 (down from 8,000, as stated, in 1984).

In the geriatric-hospital sector, the government and Kelalit have a very small share – 20 percent for both sectors combined. Most inpatient care is provided in NPO or private institutions – about 40 percent each, for a total of 80 percent of geriatric inpatient beds.



In psychiatric hospitals, the government sector is dominant, with 60 percent of all beds; this represents a perceptible increase at the expense of private institutions, which declined from 41 percent in 1984 to 32 percent today. The other two sectors, Kelalit and other NPOs, play a small and declining role in this field; together they provide only eight percent of the total, down from 10 percent in the previous decade.

As implied by the detailed figures presented above, the growth in the total number of beds has lagged significantly behind population growth. This is manifested in a decrease in the number of beds per capita during the past two decades – from 6.7 beds per thousand to 6.0 in 1997. Here, too, one may discern growing differences among the three types of inpatient care. In general and psychiatric hospitals, the per-capita decrease in the number of beds has been very steep, while it has actually increased in geriatric hospitals.

These distinct numerical trends are not just a “taking of inventory.” Behind them stand many changes in each domain. In geriatric care, there has been a substantial and ongoing correction of the striking shortage that had prevailed in this field for many years. The increase in the number of elderly in the 1970s and the early 1980s, and the rising incidence of senior citizens in need of long-term inpatient care, could not be accommodated by the existing institutions. Only in the late 1980s did vigorous growth occur in this field; as shown above, the number of beds in this field has increased significantly and largely compensated for the continued rise in the number of elderly. It should be borne in mind that the percentage of seniors has hardly grown in the past decade. Even though the emphasis within this cohort shifted to the 75+ age group, the doubling of the total number of beds largely improved the situation in terms of the per-capita average, too.

There has been a steep decrease in the number of beds in psychiatric hospitals, especially in the private sector. One should not make the mistake of thinking that this is part of a philosophy that runs counter to the privatization process; instead, it is the combination of two trends – on one hand, the long-term trend of emphasizing home and community care, and on the other hand, of the effort to shut down private institutions that do not satisfy quality-of-care criteria. Be this as it may, the 50 percent decline in the average number of beds per-capita in population, in the past two decades, is certainly not the product of a corresponding decrease in the incidence of mental illness.

In the third category of institutions – actually the first, in terms of number of patients and other indicators – general hospitals, the number of beds has risen, as stated, but much less than the extent of population growth. For this reason, the number of beds per thousand of population has declined from 3 to 2.3, in a continual and gradual process.

Such a drastic decrease in the number of beds in general hospitals is accompanied – almost as an arithmetic result – by a decline in the average number of admissions or by greater turnover in utilization of beds. There has indeed been a decline over time in the number patients admitted to hospitals, whether as a result of the decrease in morbidity or as a result of a transition to outpatient therapeutic methods. However, the main factor offsetting the decline in the number of beds has been a reduction in the average length of hospital stay. For all general-care admissions, over the past two decades the average patient stay has contracted by one-third, from an average of 6.3 days to 4.3 days per person admitted. Among the larger departments, general surgery is most notable in this regard: the average stay has fallen by 60 percent, from 7.3 to only three days.

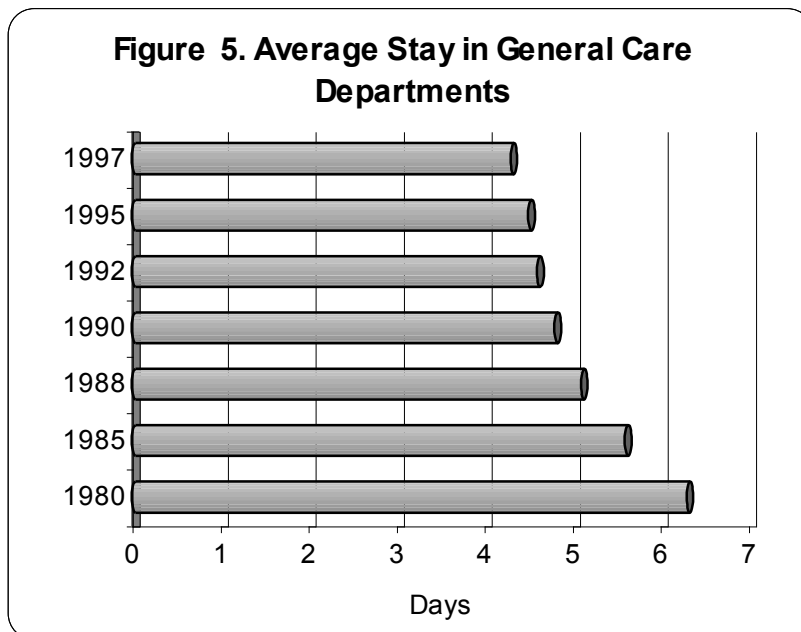
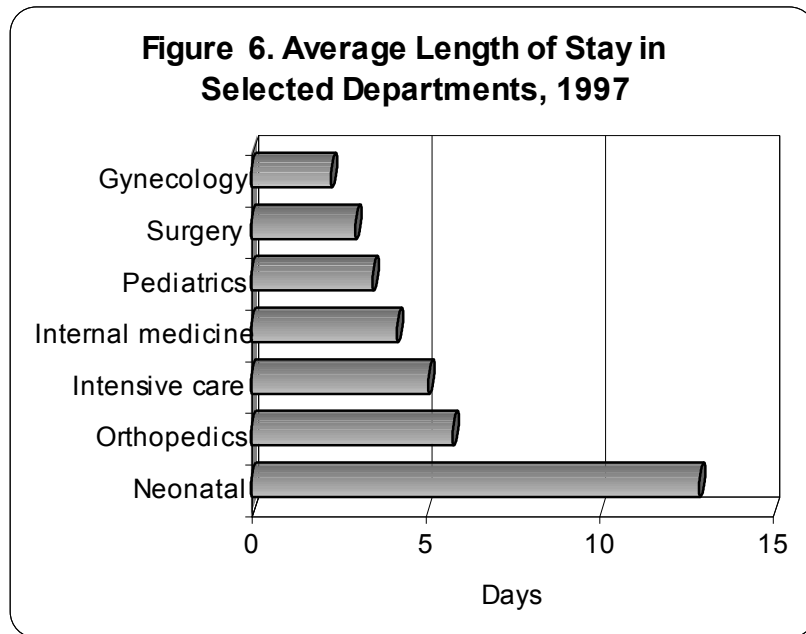
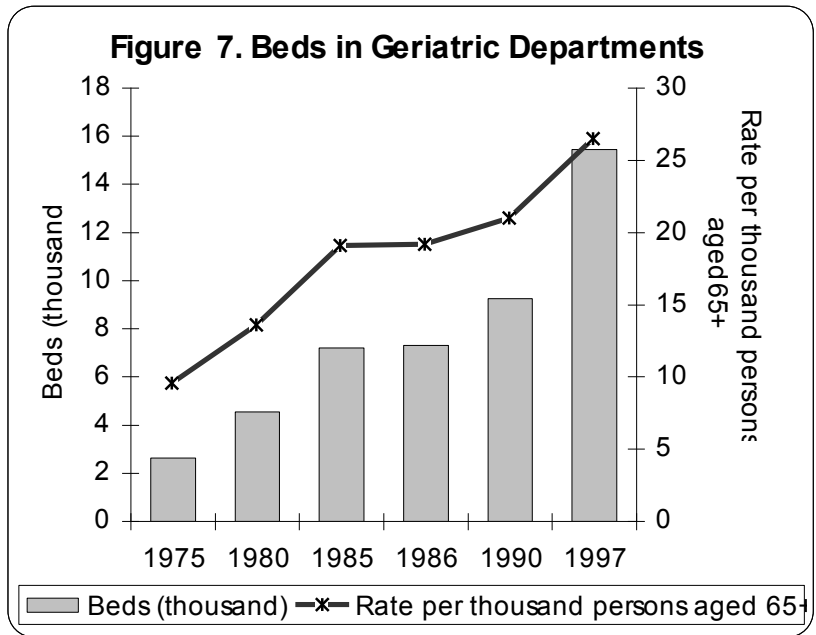
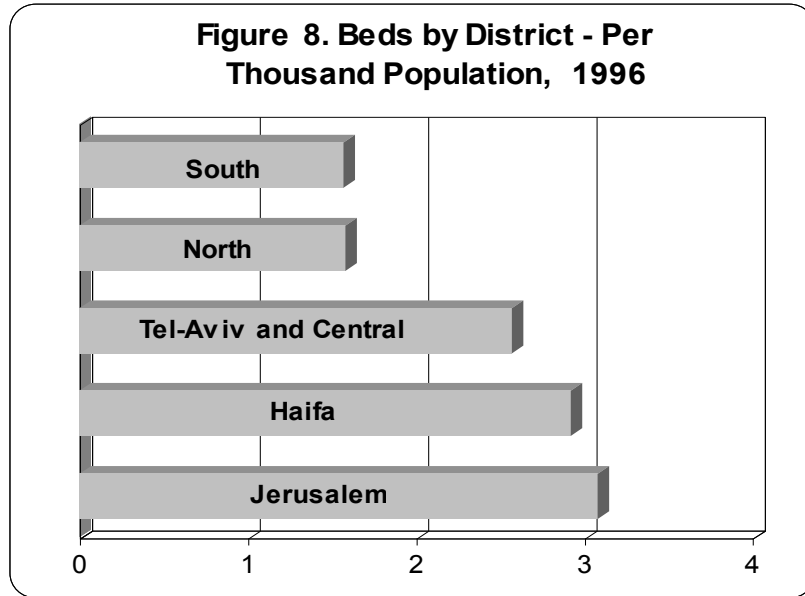


