
Government Expenditure for Social Services

The state budget is the main instrument for implementation of government socioeconomic policies. Ostensibly, the budget embodies the economic and ideological outlooks of those who head the economic and political systems. It should be borne in mind, however, that the budget in its final version is the result of political and governmental struggles over the apportioning of the national resource pie. The extent and composition of Israel's social expenditure reflect the outcome of a process in which many players take part: the government, its ministers, the Knesset, the media, public entities, and academia. The budget as the Knesset ultimately approves it is the "bottom line" of decisions and outcomes. We will explore this at four levels:

1. The first level concerns the share of governmental activity in total economic activity, i.e., the share of the state budget in the country's overall economic resources.
2. The second level deals with the distribution of the state budget among main expenditure fields – social services, debt servicing, defense, and general government.
3. The third level pertains to the apportionment of resources among the main social services. It relates to two main service categories – in-kind and in-cash.
4. The fourth level is the internal distribution of resources among activities in each of the social services.

1. Share of the State Budget in Economic Resources at Large

One of the most ideologically charged debates in macroeconomics has to do with the optimal share of government in total national economic activity.

If statements by the Minister of Finance and his leading officials are any indication, the economic policy of the current government is dictated largely by a socioeconomic outlook that believes in decreasing the share of the state in the national economy to the greatest extent possible, especially where transfer payments are concerned. It is true that this outlook has attracted considerable support in Israel and abroad, but quite a few economists and politicians consider it a threat to the country's socioeconomic fiber. Those who head Israel's economic systems express their attitude by applying unrelenting pressure to slash government budgets in absolute terms and to lower the share of government in Gross Domestic Product (GDP). Against this background, the government has decided in recent years to implement a series of budget cuts in order to meet the deficit target that it had set as part of its macroeconomic policy. In practice, the share of government in GDP and the government deficit have been rising since 2000. Several factors may explain the discrepancy between plan and performance. They include:

- (1) errors in predicting economic, political, social, and security developments.
- (2) inability and lack of executive resolve to enforce budget discipline on all government units and other entities that rely on the state budget.

Generally speaking, an increase in the share of government expenditure in GDP would not seem to be a negative indicator, *per se*. The main question concerns the nature, the goal, and the utilization level of these expenditures. By using its resources

correctly, government might help to lift the economy out of its present crisis.

Economic measures with long-term implications were taken in 2003, some of which deviate from the pure economic sphere. Examples are legislation that invalidated labor accords; de facto nationalization or, at the least, tightening of government control and regulation of pension funds; and revision of the National Insurance regulations. As we show, these measures have had negative effects on all levels of society and, especially, on the “stronger of the weak.” Nevertheless, the deficit and the share in GDP of government are poised to increase in 2003, as in previous years.

Economic policy, since the 1985 Stabilization Program, has aimed to reduce the share of government in GDP (which was generally considered very high), and attained this goal quite impressively in the second half of the 1980s. The effort continued in the 1990s and the share of government expenditure in GDP fell from 62 percent at the beginning of the decade to 58 percent in the middle and 51 percent in 2000. In 2001, however, the trend turned around; the share of expenditure in GDP climbed to 55 percent that year and continued rising to 58 percent by 2003. How was the decrease in the previous years attained and what led to the most recent change? To understand these developments, one should first examine the trend in the two components of this ratio separately – government expenditure and GDP.

Table 1 divides the years at issue into three sub periods:

1989-1996. The main exogenous developments at this time that had a decisive impact on economic developments were mass immigration from the former Soviet countries and an improvement in the security and political situation in the context of the peace process – including the peace treaty with Jordan. The economy grew vigorously during these years, at an average real annual rate of six percent, and per-capita growth came to an

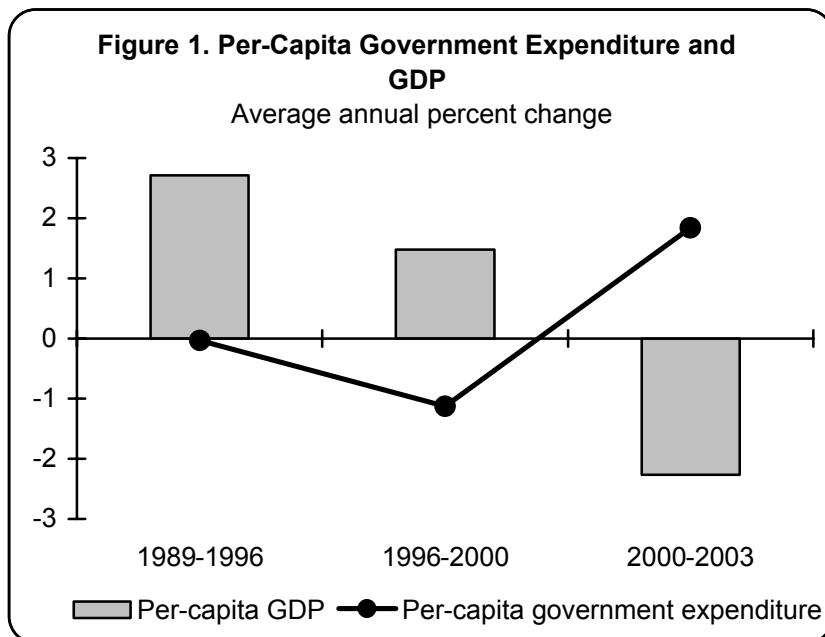
appreciable three percent per annum despite very strong population increases. The government had extraordinary expenses to absorb the immigrants, of course – mainly on housing and initial integration but also for social services in education, health, and the like. The increased expenditure, however, was held to three percent on annual average, similar to the rate of population increase at the time. Consequently, expenditure as a percent of GDP declined from 63 percent to 58 percent.