Table 5. Beds by Type (rate per thousand population)

	1980	1985	1990	1995	1997
Total	6.7	6.5	6.0	5.9	6.0
General	3.0	2.8	2.6	2.4	2.3
Psychiatric	2.2	1.8	1.5	1.2	1.1
Geriatric	1.2	1.7	1.9	2.3	2.5
Geriatric per 1,000 aged 65+	13.5	19.0	20.9	23.8	26.4







It is hard to determine the extent to which a process of “streamlining” is taking place here, that is, the introduction of procedures that require shorter hospital stays than previously, and the extent to which it reflects “rationing” in response to a shortage of beds. One indication of the latter may be found in the differences between various parts of the country. Although the available data are not sufficiently detailed, we can infer from them that the number of beds available to residents of the north and south is much smaller than that available to inhabitants of the central area and the major cities. The number of beds in central areas ranges from 2.5 to 3 beds per thousand, whereas in the north and the south the rate is only slightly higher than 1.5 beds per thousand. At the same time, the number of inpatient days in peripheral areas is only half of that in the central areas.

5. Life Expectancy as a Health Indicator

Measuring the health of an entire population requires availability of data comparable both over time and in relation to the situation in other countries. Although the data available are rather scanty, several indicators do point to an improvement in Israelis’ health. For example, mortality from heart disease decreased from 172 cases per 100,000 persons in the early 1980s to 138 cases in the mid-1990s. Nothing can be inferred from such changes as to the efficacy of the health services, but this figure in itself may point to improvements that have been occurring over time.

In the absence of detailed statistics on the health status of the population and the impact of the health services, it is conventional to use life expectancy as a relevant indicator. This is not meant to imply that the absolute level of life expectancy and changes therein are determined by the level of health services. However, there is a general consensus that some correlation exists between advances in health care and changes

in life expectancy. In any case, the prolongation of life with the concomitant improvement in the quality of life is undoubtedly one of the main goals of the health-care system.

Overall, life expectancy in Israel, which ranks among the highest in the world, has been increasing for most of the country's history. For the first few years, the data pertain to the Jewish population only. In Israel's formative years, average life expectancy was 68.5 years. Two decades later, in the early 1970s, this figure had increased to 71.7 – an extra three years on average. From that period we have data for the entire population; the aggregate figure is slightly lower than that for the Jewish sector only.

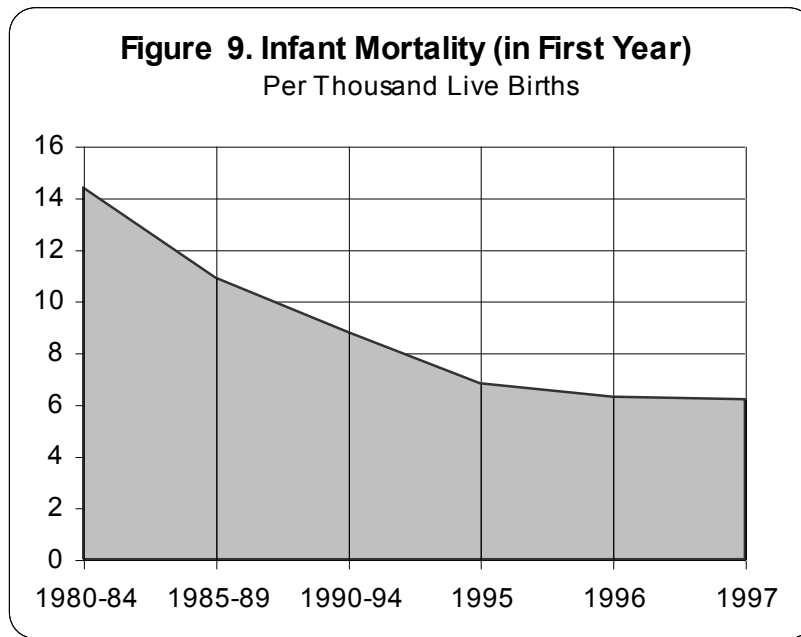
Table 6: Life Expectancy at Birth

	1975– 1979	1980– 1984	1985– 1989	1990– 1994	1995	1996
Total population						
Men	71.2	72.7	73.8	75.1	75.5	76.3
Women	74.7	76.1	77.4	78.8	79.5	79.9
Jews						
Men	71.7	73.1	74.1	75.5	75.9	76.6
Women	75.3	76.5	77.8	79.2	79.8	80.3
Arabs						
Men	69.2	70.8	72.7	73.5	73.8	74.9
Women	72.0	74.0	75.5	76.3	77.3	77.7
Difference between women and men						
Total population	3.5	3.4	3.6	3.7	4.0	3.6
Jews	3.6	3.4	3.7	3.7	3.9	3.7
Arabs	2.8	3.2	2.8	2.8	3.5	2.8

At the start of the fourth decade of independence – that is, in the early 1980s, the average life expectancy of the population at large had climbed to 74.5 years. By the end of the decade it had reached 76.3 years. Today, life expectancy is 78.1 years. If we compare the situation to that of the early years of the state, we find that during the last 50 years average life expectancy has increased by nearly 10 years – a 15 percent improvement.

All of the data mentioned are general, relating to the entire population, irrespective of population group or gender. More detailed data point to substantial disparities that have existed in most years. In the first distinction, population group, we find that life expectancy among Jews is about two years more than among the Arab population, and that this gap has persisted in almost all years.

In the distinction by sex, women's life expectancy exceeds men's; here the gap has actually widened somewhat over time. It should be noted, however, that the disparity between women and men is not as large as in other developed countries. In Israel, it is 3.6 years – meaning that women on average live three-and-a-half years longer than men – whereas in many Western countries the gap is almost twice as large. In fact, Israel owes its high ranking in international comparisons mainly to the longevity of its men – second in the world after Japan (Jewish population only; fourth place for the entire population). Israel's ranking is not so high for women. Up-to-date figures for 1996 show that the longest life expectancy is almost 80.3 years, for Jewish women, followed by 77.7 years for Arab women, Jewish men at 76.6 years, and Arab men at 74.9 years. The gap between the sectors is 2.2 years, while the gender gap is 3.7 years among Jews and 2.8 years among Arabs.



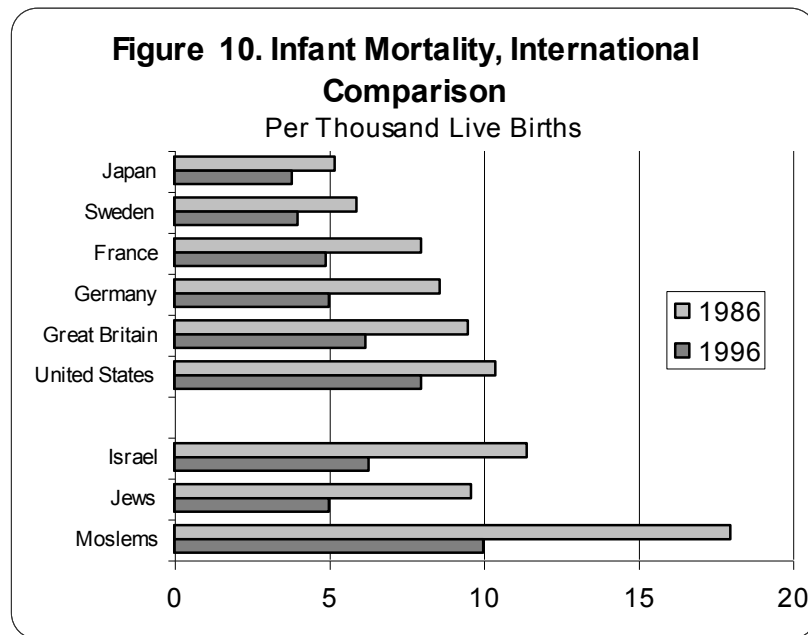


Table 7. Life Expectancy at Birth – International Comparison, 1996

	Men	Women	Difference
Portugal	71.2	78.5	7.3
United States	72.7	79.4	6.7
Germany	73.6	79.9	6.3
Japan	77.0	83.3	6.3
Switzerland	75.7	81.9	6.2
Sweden	76.5	81.5	5.0
Great Britain	74.4	79.3	4.9
Israel	76.3	79.9	3.6

The contribution of the health services to lowering mortality rates is acutely evident with regard to infant mortality. Here Israel does not do as well in international comparison as in mortality rates for the population at large. Be this as it may, much progress has been made in all sectors and all stages of infancy. The overall rate today is eight per thousand births, as against 22 per thousand two decades ago. During this period, infant mortality caused by infectious diseases and pneumonia has almost totally disappeared, the rate plummeting from 4.2 per thousand births in the 1970s to 0.2 per thousand today.

In the field of infant mortality, a sizable gap still remains between the Jewish and Arab sectors, even though vast progress has been made in the latter sector. Although these figures point to an improvement in basic conditions, there is no doubt that the health services play an important role in the advancement of all segments of the Israeli population toward the levels common in developed countries.

Personal Social Services

The personal social services focus on solving problems of individuals, families, groups, and communities that are unable or find it difficult to cope with various kinds of distress that seriously impact on their functioning and quality of life and impede their social integration. These services serve the most vulnerable groups in Israeli society, such as children at risk, disabled or needy elderly, teenagers in distress, battered women, families in crisis, the disabled, the retarded, recent immigrants with adjustment difficulties, ex-convicts, and drug addicts.

Various service organizations are active in the arena of personal social services and are in charge of providing these groups with assistance, which includes advice, treatment, provision of information, mediation, instruction at the individual, family, and group levels, and material aid. These organizations also engage in developing, funding, and operating various community and institutional services: institutions, clubs, and day centers for the elderly, hostels and community housing for the retarded and the disabled, shelters for girls in distress and for battered women, clubs and afternoon centers for children, rehabilitation centers for the disabled, family counseling centers, and detoxification centers for alcoholics and drug addicts.

1. Government Expenditure for Personal Social Services

Because government is a major player in funding the personal social services, patterns of government spending for these services have a decisive effect on their operation. The personal services budgets in the 1990s have been very different from those of the 1980s. The decisive influence in this trend can be attributed to the inauguration in 1988 of long-term-care benefits for those eligible under the Long-Term-Care Insurance Law. Implementation of this statute led to a rapid increase in government spending for personal services. Although this trend has continued in recent years, growth has been concentrated in long-term-care benefits, while most in-kind services have not expanded.

Table 1. Increase in Total and Per-Capita Expenditure for Personal Social Services, with and without Long-Term Care Benefits (NIS millions, 1997 prices)

	1990	1992	1995	1997	1998	1999
Total expenditure						
Total	1,786	2,053	2,518	2,834	3,159	3,371
Index: 1990=100	100	115	141	159	177	189
Excluding long-term care benefits						
Total	1,340	1,491	1,764	1,867	2,078	2,067
Index: 1990=100	100	111	132	139	155	154
Per-capita expenditure						
Total	383	401	454	486	529	552
Index: 1990 = 100	100	105	118	127	138	144
Excluding long-term care benefits						
Total	287	291	318	320	348	339
Index: 1990 = 100	100	101	110	111	121	118

The overall increase in spending is also reflected in the share of personal services out of all current expenditure for the social services. This category is the third-largest among the in-kind services, after education and health; in the late 1990s its share of total expenditure reached 4.5 percent. It can be seen that during the past few years, 1995-1999, the average annual increase in this category has been 7.6 percent, while education and health spending have risen by only 5.4 percent and 2.4 percent, respectively. The average annual increase in the personal services is large and resembles the average annual increase, during the same period, in income-maintenance expenditure. However, it should be reiterated that the change is concentrated in long-term care benefits, whose trend resembles that of income maintenance rather than in-kind services.

Average per-capita expenditure for personal welfare services also increased if one includes benefits under the Long-Term-Care Law, but not if we relate only to direct activities aimed at various population groups in distress.

As part of his development, long-term-care benefits have risen from 20 percent of the total expenditure for personal social services in 1989 to one-quarter in the early 1990s and one-third in 1997-1998. The 1999 budget envisions this component climbing to 39 percent of total expenditure.

	1989	1991	1995	1997	1998	1999
Long-term care benefits, share of total expenditure	20	25	30	34	34	39

The number of elderly who receive long-term care benefits has increased fourfold in the current decade (see below for further discussion of this topic). Other services for the elderly for which the Ministry of Labor and Social Affairs is responsible have also expanded in 1990s, although more slowly: the total increase in expenditure for services for the elderly since 1990

has been 55 percent, similar to expenditure for all personal services excluding long-term-care benefits. In the past few years, since 1996, expenditure for the elderly has risen by only eleven percent or so, while spending for all services was rising by 15 percent. Total expenditure for the elderly has become the largest item among the personal social services, unlike the situation before enactment of the Long-Term-Care Insurance Law: in 1998 they accounted for 41 percent of the total, and in 1999 are planned to exceed 45 percent of total expenditure. The ministry uses the balance of the personal social services budget – about NIS 2 billion in 1997 prices – to fund care for all other population groups.

Table 2. Expenditure for Personal Social Services, excluding Long-Term-Care Benefits, by Main Components
(NIS millions, 1997 prices)

	Total	Elderly	Re- tarded	Children and youth	Dis- abled	Correc- tional services	Services in welfare bureaus	Central services
1990	1,340	144	270	331	113	65	232	185
1995	1,764	205	347	371	217	87	325	211
1997	1,867	201	385	412	198	99	347	225
1998	2,078	225	433	475	219	118	375	232
1999	2,067	224	437	466	211	177	376	236

In recent years, expenditure on the retarded has been rising in real terms and now accounts for about one-fifth of all spending for personal services (not including long-term-care benefits). This expenditure is approximately equal to that on children, a category that had dominated expenditure in 1980s. The growth rate of expenditure on the retarded exceeds that for other population groups, except the elderly, by substantial margins: between 1990 and 1998, expenditure for the elderly grew by 60

percent, while that for children, for example, grew by only 43 percent.