Table 1. GDP and Government Expenditure, 1989-2003
(Percent)

		1989-1996	1996-2000	2000-2003
Annual average percent change				
Real	GDP	6	4	-0.2
	Government	3	1	4
Nominal	GDP	20	10	2
	Government	18	7	7
Government expenditure as percent of GDP				
	1989	1996	2000	2003
	63	58	51	58

1996-2000. Just as mass immigration and the political process were the main engines of economic growth in Israel during the previous period, the subsequent slowdown in immigration and difficulties in implementing the accords with the Palestinians caused growth to slow during these years. Real average GDP growth at this time was four percent per year, but much of it was due to a rise in high-tech industries in 2000. In nominal terms, GDP increased by ten percent on average annually while government expenditure rose more slowly at seven percent. Therefore, the share of government in GDP continued to decrease, at a pace similar to that of the previous period. Real government activity increased by only one percent

per year, as against GDP growth of four percent. Since the population grew more rapidly, real per-capita expenditure declined.



2000-2003. These were the years of the great fall. The eruption of the second Intifada, the attacks of September 11 and their aftermath, a drastic decline in immigration, and the high-tech decline were among the main factors that sent Israel into economic crisis. During this time, the economy not only failed to grow but actually retracted by 0.2 percent on annual average. The state budget continued to grow in real terms, by 3.8 percent per year on average. The result was a reversal of trend in the share of government in GDP, which returned to the previous level of 58 percent. The forecasts for 2004 do not predict a change in this trend.

2. Distribution of the State Budget among Main Expenditure Categories

The second level of discussion is the distribution of the state budget among main expenditure fields, with emphasis on the social services. It is customary to divide the state budget into four main groups – debt servicing, defense, social services, and economics and administration.¹ Table 2 presents the trend in each of these components on the basis of its share in the state budget.

a. Social Expenditure

The largest expenditure group in the current budget, and the one of main concern in this report, is social expenditure. This includes all activities that are meant to fulfill social policies, either by direct delivery of service (by full or partial funding of services that other public and private entities deliver) or by a system of in-cash transfers. The first aggregate includes education at various levels and of various types; health services – clinics, hospitals, and preventive activities; the public housing system and subsidies for housing purchase; immigrant integration; and welfare services for individuals and households in distress. The second aggregate – in-cash payments that are transferred to population groups by means of the National Insurance system – consists of allowances for individuals and households itemized by specific fields and needs. The most conspicuous item of this group are old-age and survivors

¹ This distribution may be challenged in quite a few ways: Should expenditure for internal security (police and other security forces) be included in defense or in economics and administration? Should an allocation earmarked for “investment” in education be included in the social services only, or might some of it best be included in the economics domain, as an investment in human capital? Where should the judicial system be included – administrative expenditure or social services? The current discussion avoids these issues and uses the accepted definitions.

pensions, benefits for the disabled, time-limited unemployment and work injury compensation, and another important item – allowances for families with children.

Table 2. Government Expenditure in 2003

	Total budget	Current budget	Investment budget
Absolute terms (NIS billion)			
Total	293	212	81
Debt servicing	95	33	62
Disposable budget – total	198	179	19
Social services	106	96	10
Defense	47	47	
Economics and administration	45	36	9
Percent			
Total	100	100	100
Debt servicing	32	16	76
Disposable budget	68	84	24
Disposable budget – total	100	100	100
Social services	54	53	55
Defense	24	27	
Economics and administration	22	20	45

The total expenditure for social services in 2003 was NIS 106 billion. NIS 10 billion of this sum appears in the investment budget, which is earmarked mainly for housing and the provision of long-term housing services by means of fixed investment expenditure. All other services are delivered mainly through the current budget, but they, too, include components such as construction of schools, hospitals, and other health facilities that are tantamount to long-term investment and, by definition, are included in the investment budget.

Total **real** expenditure for social services has increased in recent years – from NIS 98 billion in 2000 to NIS 104 billion in 2003 – but is set to decline to NIS 102 billion in 2004. In per-capita terms, expenditure has been stable since 1996 at NIS 15,600 per capita, with a slight upward fluctuation in 2001 and 2002, a decline in 2003, and a projected level of NIS 15,000 in 2004.

The freeze in social expenditure in absolute per-capita terms, as measured thus far, shows a slight increase in relative terms, i.e., when compared with changes in other areas of economic growth, such as the state budget or Gross Domestic Product. The reason is the relative inelasticity of social expenditure, some of which has been legislated and the rest that has been set in a broad social accord regarding the need to guarantee weak population groups a minimum standard of living even at a time of economic contraction.

The status of social service budgets became fixed during the 1990s. Not only did they become the largest budget category but their total share climbed to more than half of the disposable government budget (the total budget less expenditure for debt servicing). In 2003, social expenditure was 53 percent of the current budget and 54 percent of the total budget, i.e., with investment expenditure added in. To grasp the full meaning of this figure, we should emphasize that this rate (54 percent in 2003) is one-third higher than that in the 1980s. Much of the acceleration occurred during the past decade, when the share of social expenditure increased by about one-fifth.

It is important to stress that the proportional growth of social services in the overall budget derives not only from demographic and economic changes but also, particularly, from the reduction of other expenditures, chiefly defense.

b. Debt Servicing

The government debt is the sum of government deficits over the years, that is, the cumulative difference between government outlays and government revenues. Although the statistics distinguish between domestic deficits and external deficits, the two are strongly linked. Thus, the domestic deficit may be financed by external loans, and vice versa.

The size of the debt item in the government budget is determined by the size of the government debt, its composition, and the terms under which each loan was taken. An indicator of immense economic importance, it is a severe impediment – although not always in the short term, because old debt may be recycled by the acceptance of new loans – to the reallocation of resources for important matters in current expenditure and infrastructure investment. The typical long-term trend in Israel between 1985 and 2000 was a steady decrease in the load of government debt. This made it possible to reduce interest payments, which had become a proverbial millstone around the neck of the state budget each year. The downward trend stopped in recent years, and the share of the total government debt in GDP has been climbing since early 2001 – to 103 percent of GDP at the end of 2002 as against 95 percent in 2001 and 90 percent in 2000.