Other expenditure lines did increase during the 1990s: rehabilitation by 90 percent, correctional services and services for alienated youth by 80 percent, and family welfare by 50 percent. It should be noted that these items account for tiny fractions of total expenditure: rehabilitation of the disabled accounts for 6-7 percent, correctional services and alienated youth for 3-4 percent, and family welfare for two percent. Wages of welfare-department workers account for eight percent of total expenditure. The distribution of expenditure during the last few years reflects a clear "favoritism" for two groups, the elderly and the retarded, over other groups such as children, youth, and young people in distress. The special increment given in 1998, and to be given in 1999, for the development of services for children may increase, to a limited extent, the share of these services, but this will not occur in the other categories. This pattern of apportionment of expenditure among the different categories lacks any satisfactory explanation, such as the existence of a set of priorities anchored in an explicit policy, or up-to-date figures on the needs of these population groups that could illuminate and explain the origin of the disparities in government allocations for the various kinds of service.

However, there is no doubt that the substantial fraction of all expenditure devoted to services for the elderly is to be explained by the fact that a major component of these services (home nursing care) is anchored in legislation. Unlike services for the elderly, some of which are rooted in law and require the allocation of a "basket" of in-kind services for a population group that is recognized as eligible, the other services lack such a foundation or are anchored in protective laws. These laws do require attention to and treatment of certain population groups, but they do not stipulate an explicit list of services that must be provided. In recent years, the Ministry of Labor and Social

Affairs has endeavored to define a package of services for children to be anchored in legislation, but no such law has passed yet. Nor have attempts to mandate by legislation residential services for the retarded succeeded. The fact that some services are anchored in legislation and others are not creates perceptible disparities in the allocation for services.

2. The Array of Personal Social Services

Various organizations are involved in the many fields of personal social services. These include the central government, local authorities, countrywide and local nonprofit organizations, the Joint Distribution Committee, the Jewish Agency for Israel, private businesses, and self-help groups. The organizational complexity of this array of services has actually increased in recent years because of the acceleration of the process of partial privatization. The process is reflected in the fact that most services, such as long-term-care services, residential facilities for children, shelters for women, hostels for the retarded and the disabled, day centers for the elderly, and so on, are provided to consumers by NPOs and private organizations. Moreover, most government expenditure for personal social services is channeled to these organizations, which play a central role in service provision. It should be noted that despite the momentum that this trend has gathered, its results – with regard to consumers, central government, and local authorities – have yet to be examined.

Alongside the growing involvement of nongovernmental organizations, the status of local authorities as important actors who affect the nature and quality of service to citizens is also gaining strength. Such local involvement is reflected in their provision of more than 25 percent of the funding for local services (the figure stipulated in accords between the central government and local authorities), the hiring of additional staff;

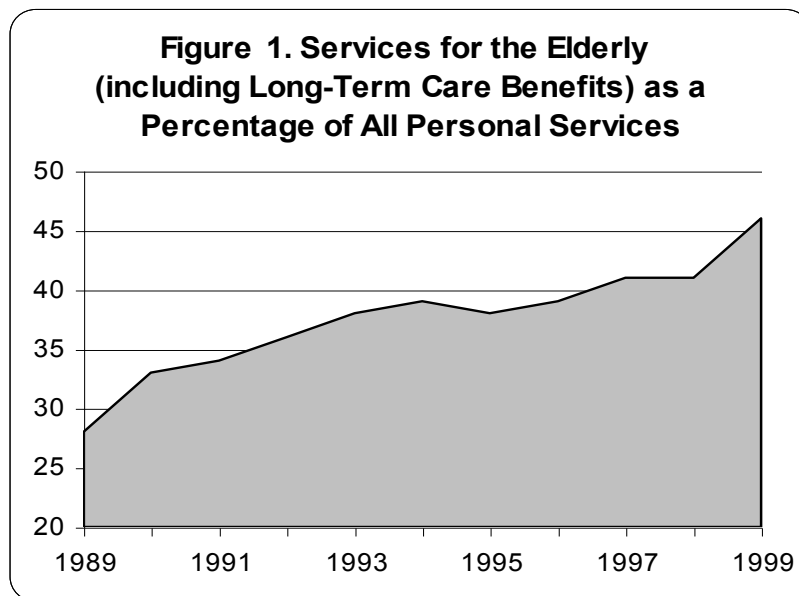
and independent development of various services. This local involvement considerably widens disparities among localities in the level of services provided to the population.

In the past few years, the personal social services have experienced a rapid process of growth, reflected in the level of expenditure, proliferation of organizations, increase in the number of workers, expansion of existing services, and development of a variety of new programs and services in each category of service. The question is whether the personal services have managed to create an appropriate and fruitful contact with population groups in distress, attain a maximum incidence of service, and help these target groups overcome their difficulties. The detailed examination of the personal social services, in the paragraphs that follow, indicates that the system of services has created a fairly comprehensive interaction with certain groups, such as the elderly and their families (mainly by virtue of the Long-Term-Care Insurance Law), the retarded, and the disabled. Other population groups, such as children and teenagers at risk, receive only partial coverage.

A change in this situation requires an organizational structure at the central- and local-government levels that will give the highest priority to services for population groups in distress, define a basket of services anchored in legislation that will be delivered to these groups, examine systematically the implications of the privatization process, encourage local initiatives, and expand the application of new programs and intervention methods that have proven their efficacy in lifting families out of serious distress.

3. Services for the Elderly

There were 568,000 elderly persons (women and men over the age of 65) in Israel at the end of 1996, or 9.9 percent of the population. Of them, 231,000 were 75 or older. In 1997, 492,000 elderly received basic old-age pensions; 40 percent of them received income supplement. This is a population group in which a high proportion has a range of needs in health, welfare, and income maintenance, response to which requires comprehensive involvement of the social services. As previously noted, in recent years the outlays for this population group have been the largest item in government expenditure for personal social services. At the beginning of the 1990s, it accounted for 33 percent of expenditure for personal social services, 38 percent in the second half of the decade, and 41 percent in the 1998 budget. Expenditure for this population group rose by 120 percent between 1990 and 1998.



These data point to a very significant turnabout in the magnitude of expenditure earmarked for the elderly population group, which began when the Long-Term-Care Insurance Law took effect. The increase in spending is reflected in the extent of services that have developed, including two main components: community services for most of the elderly (95 percent) who continue to live in their homes, and institutional services meant mainly for elderly persons who are infirm and/or in need of nursing care.

a. Community Services

Community services, which account for about half of government expenditure for the elderly, can be broken down into five main components:

1. Services under the Long-Term-Care Insurance Law: This component is the most comprehensive in terms of number of service recipients, the scope and range of services, and the share of expenditure devoted to it. Data indicate that the number of those eligible for nursing-care services has approximately quadrupled in the past decade, from 21,400 to 80,500. During this time, the population of elderly grew by only about 30 percent. The increase in the number of recipients of long-term care is thus totally disproportionate to the increase in the senior population group.

The proportion of recipients of long-term care services among all elderly, 12 percent in 1996, resembles the estimates of the proportion of disabled elderly who live in the community. Thus the long-term-care insurance services seem to be “covering” the population group in need (according to the criteria set forth in the law). It further transpires that about half of applicants for service under this law are turned away – a large majority for failure to pass the dependency test (which examines the person’s degree of disability and level of functioning).

Changing the dependency test might have increased the number of disabled seniors who could obtain these services.

Table 3. Eligible for Long-Term Care Benefits

	Total	Men	Women
1989	21,359	6,961	14,398
1990	27,685	8,668	19,016
1991	31,501	9,594	21,907
1992	37,734	11,258	26,476
1993	45,776	13,381	32,395
1994	52,067	14,919	37,148
1995	59,023	16,656	42,367
1996	65,965	18,449	47,546
1997	72,912	20,085	52,827
1998*	80,495	21,863	58,632

*June 1998.

Long-term-care services are provided by nearly 200 nonprofit organizations and private businesses that employ around 40,000 caregivers, a large majority of them on a part-time basis. The services provided are tailored to the needs of the elderly and include personal care at the patient's own home or in a day center, domestic assistance, supervision, transport to a day center, provision of absorbent products, laundry service, preparation and delivery of meals, and emergency call buttons. Housekeeping assistance is also provided to some of the elderly persons not recognized as eligible for care under the law. These services are funded by the municipal welfare departments, working through NPOs and private companies. In 1997, these services were provided to 6,000 elderly people each month.