The share of the debt servicing budget, divided between the current budget (payback of interest) and the investment budget (payback of principal), changes sharply from year to year and is affected by many factors, e.g., the timing of the loans, their nature, and their linkage to the CPI or to various foreign currency exchange rates.

c. Defense

The defense budget in 2003 was NIS 47 billion, 24 percent of the total disposable budget and almost 27 percent of the current disposable budget. The security unrest that began in September

2000 did not affect the proportional downward trend in the defense budget in 2000-2001 but in 2002 it caused the share of defense in the total budget to increase.

One of the most interesting phenomena in the defense budget is the long-term trend since the Yom Kippur War in 1973, which has not paralleled ongoing security events.² Since 1973, even though Israel has experienced three armed conflicts – the Lebanon War, the first Intifada, and now the second Intifada – the long-term trend has remained remarkably consistent, affected neither by exceptional security events nor by periods of calm and political activity to promote the peace process. Throughout the “Oslo process” years, the level of the defense budget resembled that of 1994, both in percent of GDP and in percent of the total budget. Even the current conflict did not cause the budget to increase in 2001 and led to an increase of only about 1.5 percent of the total budget in 2002.

d. Economic and Administrative Expenditure

This class of expenditure includes everything done by government for internal security and public order, courts, external and internal relations, environmental protection, and a group of activities related to economic incentives, e.g., subsidies for agriculture, industry, and export promotion. Most of these functions, along with defense expenditure, are “classic” functions that all social theories, even those that favor a minimum of government involvement, expect government to perform.

Expenditure for these general government services has increased by 45 percent in real terms since 1990 – but has not increased at all if one takes population growth into account. In relative terms, the share of general government expenditure has

² In Israel's first decades and until 1973, defense expenditure grew apace with wars and peaked in the aftermath of the Yom Kippur War.

been constant since the mid-1980s at about 15 percent of the total budget and 16-18 percent of the current budget. In GDP terms, the share of general government outlays fell from 13 percent in 1990 to eight percent in 2000, as part of the decrease in total government expenditure as a percent of GDP.

3. In-Kind Services and Transfer Payments

Social expenditure is divided into two distinct components. One is composed of in-kind services, such as medical care, housing, and education. The second includes a set of transfer payments, i.e., cash payments to citizens. An additional distinction between the components is technical: activity financed by the budget for in-kind social services is performed by various government ministries, while most in-cash services, i.e., benefits of various kinds, are administered by the National Insurance Institute. In principle, transfer payments are financed by insurance payments made by residents, but some benefits (e.g., allowances for elderly immigrants who never contributed to National Insurance) are covered by the government. Only this complementary expenditure formally appears in the state budget. In our classification, the total sum of benefits paid by National Insurance is included in total social expenditure, because the nature and financing of in-cash services are not different from those of in-kind services in education, health, and welfare.

The distinction between the current budget and the total budget calls attention to another fact: the investment budget for social services is negligible in macroeconomic terms. It stands at about two percent of GDP, and accounts for less than one-tenth of total social expenditure (eight percent in 2002). The fraction of investment expenditure was much higher at the beginning of the decade, e.g., 30 percent of total social expenditure in 1992. Most investment in the early years of the

decade was made in housing and in the specific context of immigrant integration. Investment in other social services, such as education and health, was minimal.

The share of in-cash benefits in total social expenditure is 40 percent today as against 30 percent at the beginning of the decade. Fluctuations in this indicator are not unique to the 1990s; a similar pattern occurred in the 1980s. One main reason is that the increase in benefits coincided with cutbacks in in-kind government services. In-cash benefits are less flexible than in-kind services because they are based on more specific rules, most of them set in legislation. However, even if benefits are set in laws and regulations that specify a basic amount in specific numerical terms, erosion in their value is still possible. In fact, it occurred this year and will recur in the 2004 budget, as the government has imposed major reductions in the size of benefits and toughened the eligibility terms. In most years, however, the detailed legal structure of the National Insurance benefits makes these transfer payments more stable and less prone to changes than the in-kind services, for which financial and other quantitative values are not specified. Even if legislation does require the delivery of certain in-kind services (e.g., the Free Education Law), the lack of financial and other quantitative parameters in the legislation makes the level of service flexible. Another factor, the effect of which may not be direct, is ideological, i.e., the approach that views negatively the delivery and operation of services by government and prefers to limit the role of government to finance, control, and regulation only, and even then, only when essential.

Some of the fluctuations in the proportions of the two categories – in-kind services and transfer payments – have to do with the exceptionally high housing expenditures that were made in the early 1990s to meet the needs of the immigrants. Indeed, if we look only at the current budget, in which most housing expenditure is not included, we find that the variations

during the past decade were much smaller and that the share of in-kind services in the regular budget fluctuated within a narrower range of 55-61 percent.

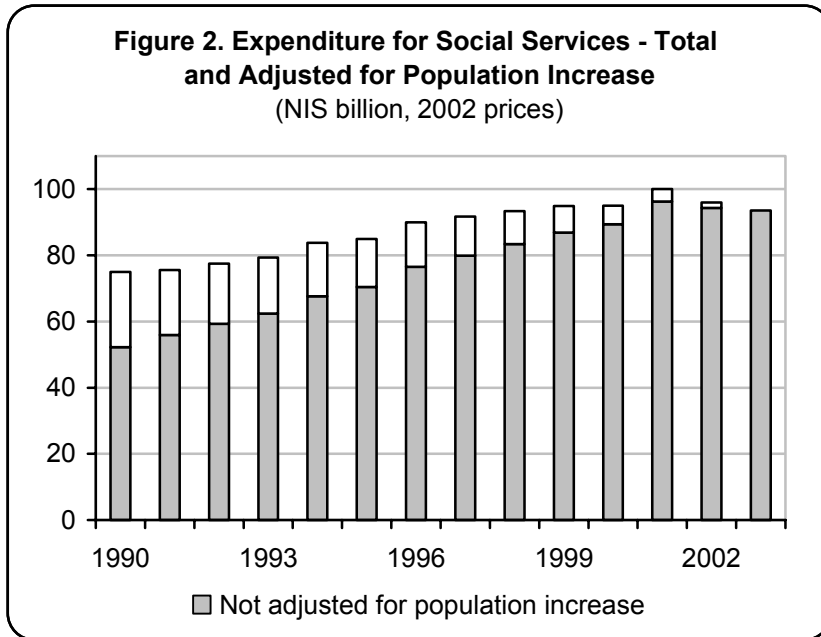
Another question beyond that of the distribution of the social expenditure budget between in-kind services and cash benefits is: what is the real value of these services and benefits? To make sure that the calculation takes account of the purchasing power of the nominal sums, the nominal sums are decreased by means of an appropriate index. Since the use of a standard index for both in-kind and in-cash benefits may lead to a misleading result, we applied different indices to each of the two categories of expenditure. For in-cash benefits, which are usually used for consumption, we used the Consumer Price Index, the relevant index for the maintenance of purchasing power. For in-kind allocations, i.e., services that the government actually delivers for the public, we used the public consumption price index, which reflects, in the main, the government's wage costs for these services.

Social service expenditure was NIS 104 billion this year as against NIS 103 billion in 2002, an increase of NIS 1 billion. In the current budget (not including investment expenditure), the reported expenditure was NIS 93.6 billion, down NIS 0.8 billion from the previous year's level. It should be borne in mind, however, that the data for 2003 are not final; according to our estimate, the final expenditure will evidently be smaller than the presently reported amount. We express this proviso based on a Finance Ministry report that presents annual budget expenditure "as of the end of October 2003." Analysis of the trend in ten of the twelve months of the budget year points to the possibility that the actual cutback in 2003 will be significantly greater than that reported in the 2004 Budget Proposal, which was recently presented to the Knesset. Such a discrepancy occurred in 2002, when the actual cutback in social expenditure proved to be

NIS 2.7 billion larger than the figure shown to the Knesset at this time a year ago.

Returning to the official data, we find that expenditure in 2003, according to the Finance Ministry, will be NIS three billion smaller than in 2001 (and, as stated, we believe that the actual difference may come to between NIS five billion and NIS six billion). By differentiating between the two categories of services, we find that the entire NIS three billion decrease occurred in transfer payments; expenditure for in-kind services hardly declined. Examining the data over a longer term, we see that transfer payment expenditure has nearly doubled since 1990. Adding the demographic dimension, however, changes the picture greatly.

Figure 2 integrates the demographic dimension into the expenditure data. In calculating the figures, we assumed, as an initial approximation of real changes in social expenditure, that total expenditure should grow at the rate of population increase. Accordingly, we took each year's original expenditure data and multiplied them by the ratio of the current population (2003) to the actual population that year. For example, actual social expenditure in 1990 (in fixed 2002 prices) was NIS 52 billion, but by adjusting this to the current population we obtain a figure of NIS 75 billion. In other words, the social service system in effect in 1990 would cost NIS 75 billion if it were applied to a population of today's size. Hence, by comparing the level of expenditure in 2003, NIS 94 billion, with the calculated cost in 1990, NIS 75 billion, we find that the cost of the system increased by NIS 19 billion during the entire period. This increase represents the trend of the social service system per se, without the effect of population increase.



The data, adjusted for population increase, show that the social service system grew rapidly in 1992-1996, by NIS 12.5 billion within four years (including two years of stepwise increases of NIS five billion each year). In contrast, during the following seven years the system grew by only NIS two billion, amidst considerable fluctuations. The trend at issue concerns social expenditure at large and is strongly differentiated between the two categories – in-kind services and in-cash benefits.

The growth of in-kind services during the first years of the decade was much less dramatic. Overall, the in-kind system has grown by NIS five billion since 1990. By subperiods, the in-kind system grew by NIS eight billion in the first half of the decade, leveled off at NIS 55 billion until 2001, and has decreased to NIS 53 billion since then.

Expenditure for in-cash benefits, in contrast, continued to grow until about two years ago. Transfer payment outlays, after adjustment for population growth, climbed from NIS 27 billion in 1990 to NIS 45 billion in 2001. The rate of the increase was steady at NIS 1-2 billion per year in each year of the 1990s, and in 2001 alone expenditure grew by NIS four billion. In the past two years, however, the entire increase has been offset, with total expenditure falling from NIS 45 billion to NIS 41 billion – less than the amount spent before the “great leap forward” in 2001, as we describe in greater detail below.

4. Expenditure for Main Services

In the following section we examine social expenditure by differentiating among four main areas: education, health, personal social services, and social transfer payments.

a. Education

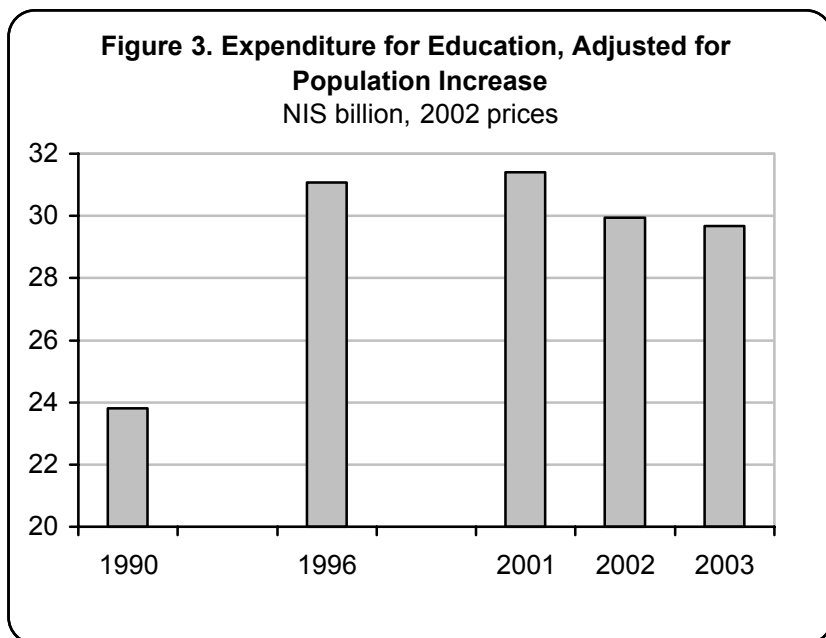
Government education expenditure is composed mainly of the Ministry of Education budget, the Planning and Grants Committee budget (which is earmarked for higher education), and parts of the budgets of other ministries – such as the Ministry of Religious Affairs, which funds high-school *yeshivas*; the Ministry of Labor, which finances vocational training, and so on. The education budget in 2003 is about NIS 30 billion, of which NIS 692 million is earmarked for investment, including, in the main, the construction, renovation, and equipping of schools.