2. Day centers for the elderly. In recent years, day centers have become a standard component of the array of community services. In 1994, there were 120 such centers in Israel, serving 7,500 persons – 1.3 percent of all seniors. In 1997, there were an estimated 140 centers serving 10,500 persons, or 1.7 percent of the 65+ age cohort. Most of the clients have physical disabilities or are mentally frail. Within this framework, they are given personal support services (meals, personal care, bathing, laundry, and so on), social and cultural services (various activity groups, games, outings, occupational therapy), and professional therapeutic services (health services, social-work services, physiotherapy, etc.). Most of the day centers are run by public NPOs; a few are run by private companies.

3. Senior citizens' clubs. These clubs are affiliated with local authorities, the *Mish'an* framework, community centers, and various volunteer organizations. It is estimated that between 10 and 20 percent of persons aged 65+ frequent these clubs, with higher rates in smaller localities. The Ministry of Labor and Social Affairs estimates that 75,000 persons used the facilities of 700 clubs in 1997.

4. Supporting neighborhoods. Supporting neighborhoods are a relatively new and rapidly developing model of service. Their purpose is to provide the elderly with a broad spectrum of services in their own neighborhood, with the objective of enabling them to continue living at home. The main services provided as part of the “supporting neighborhoods” include emergency medical assistance, home repairs (electricity, plumbing, etc.), emergency call buttons, and information and contact with other services (health services, welfare departments, etc.). The various services are provided to elderly people who live within the supporting neighborhoods and who have joined the program as members (membership entails a monthly payment). At the end of 1998, the country had about 30

supporting neighborhoods (there is no accurate and up-to-date information about the number of residents who use their services).

5. Additional community services. Municipal welfare departments, local NPOs, and private businesses also provide hot and frozen meals, other assistance (transportation for treatment, providing missing household equipment), installation of security devices, home renovation, recreational activities, and the like.

b. Institutional Services

Notwithstanding the declared emphasis on the development of community services, about half of government expenditure on personal social services for the elderly is devoted to institutional services. The Ministry of Labor and Social Affairs is responsible mainly for overseeing the institutions and funding the accommodation of independent and frail elderly in them. The Ministry of Health funds the institutionalization of the mentally frail and those requiring nursing care. The Ministry of Labor and Social Affairs and the National Insurance Institute provide partial or full funding for more than half of the infirm residents, but for only a small minority of the independent ones. In 1997, these agencies helped fund the institutional stays of about 4,000 persons; the Health Ministry helped fund 7,000. A total of 230 institutions are supervised by the Ministry of Labor and Social Affairs. At the end of 1996, some 24,000 persons were living in institutions for the elderly, half of them independent or frail, the rest mentally frail or in need of nursing care.

The data point to stability in the number of independent residents of institutions, but to a substantial increase in the number of frail tenants. A perceptible increase has also occurred in the number of nursing-care and mentally frail residents of institutions supervised by the Ministry of Health. However, in 1998 more than 2,000 elderly persons in need of nursing care

were waiting for an institutional solution funded by the Health Ministry.

Concurrent with the increase in the number of institutions and their residents, in the past few years there has been perceptible growth in the number and population of sheltered-housing projects. In 1996, the country had 109 such facilities with 11,200 dwelling units. Between 1990 and 1996, the number of sheltered-housing units climbed by 82 percent. Unlike nursing homes, sheltered housing allows residents to pursue an independent lifestyle (their own apartments, independent meal preparation, and so on), backed by the health-care, social, and cultural services provided by the project.

Looking at services for the elderly in the past decade, we can say that there has been a substantial increase in government expenditure devoted to these services, an increase not paralleled in other categories of personal social services. The growth is perceptible not only in the level of financial outlays but also in the number of organizations that provide services for this group, nationally and locally, in the number of elderly who receive these services, in the variety of services provided, and in the new services developed in the past few years. The number of workers (professional and otherwise) involved in this field has also grown during this time.

Countrywide and local NPOs and many private businesses are intensely involved in delivering these services. The partial privatization policy manifested in the transfer of responsibility for the delivery of social services to business and nonprofit organizations is being strongly realized in this field.

There is no doubt that services for the elderly currently reach a large proportion of the elderly population and have improved their quality of life. However, several problems still lack appropriate solutions, such as long-term inpatient care and the disabled elderly who are not eligible for services under the Long-Term-Care Insurance Law.

4. Services for Children and Youth

In 1996, there were 1,680,000 children (aged 0-14) in Israel, and another 513,500 teenagers (defined here as aged 15-19). It is difficult to come up with an accurate estimate of the proportion of these more than two million children and teens who were in distress. In any case, the number of children living in poor families was 300,000 in 1996. This population presents the welfare services with one of its main challenges, but only 15 percent of government outlays for personal social services has been devoted to this category in recent years. Moreover, whereas this expenditure has grown in the 1990s by 43 percent, total expenditure for personal social services, excluding long-term-care benefits, has increased by 55 percent. In the past year, services for children received a special increment earmarked for the development of specific services for children at risk. This special allowance will also be allocated in 1999.

Personal social services for children contend with a range of problems, needs, and difficulties. They aim to locate at the earliest possible stage children in need of assistance and to respond in a way that will assure their well-being and safety. The goal is to extricate them from situations of risk and distress and to assure their personal and social advancement. These services also deal with child adoption and unmarried pregnancies. Although official policy in this field emphasizes the importance of the community services, institutional services (those outside the home) continue to be a central element in the array of services for children; because of their high cost they consume a major part of total expenditure for children and teens. It is worth bearing in mind that there are several protective laws concerning children but they do not mandate the provision of concrete services.

a. Community Services

In the past few years, the community services have contracted to only 20-25 percent of total expenditure on services for children. This category includes services provided mainly by local social-service departments or by nonprofit organizations that depend on funding from the central and local governments. The social workers employed by these services locate children and parents in need of remedial intervention and offer them counseling and guidance, various options for integrating children into community facilities and projects, or referral to residential facilities. Some of the social workers act as welfare officers and are in charge of implementing existing laws meant to protect children at risk and to prevent family violence.

The community services include various facilities for preschool children, such as family environment settings and activity centers. These are programs that allow preschool children to stay through the afternoon and allow both them and children of elementary school age (6-12) to spend the afternoon in a supportive social and educational setting.

Services also include special programs meant to reinforce the parenting capabilities of parents and to improve interaction between them and their children, and operation of emergency centers for children. These centers, developed in the past few years, serve children who are at immediate risk on account of physical violence and psychological neglect in their family environments. The centers provide these children with protection, crisis intervention, diagnosis, and treatment. Children's stay in these facilities is temporary; some of them are transferred to residential facilities and others are returned to their families. In 1998, there were seven such centers in the country.

It is not clear how many children are in distress and receive service. According to an estimate by the Ministry of Labor and Social Affairs, about 50,000 children received various services

in community and institutional facilities in 1997. In 1995 some 17,000 children were handled by welfare officers. These data indicate that only some of the children at risk or in distress are reached by these services. The lack of coverage is greater in the Arab sector than in the Jewish sector.

Awareness of the problem of the limited coverage of children in distress, and the failure of the welfare services to fully cope with this population group, which stems largely from under-budgeting of this field, have prompted the Ministry of Labor and Social Affairs to develop a special project for children at risk. In 1998, NIS 75 million was appropriated as a budget supplement earmarked for this project (another NIS 75 million will be allocated for this purpose in 1999). The programs in this project include locating children at risk and establishing community centers to treat them and their families and developing and expanding existing services for children. In 1998, 60 localities were chosen as sites for the project. In some of them, the planning and establishment of child and family centers, to be operated as pilot projects that will be evaluated systematically, is under way. The intention is that an improved "basket" of services for children at risk will be offered in other localities and that existing services meant for this population group will be reinforced.