Education is the largest of the in-kind social services and accounts for nearly one-third (30 percent) of total social expenditure. Although the student population increased more slowly than the adult population, the education budgets were not reduced relative to other budgets (although, they did contract in

real per-pupil terms). This gives an indication of the importance of the education system in policymakers' eyes. Notably, as the CSPS Social Services Survey shows (included in this Report), the public shares this view and regards education as an area that should be immune to budget cuts even in times of budget distress. However, the education investment budget (for buildings and equipment) was slashed by a remarkable 34 percent in real terms between 2001 and 2003. The result will be a drastic decline in the quality of education physical infrastructure and will entail large expenditures in the near future.

The demographic factor plays an important role in analyzing education expenditure, and in this respect, too, we made an initial approximation, as a first stage, that takes overall population increase into account. Figure 3 integrates the demographic factor into the expenditure data. Thus viewed, expenditure net of population increase rose from NIS 24 billion in 1990 to NIS 30 billion in 2003.

The typical pattern in education largely resembles that of the in-kind services at large. Until 1996, there was continuous growth, from NIS 24 billion to NIS 31 billion, reflecting two main factors: the enrollment of immigrant children in schools and the overall system's return to patterns that preceded the erosion of the budget of the mid-1980s. During that period of steep economic decline, the education budget was reduced in a way that cut back on classroom hours and deleted certain subjects of study from the curriculum. Expenditure held steady at NIS 31 billion in 1996-2001 but declined by approximately NIS 1 billion during the past two years.



To refine the data further, we should refer to pupil enrollment in the education system at large and at its various educational levels. Current expenditure for education services, controlling for the demographic factor, has been stable since 1996. However, if we bear in mind that the proportion of post-primary and higher education students increased relative to the primary and preschool levels during those years, and that education is costlier at the higher levels than at the lower ones – we actually find a decrease in per-pupil expenditure. Due to three additional developments during the relevant period – the decrease in the number of students who drop out, the extension of the Compulsory Education Law to the three to four year old age group, and the growth of special education settings – the expenditure per “ordinary” pupil has decreased even as the total real level of expenditure was stable, because these three fields entail higher expenditure per student.

National education expenditure. To complete our analysis of government expenditure for education, we should examine national education spending, which reflects outlays by all those involved in the education industry, including the private sector. The share of education in Gross Domestic Product rose during the past decade, from 8.3 percent in 1990 to 9.6 percent in 2001. The portion of this expenditure covered by households also increased. Taking 1999 (the most recent year for which the Central Bureau of Statistics published detailed data on the financing of national education expenditure) as an example, we find that national education expenditure was NIS 40 billion and government's share in it was NIS 31 billion. Thus, almost one-fourth of the national expenditure was covered by sources other than the public sector. Schools receive some of this sum in the form of supplemental payments that they charge the parents, but an even larger amount, it appears, is spent on education services outside of schools (private tutoring, activity groups, etc.). Another sizeable share was paid to private institutions of higher education, a sector that has grown considerably in recent years.

b. Health

Government health expenditure in the current budget was NIS 16 billion in 2003, 15 percent of total government social expenditure and 3.2 percent of GDP. On per-capita average, the government spent NIS 2,300 on health in the current budget – a level that has been declining steadily from NIS 2,600 in 1996. The decrease in average per-capita expenditure was accompanied by seemingly contradictory processes. On the one hand, the direct costs of medical service have been increasing due to the rising expense of medical technologies, escalating costs for care of the elderly, and the use of expensive medical procedures (such as in the care of premature babies). On the other hand, despite the higher expenses and the decrease in total expenditure (on per-capita average), continued increases in life

expectancy and decreases in infant mortality have been observed in recent years. This may be indicative of greater efficiency in the health services, which allows the system to deliver better health at lower cost. The main explanation, however, is that the burden is being shifted from public funds to the private resources of households.

Due to changes in health funding patterns as a result of the passage of the State Health Insurance Law in 1994, it is impossible to track the funding trend simply. Instead, one must turn to a functional reclassification of the various components of health funding. Table 3 does this by itemizing two main components of government health expenditure. The first is government participation in health insurance, mainly by means of outlays that replaced the "parallel tax" (employers' health insurance contributions). The second component finances a set of in-kind services that the government provides. The table shows the decline in total per-capita expenditure. The decrease is especially evident in in-kind outlays, which shrank from NIS 1,134 per capita to NIS 762 in 2003.

Table 3. Government Health Expenditure, Current Budget, Total and Per Capita (2002 prices)

	Total expenditure (NIS millions)			Per-capita expenditure (NIS)		
	Total	Participation in health- insurance	Direct expendi- ture	Total	Participa- tion in health- insurance	Direct expendi- ture
1980	10,169	5,771	4,399	2,623	1,488	1,134
1990	10,927	7,783	3,144	2,345	1,670	675
2000	14,447	9,535	4,911	2,297	1,516	781
2001	15,170	9,791	5,379	2,356	1,521	835
2002	15,126	9,978	5,148	2,302	1,519	784
2003	15,429	10,331	5,098	2,307	1,545	762

National health expenditure. As in our analysis of education, in order to gain a better picture of trends and developments, we must examine not only **government** expenditure for health but also **national** expenditure, i.e., total outlays for all health services in a given period.