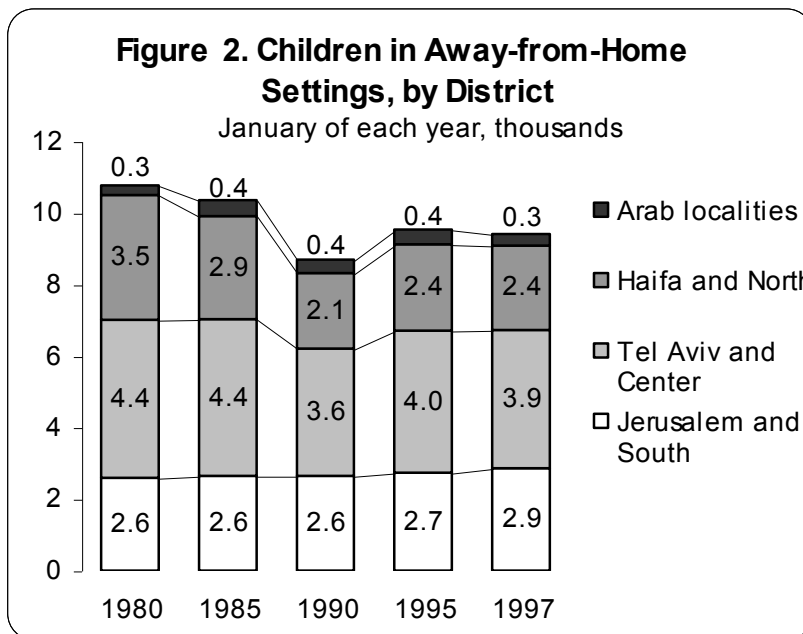
It is still difficult to assess whether this program, being implemented for the time being with different degrees of intensity, and only in some localities, will indeed bring about a meaningful change in the scope of services for children in distress and in their level of coverage.

Another noteworthy development that occurred in 1998 in the field of community service for children was the establishment of *Ashalim* – a countrywide nonprofit organization under the joint auspices of the government and JDC – Israel, meant to contribute to the development of services for children in Israel. *Ashalim* is to operate along the lines of *ESHEL*, the Association

for planning and Developing Services for the Elderly. *ESHEL* has made a meaningful contribution to the development of community and institutional services for the elderly in Israel, in part by initiating and encouraging the establishment of local NPOs.

b. Institutional Services

Institutional services for children – accounting for three-fourths of total expenditure on services for children – include two main components: residential facilities and foster families. The expenditure pertains to children who live in settings outside the home and were placed there by the Children and Youth Service, with funding from the Ministry of Labor and Social Affairs. Most residential facilities for children are run by volunteer organizations.



The total number of children referred to residential facilities by the welfare authorities declined gradually between 1980 and 1990. This decrease pertains to children who live in the central and northern districts but not to those living in Jerusalem, the south, and Arab localities. In contrast to the overall trend, between 1990 and 1996 the number of children in institutions increased; only in 1997 did the trend change and their numbers decrease again. Notably, the proportion of Arab children who live in residential facilities outside the home is substantially lower than that for Jews.

5. Services for the Retarded

There are no accurate data on the number of retarded persons in Israel, but the accepted estimate in the world is that this group numbers one half of one percent of the population. If so, there are about 30,000 people with various degrees of mental retardation in Israel.

In recent years, services for the retarded have claimed about 14 percent of total government expenditure for personal social services. Spending on them increased by 60 percent between 1990 and 1998, to NIS 430 million (1997 prices). A wide variety of services are offered for the retarded and their families. A number of agencies are involved: the Ministry of Labor and Social Affairs, local welfare departments, nonprofit associations such as *Akim*, *Yated*, *Alyn*, the *Izi Shapira House*, and private organizations, which are active mainly in institutional services. The official policy of the care-giving agencies stresses the importance of leaving retarded persons with their families and communities by developing various community services; in fact, the lion's share of expenditure for these services (89 percent in the past few years) has gone for the development and the upkeep of institutional services. It should be emphasized that in this field, too, services for the retarded (such as placement in care

centers or community housing) still lack a statutory mandate, so their provision for the population group in need hinges on the willingness to allocate further resources.

a. Community Services

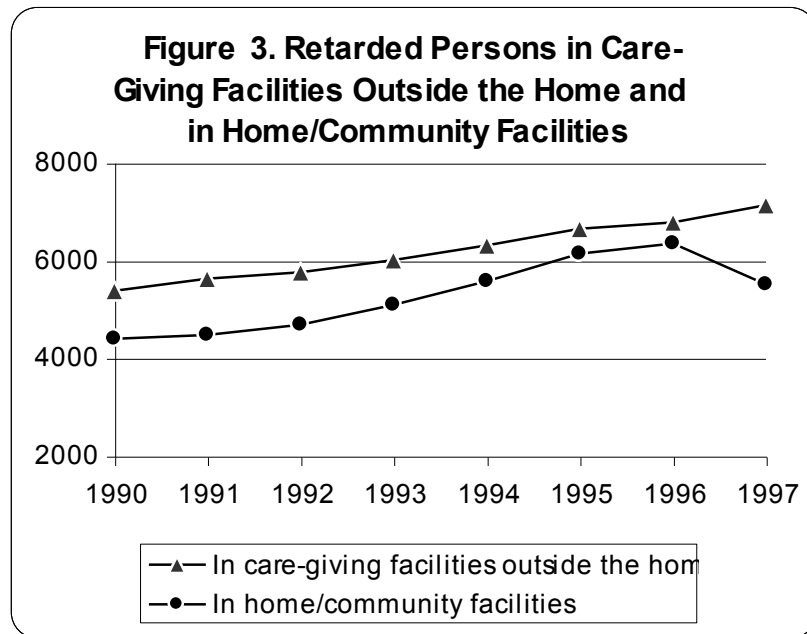
Community services for the retarded involve various facilities: day centers for infants aged 0-3 and for mentally retarded children and young adults, aged 3-21, in which they stay until the afternoon. The ministry also funds their stay in these centers from afternoon into the evening as part of a long-day program. Another community service developed in the past few years in several localities is the “*nofshon*” – a hostel where parents can leave their children for fifteen days per year in a care-giving facility so they can take a vacation (in exceptional cases, the stay in the hostel can be extended to forty five days a year).

An important component of the services for the retarded is diagnostic centers that try to identify retardation in children at an early stage, counseling centers for parents of retarded children, and counseling for the retarded themselves in various matters.

Table 4. Retarded Persons in Community Care Facilities

	1990	1992	1994	1996	1998
Diagnostic centers	1,000	1,000	1,500	2,000	2,000
Therapeutic crèches and daycare centers	900	1,230	1,544	1,634	1,600
Daycare centers for moderate retardation	1,600	1,579	1,772	1,914	1,150
Clubs	700	1,745	2,350	2,350	2,400
Convalescence and summer-camp settings	1,400	1,400	1,500	1,600	1,700
Home caregivers	150	150	200	250	250
Rehabilitative work projects (adults)	1,900	1,878	2,100	2,238	2,250
Extended daycare	—	—	165	565	665
Community integration of special children (age 0–3)	—	—	60	100	100

As a response to the needs of retarded adults, rehabilitative work projects are run for retarded persons aged 21 and over who live in the community. There are also social clubs and an array of special projects for families of the retarded, including individual counseling, home instruction and caregivers. In the past few years, special programs have also been developed for genetic counseling and to prevent the abandonment of retarded children in hospitals.



The data point to a perceptible increase in the number of retarded persons who receive service in various community settings. The growth in the number of persons diagnosed, the number of persons who participate in clubs, and the number of children in crèches and therapeutic day centers is especially conspicuous. It is assumed that some 8,000 retarded persons who live in the community obtain service in these facilities. Although the central and local governments continue to play a major role in funding and providing service for the retarded, in the past few years the share of NPOs and businesses in delivering service in this field has been rising, as it has in other domains.

b. Services outside the Home

Services for the retarded outside the home include residential care centers (such as sheltered housing and hostels), foster families, and a small number of retarded persons who stay in hospitals for the chronically ill.