Comparison with the OECD countries shows that the GDP share of national health expenditure in Israel is similar to the rate in Sweden and higher than that in Finland, the UK, Austria, Japan, and Australia. Although Israel's rate is lower than that in the US, Switzerland, Germany, and Canada, overall it exceeds the rates in fifteen (of the twenty-seven) OECD member states.

As for **per-capita** national health expenditure, comparison with the OECD countries (in GDP purchasing power terms) shows that only eight of these countries (South Korea, Czech Republic, Portugal, Spain, Poland, Hungary, Greece, and New Zealand) spend less per-capita than Israel. Israel spends a relatively low \$1,836 per capita. The country that spends the most is the U.S. (\$4,887); the lowest is Poland (\$629). It should be borne in mind, however, that Israel is better off than the data indicate because its age structure is younger than that of most OECD countries.

The fraction of GDP that Israel earmarked for health services increased by nearly 20 percent in the 1990s, that is, health expenditure increased by almost 20 percent over and above the GDP growth that occurred during that decade. To gauge the significance of the increase in terms of the physical scale of services, one needs to take into account price increases of the inputs that are used to produce these services in comparison with changes in economic activity at large, i.e., GDP. It turns out that the increases in health service prices surpassed GDP price growth by ten percent. Therefore, the increase in the share of health services in total resources was not fully translated into better services because the higher cost of inputs consumed more than half of the increase. This may be expressed differently: the

extra increase in the prices of health industry inputs made it necessary to allocate a larger share of GDP for these services but at the same time allowed for some growth in the physical scope of the services. The picture becomes more complex when we divide the period into two subperiods. From 1990-1996, the share of health in GDP increased by nine percent. The relative rise in the prices of health services absorbed the entire increase, leaving no room for any physical expansion of the services. In the second half of the period, the share of health in GDP increased by another nine percent, but this time there was no price increase beyond GDP prices. Therefore, all of the rise in GDP share was converted into an increase in the physical scope of the services.

The most striking and noteworthy development in the second half of the 1990s was that while the physical scope of services hardly surpassed GDP growth, individuals shouldered a rising share of the burden of funding. This process is carrying Israel away from where it was even before the enactment of national health insurance legislation. The changes are gradually leading Israel toward a health system based on large scale private funding and, ultimately, an increasing reliance on private medicine for the delivery of services. Indeed, according to the CSPA surveys in recent years, the public is strongly convinced that equity in the health system has declined in recent years.

The enactment of the national health insurance law did not solve the system's main operational problem, deficit funding, and the system began to accumulate deficits again shortly after the legislation passed. Since then, this has been the cause of severe crises each and every year, both in hospitals (governmental and public) and at the health funds. The main adverse result of the government's deficit funding is a search for complementary sources – payment for clinic services, higher co-payments for medications and treatments, and greater recourse to supplemental insurance. This threatens one of the cardinal

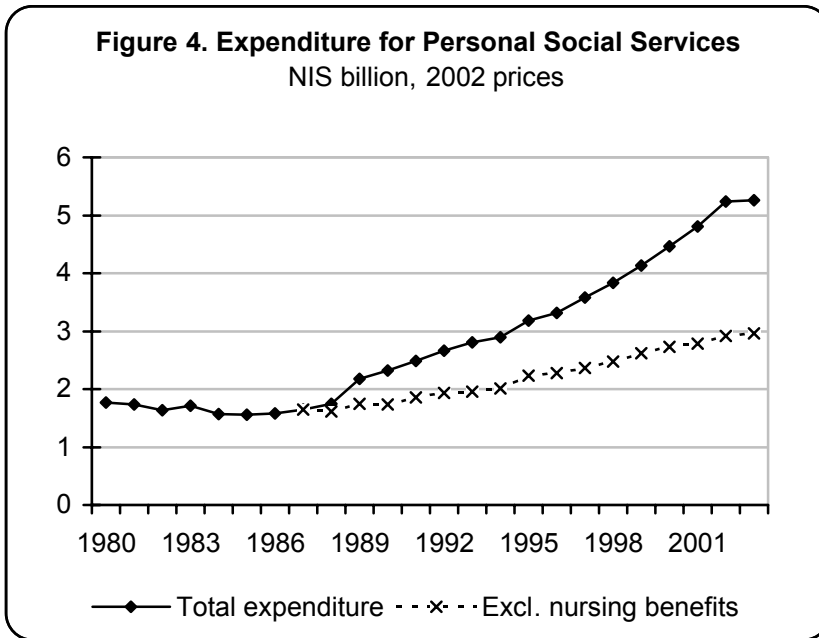
and positive underlying principles of the system: provision of service in accordance with the basic insurance package with no additional payment required. The extra payments were originally justified as a way to reduce the overuse of services, but the fact that they have become a significant and permanent source of funding signals that the goal has not been attained. Above all, insofar as people are deterred from seeking care due to the payment (and the CSPS survey shows that on the average 20 percent of the public, and more than 30 percent in some groups, have, indeed, refrained at least once during the year from using some vital medical service due to cost), then in some cases it has a detrimental effect on health, especially among members of weaker population groups.

c. Personal Social Services

Personal social services are administered by the Ministry of Labor and Social Affairs and municipal welfare bureaus. The total budgeted expenditure for these services is NIS 5.2 billion for 2004, as against NIS 4.5 billion in 2000 and NIS 3.3 billion in 1996 – a vast increase relative to the other social services. Indeed, the share of these services in total in-kind social service expenditure has been rising gradually, from seven percent in 1990 to ten percent in 2003. Notably, too, the annual growth rate of the personal social services slowed by about half in the past year relative to the previous years (1996-2002).

There are two major expenditure categories for personal social services – nursing care benefits, which account for 45 percent of the total expenditure, and all other services. The latter category includes services for children and youth, services for the elderly, for the mentally impaired, correctional services for youth, rehabilitation of persons with disabilities, social care at welfare bureaus, and additional services administered centrally by the Ministry of Social Affairs.

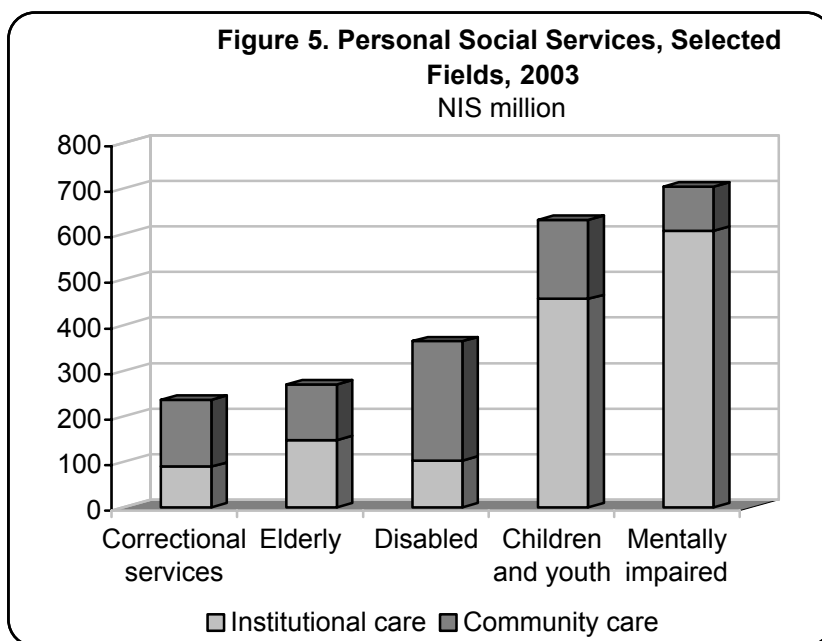
The average increase in annual expenditure for personal social services is composed of a ten percent rise in expenditure for the elderly (nursing and other services) and an increase of only three percent in expenditure for other personal social services (excluding nursing benefits). Since the Long-Term Care Insurance Law was implemented in 1988, and since its expansion in 1992, the share of nursing-care expenditures has been growing steadily and outlays for this services amount to NIS 2.3 billion in 2003. The figure below provides a breakdown by main fields of service.



Services for the elderly (excluding nursing benefits). In 2003, the Ministry of Social Affairs spent more than NIS 250 million on services for the elderly – of which NIS 144 million is for institutional services and NIS 85 million for services in the community. Despite the rapid development of community services in recent years, they still account for less than half of the total expenditure for services for the elderly; the major share

goes for institutional care. The underfunding of community based services is especially prominent in investment expenditure.

Services for children and youth. Total expenditure on services for children and youth was NIS 612 million in 2003, down NIS 34 million from the previous year. This is the only item in the area of personal social services on which expenditure has decreased, in contrast to continual increases in previous years. The cutback was focused on institutional services (including adoption services and management expenditure), whereas expenditure for community care increased slightly.



Services for special population groups. This category includes three sub-groups: delinquent youth, persons with disabilities, and the mentally impaired. The total expenditure for these services came to NIS 1.3 billion in 2003, almost one-fourth of overall expenditure for personal social services. The

share of these services in total outlays has been declining over time.

Services for the mentally impaired. Expenditure in this field was NIS 680 million in 2003, 13 percent of total expenditure for personal social services. This item increased by eight percent due to increases in the population in various institutional settings and the extent of community activities. Some 86 percent of the expenditure goes to institutions that serve about one-fourth of the relevant population group. Most expenditure for away-from-home care (about two-thirds) is concentrated in nongovernmental public and private institutions, even though it costs one-third more, on average, to maintain a person in such institutions than in government operated institutions.

Rehabilitation services. More than NIS 333 million was spent in 2003 on rehabilitation services and most of the sum was earmarked for community based activities. Expenditure for away-from-home services increased by ten percent in 2003 relative to 2002. Over time, the share of expenditure for institutional rehabilitation of the disabled has been growing steadily and that of rehabilitation in the community has declined proportionally, even though the latter is still the larger expenditure item. Most expenditure for institutional care of the disabled focuses on nongovernmental institutions and this trend has been growing over time – indirectly reflecting a policy of privatizing institutions that provide personal social services.

Correctional services for youth. Expenditure for these services was nearly NIS 250 million in 2003. Allocations for community based services have been growing steadily over the years, reflecting the development of approaches that favor this type of treatment for youth. Accordingly, the allocation for institutional care has been declining. In fact, the trend in this field has reversed direction over time. Until 1998, most of the budget was earmarked for institutions; since that year, the

Ministry of Social Affairs has been pledging more than half of the relevant budget to community based services. There have been notable developments in several fields, e.g., a steady and significant proportional increase in expenditure for youth probation services and care for girls and women in distress, at the proportional expense of care for youth in distress and youth rehabilitation in community educational therapeutic facilities.

Central and community based personal and family services. At issue here are services administered centrally and at welfare bureaus, including family services and bureau personnel. Expenditure in this field was NIS 817 million in 2003, 15 percent of the total outlay for all personal social services – a fraction that has been decreasing noticeably over time.

5. National Insurance Benefits

This component of social expenditure was characterized by a continuous rising trend for an extended period of time, until 2002, when it declined for the first time in two decades. The reverse trend was not a one-time aberration; it reoccurred in 2003 and an additional decrease is planned for 2004. The government resolved during its budget debates in the middle of September 2003 to reduce most benefits by five percent, as the Finance Ministry recommended. Only at the last moment did the ministers rescind the decision and approve a cutback that was less severe.