Table 5. Persons in Care Centers for the Retarded and with Foster Families

	1980	1985	1990	1995	1997
Total	4,462	5,035	5,378	6,377	7,138
Care centers	4,194	4,721	5,105	6,008	6,871
Foster families	268	314	273	369	267

The number of those in care centers and with foster families has grown steadily in the past twenty years, with the pace of growth accelerating in the last few years. Between 1995 and 1997, however, the number of retarded persons living with foster families decreased. This decrease is all the more conspicuous in view of the increase in the number of those in residential facilities. The increase in this category is also

reflected in the number of care centers – some ten new care centers opened in 1994-1996 alone. The rapid increase caused the number of persons waiting for admission to centers to decline, and was the result of a decision to allocate extra resources to take in all of those in the queue. The care centers for the retarded are owned by three types of agencies: government, private organizations, and nonprofit voluntary associations. In the past few years, the number of residents of private care centers has been rising.

It should be noted that in the past few years there has also been a substantial increase in the number of retarded persons who live in community housing settings and in hostels. In the early 1970s, very few lived in such settings; by the mid-1990s there were about a hundred of them. This figure, too, however, is still very low.

With respect to care of the retarded, it is worth emphasizing that, if Israel has about 30,000 retarded persons (about one half of one percent of the population), only about half are covered by the formal community and institutional services meant for this population group. The lack of coverage is especially perceptible in the Arab sector. We have no accurate and up-to-date information on the extent of services for the retarded in this sector, but evidently the share of retarded who receive appropriate attention is substantially lower than in the Jewish sector.

6. Services for the Disabled

Between 1990 and 1998, outlays by the Ministry of Labor and Social Affairs on personal social services for the disabled increased by 90 percent. This expenditure accounts for about seven percent of total spending for personal services. This proportion seems small relative to other items (such as services for the elderly, for children, and for the retarded); those

responsible for these services point to budget strictures that prevent them from providing vital services. Income-maintenance services for the disabled are covered by the National Insurance Institute (NII).

Other population groups of disabled persons – casualties of work accidents and of belligerent actions – are taken care of by the rehabilitation division of the National Insurance Institute; persons wounded while doing their military service are handled by the rehabilitation division of the Ministry of Defense. The NII also maintains a fund to develop services for the disabled, which allocates NIS 100 million every year to various organizations that provide services for the disabled. Support from the fund is meant mainly for the construction of infrastructure and acquisition of equipment for services for the disabled. Various past attempts to integrate care for the disabled into a single organizational framework have not worked out because of various legal stipulations and organizational interests.

According to the current division of labor among these agencies, the Ministry of Labor and Social Affairs (directly and through local authorities and other agencies) deals with people whose disabilities are associated with physical illness (cerebral palsy, polio, multiple sclerosis, and the like), people with sensory disabilities (deafness and blindness), and people who have problems functioning and coping for organic reasons (brain damage, learning deficiency). These disabled persons are of different ages (infants, children, young people, adults, and seniors).

a. Community Services

In contrast to the services for other population groups, the centrality of community services stands out among those for the disabled. These services, which in the past few years have accounted for three-quarters of government expenditure, are delivered by local welfare departments and various volunteer

organizations such as *Migdal Or*, *the Association of the Deaf*, *Micha*, *Keshev*, and so on, which receive support from the state. Services for disabled children include diagnostic agencies that help plan treatment and rehabilitation, day centers and family care centers for disabled children, special camps during school vacations, and aides who escort disabled children.

Services for disabled adults include social and cultural clubs, vocational rehabilitation centers, and supported and sheltered employment centers such as *Hameshakem, Ltd.*, which provides sheltered employment for the disabled. There are also special projects in particular localities, such as the Multiple Services Center for the Blind (*Marshal*) in Tel Aviv. Rehabilitation services also include rehabilitation institutes for specific population groups (such as institutes for treating vision impairment). The social workers employed by welfare departments and by voluntary organizations provide the disabled and their families with counseling and material assistance (covering travel expenses, purchase of equipment, and the like).

In 1997, there were about 140 agencies engaged in diagnosis and various kinds of vocational training and retraining (imparting employment skills, long-term training, etc.) for some 9,000 disabled persons. About 2,350 disabled persons were working in some 50 sheltered workshops during that period, while *Hameshakem* employed about 3,000 disabled persons. (We do not have figures on the number of disabled persons employed in regular work places or the number of those not employed at all.) Thus the community services strongly emphasize diagnosis, rehabilitation, and vocational training. However, there is no information on the extent to which these services actually do cover the majority of the disabled who live in the community and need these services.

b. Services outside the Home

Services outside the home account for a very small share of the expenditure on the disabled (about 20 percent). These services include three main components: care centers, hostels, and community (sheltered) housing. In 1997, about 1,000 disabled persons were living in 46 such sites; another 140 disabled persons lived with 120 foster families. Most of the disabled adults who live in hostels, sheltered housing, or with foster families work in various contexts (whether sheltered or on the open market). These figures reflect a gradual but slow increase in the number of disabled persons living outside the home. However, a large majority of the disabled live and receive services in the community. Those who are placed outside the home receive services including medical and paramedical care, counseling, and rehabilitation.

It is worth emphasizing that those personal social services for the disabled that are the responsibility of the Ministry of Labor and Social Affairs are not anchored in statutory provisions; allocations for them hinge on a willingness to set aside additional resources for this objective. As we saw at the beginning of this section, various government agencies (the Ministry of Labor and Social Affairs, the National Insurance Institute, and the Ministry of Defense), local authorities, and voluntary organizations provide services for the disabled. This intricacy, which stems from various substantive (the origin of the disability) and legal reasons, does carry several advantages with it, but has also caused fragmentation of services, redundancies, and a lack of coordination.

7. Services for Individuals and Families

In the division of functions currently in effect at the Ministry of Labor and Social Affairs, services for the elderly, children, and youth in distress, the retarded, and the disabled are entrusted to special units that focus on the problems and particular needs of these population groups. The Individual and Family Welfare Service deals with a wide variety of more general problems and needs characteristic of individuals and families going through crises. Expenditure for this activity has risen by 50 percent in the 1990s but accounts for only 2 percent of total government spending for personal social services. Services for individuals and families are provided to various population groups, such as parents without the skills and ability to discharge their function; individuals and families who are not in contact with the services or are unaware of the entitlements and the services for which they are eligible or those who find it difficult to deal with service-providing organizations; families in crisis because of spousal conflicts or crises stemming from bereavement, illness, unemployment, imprisonment, disability, and addictions; homeless individuals and families (street people) and those without any family; and families that have experienced multiple births.

A broad spectrum of services are provided by the local welfare departments as well as various NPOs (*National Council for the Child, Na'amat, WIZO, Family Care Association, Women's League for Israel, etc.*), which get much of their budgets from central and local government. Services include comprehensive care for individuals and families, counseling for families in crisis in family treatment centers, implementation of various laws pertaining to family life (such as violence) by welfare officers, centers for the prevention and treatment of family-violence problems, assistance for single-parent families, employment of paraprofessionals who help families in distress

by mediating between them and various service agencies, provision of information on entitlements, and instruction and counseling in various matters, and the like; running summer camps for families in distress; providing post-partum mothers with convalescence options, assistance to acquire basic housewares, assistance to receive medical treatment not included in the services covered by National Health Insurance (dental care, transport to hospitals, etc.), and assistance for street people.

During the past few years, special programs have been developed to care for families in distress, such as *Yahdav*, *Dror*, family-violence prevention centers, neighborhood assistance centers, a program for integrated care of families whose children have been removed from their custody, and the auxiliary units affiliated with the family courts, which began to operate about three years ago.

Because a sizable share of these services are allocated differentially in different localities, there are disparities among localities in the extent and level of service. This is reflected, among other things, in the fact that various innovative programs are available in some localities and not others. It should also be noted that there is insufficient information about the extent to which these services cover the population groups in need; various evidence, however, indicates that the coverage is not complete.

8. Correctional Services for Youth and Adults

Correctional services provide treatment and social supervision, rehabilitation, and prevention for juvenile offenders, and treatment and prevention services for teenagers, young adults, and adults experiencing severe distress or functional difficulties and accordingly at risk of declining into deviant and criminal behavior. It should be borne in mind that treatment of such teenagers falls into the province of several agencies: the Ministry of Labor and Social Affairs; local authorities; community centers; the Ministry of Education, Culture, and Sports; and various government-assisted NPOs, such as *ELEM*.

Expenditure for these services has increased by 80 percent in the 1990s but accounts for only four percent of total spending for personal social services. Among the components of expenditure for these services, the negligible allocation for youth in distress (about NIS 5 million in 1998, in 1997 prices) stands out. This allocation does not suffice to meet the vast needs of this population group.

a. Services for Children, Youth, and Young Adults

There are various estimates about the number of young people at risk and in distress and at risk of delinquency. These estimates range from 50,000 to 100,000; some believe the number is even greater. Their numbers have risen over the past few years with the immigration from the former Soviet Union and Ethiopia. The teenagers in question are tied to non-normative social settings, commit criminal offenses, and behave asocially; others live in families marked by violence, severe unemployment, poor health of a family member, and so on. Still others are homeless, use drugs, suffer from learning disabilities and mental problems, have been released from prisons or treatment centers, or were rejected by the army.

Services for these young people fall into three main categories: the Youth Probation Service, which deals with young offenders; various community-based treatment services; and the Youth Protection Authority, which oversees facilities outside the home for this population group.

(1) Youth Probation Service: This service deals with under-age offenders (aged 12–18), who are referred to it by the police or the courts. The service also deals with children up to age 14 who are involved in morals offenses (as suspects, witnesses, or victims) and with child victims of physical, mental, or sexual abuse by their parents.

Services are provided by probation officers who are State employees and draft reports for the courts, oversee court-ordered probation, perform psychological and psychiatric diagnosis, and provide individual and group care. Probation officers also allocate auxiliary services such as material assistance and tutoring, placement in institutions when necessary, assistance in integration into schools and jobs, as well as follow-up. The number of minors cared for by the Probation Service has been rising steadily – by a total of 25 percent between 1990 and 1995.

(2) Youth Rehabilitation Service: This service focuses on adolescents aged 12–17 who are not involved with any existing educational setting. Activity is concentrated in *miftanim*, which are daytime facilities operating in the community and offering individual and group treatment, counseling, academic studies, vocational training in comprehensive workshops, imparting job-search skills, social activities, and preparing the youth for their compulsory military service.

In 1996, there were 38 *miftanim* operating throughout the country, most of them run by local authorities. Between 1990 and 1996, the number of young people handled by them rose from 1,700 to 2,300 – an increase of 35 percent.

(3) Community services for youth and young adults: The main agencies involved in the allocation of community services for teenagers and young adults (aged 14–27), are the Service for Youth and Young Adults of the Ministry of Labor and Social Affairs, local authorities that employ youth workers in their welfare and education departments, community centers, and voluntary organizations, especially *ELEM* (the Association for Youth at Risk and in Distress).

The services provided to this population group include assistance in completing their education and vocational training, provision of information, liaison and mediation with various agencies, individual and group treatment and counseling, workshops to teach good work habits, groups to enhance self-awareness, legal aid, assistance in housing, material support, and mobile centers for diagnosis, counseling, and referral for homeless youth.

Information and counseling centers for youth began to be established in various localities in 1988, at the initiative of *ELEM*. The assessment is that, notwithstanding the extent and variety of services, their success in reaching teens and young people in distress remains incomplete.

(4) Community services for girls in distress: These services are provided for young women aged 13-22 in the Jewish sector and up to age 25 in the Arab sector. Services are provided mainly by means of local welfare departments and voluntary organizations such as *WIZO*, *Na'amat*, and *ELEM*. The services include individual and group treatment, running therapeutic clubs, identifying girls who cannot be inducted into the army because of their low achievement level and preparing them for induction, running special programs for immigrant girls from the former Soviet Union and Ethiopia, maintaining halfway houses for girls who can fit into normative settings if given intensive therapeutic support, and upkeep of shelters that provide housing, protection, and care for girls in severe distress.

In 1997, about 12,000 girls were receiving treatment, including 2,500 Arabs and 2,000 immigrants. These figures indicate that services for girls in distress cover only part of the population group in need. The lack of coverage is especially noticeable with respect to immigrant girls.

(5) Youth Protection Authority: The Authority, which is part of the Ministry of Labor and Social Affairs, is in charge of services for children and youth who are referred to institutional facilities by the competent authorities. These young people have criminal records, behavioral and emotional disturbances, and acute scholastic and cultural retardation resulting from severe neglect. In these facilities they receive individual and group treatment, academic and vocational studies, social and cognitive skills, and preparation for induction into the army. In 1997 there were about 40 such facilities, with a capacity of 750 persons. The away-from-home facilities include various sorts of treatment centers and hostels. Another type of away-from-home facility worth mentioning are the two facilities for homeless teenagers run by *ELEM* in Jerusalem and Tel Aviv.

b. Correctional Services For Adults

Correctional services for adults include three components:

(1) Adult Probation Service: This unit deals with persons aged 18 and above who have been convicted of criminal offenses and referred to it by the judicial system. Probation officers perform psychosocial diagnosis, conduct therapeutic intervention, prepare reports for relevant agencies about the prospects for treatment and rehabilitation, and oversee probation and community-service orders.

The number of referrals to this service, too, has been rising continually. In 1980, the number of new referrals (diagnostic stage) was 3,800; the figure rose to 5,900 in 1990 and to 9,200 in 1995. During those years, the number of persons referred to

treatment and intervention climbed from 1,300 to 2,400 and then to 3,500, respectively. In 1996, the number of adults supervised by the Probation Service reached 9,900.

(2) Services for victims of drug abuse: This service, provided in conjunction with the Antidrug Authority in the Prime Minister's office, is offered mainly by the local authorities and voluntary associations like *Al-Sam*. Services include diagnosis and defining treatment (detoxification) programs at the individual, group, and community levels, while involving the family and supervising progress in order to help the former addict integrate into the community and remain drug-free. In 1997, some 4,500 persons received such treatment, in 90 localities. It has been estimated that some 20,000 men and women in Israel are addicted to hard drugs, which implies that the treatment agencies reach about one-fourth of the relevant population group.

(3) Services for women in distress: This service is intended for battered women and victims of sexual assault. Its main activity is running shelters for battered women and their children. The shelters, run by voluntary organizations like *Na'amat*, offer women and their children treatment and counseling, educational facilities for children, a basic-needs allowance, legal advice, and assistance in finding housing for women who leave the shelter.

The eleven shelters active in 1997, housed some 250 women and 1,250 children for varying periods. This service also runs halfway houses near the shelters, meant to ease the women's return to regular life in the community (there were twenty such apartments in 1997). This service also runs emergency telephone lines for battered women to call and provides counseling and treatment for battered women through the local welfare departments.

Facilities for female victims of sexual assault include assistance centers. In 1997, there were ten such centers that aided 6,600 women.

9. Community Work

Government expenditure for community-work services accounts for about two percent of the total budget for personal social services. The work is carried out by 250 community workers, most of whom operate under the social-service departments of the local authorities and engage mainly in the following activities: identifying needs of population groups and planning various projects meant to meet these needs; promoting residents' involvement and participation in various social programs, including the setting up of neighborhood committees; developing local leadership in communities by training activists, and developing a community approach and awareness among social-service workers; fostering community media (such as community television), and encouraging social and cultural activities in the communities (such as community theater). The community workers are also intensively involved in the Neighborhood Renewal Project.

Thus community work adds a unique dimension to the other personal social services, which focus mainly on providing services to individuals and families. The tiny budget earmarked for this field of activity indicates that it has not yet gained an appropriate status in the arena of personal social services.