Expenditure on income maintenance for individuals and households, paired with the social characteristics of the tax system, is the best reflection of the state's involvement in and contribution to the attainment of social justice. The extent of progressivity of the tax and benefit systems affects inequality in income distribution. Reducing income inequality is one of the most important goals of transfer payments, and the goal is in

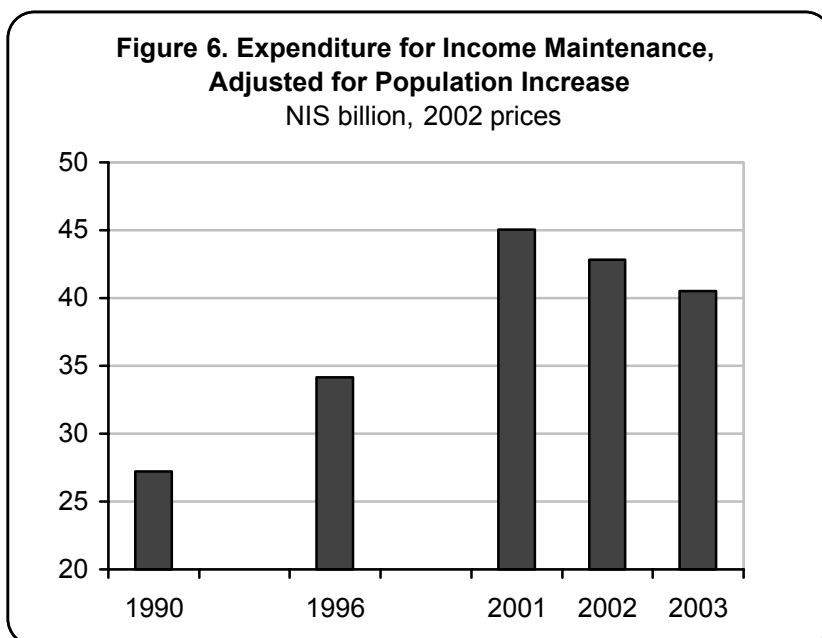
fact attained: transfer payments to individuals and households make a meaningful contribution to the mitigation of income inequality at the countrywide level. However, transfer payments have additional significant functions. They form the economy's social safety net; they make sure that no citizen ever finds him/herself without any source of income. They also play further roles, some technical, such as adjusting the tax base to reflect household size and correcting market failures in the fields of savings and insurance.

The government's economic policies during the past two years have made these goals more difficult to attain. Moreover, the government intends to continue decreasing transfer payments in the long term, i.e., even after the pressure on the economy eases, as one hopes it will. The government has changed the basic parameters of the benefits by resolution and, with the approval of the Knesset, has repealed several important social policy achievements that had been attained during the terms of almost all previous governments. Thus, from a long-term perspective, one should distinguish between the period preceding 2002, when the total expenditure for income maintenance increased considerably, and the current trends.

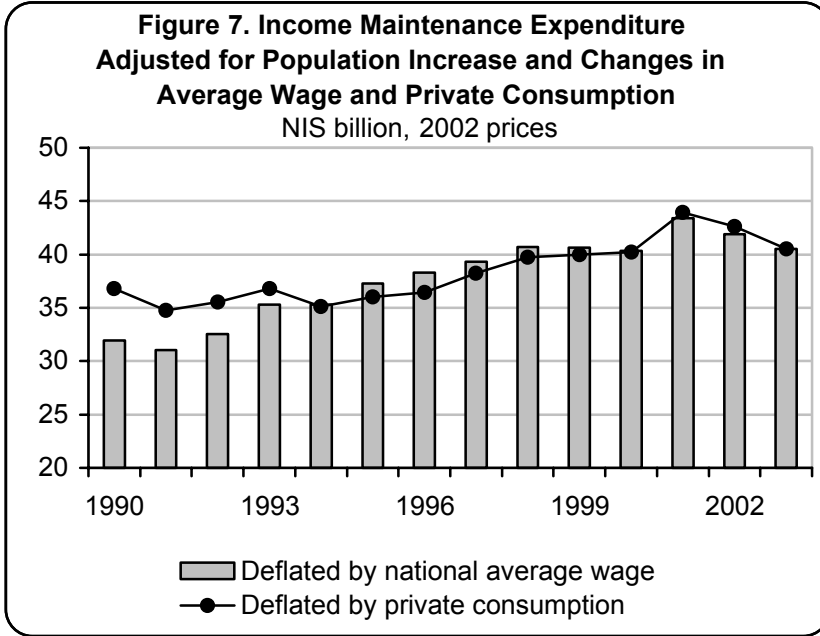
The basic calculations show that real expenditure for benefits doubled between 1990 and the present. However, when the demographic factor is taken into account the picture is more moderate (Figure 6).

This calculation "deflates" the increase by the demographic effect and lowers its rate from 100 percent to 50 percent. This, however, is only a partial adjustment because it omits additional factors. To refine the initial finding, it is necessary, for example, to consider the essence of the benefits. The underlying social concept of the National Insurance laws – a concept that was supported by all Israeli governments – was that the benefits should assure various population groups a minimum income the size of which should reflect changes in society's general

standard of living. The old-age pension, for example, was indexed to the national average wage (25 percent of the wage for a household composed of an elderly couple). The trend in total benefits should be examined in the spirit of this concept, relative to changes in the general Israeli standard of living.



One possible way of examining this trend is by offsetting changes in the national average wage from the expenditure figures. Another possibility is to use a more general index of the standard of living, the private consumption index. By using the wage index to make the correction, we arrive at an adjusted value of benefits in 1990 of NIS 33 billion; use of the private consumption index increases the figure to NIS 37 billion. According to the former correction, total benefits have increased by 24 percent since the beginning of the period; according to the latter correction, the increase was only nine percent (Figure 7).



The analysis thus far pertained to the aggregate of benefits. Obviously, this does not tell the whole story. Some benefits have undergone sweeping changes and others have been relatively stable. Furthermore, some benefits have changed in a direction opposite to that of the general trend. Table 4 presents an initial approximation of the trend in benefits controlling for the demographic factor only (i.e., omitting the additional corrections that we presented) for the main benefit categories.

The largest increase occurred in the **general disability benefit**, which more than doubled (a 2.3-fold increase) during the period at issue. The growth rate was uneven: annual expenditure was stable at NIS three billion until 1994; most of the growth took place after 1998. Moreover, in the past two years, as other benefits eroded considerably, expenditure for disability benefits increased by nearly one-tenth.

Table 4. Benefit Expenditure by Main Categories, Adjusted for Population Increase (NIS million, 2002 prices)

	Old-age and survivors	Children	Disability	Unemployment compensation and income maintenance
1990	12,160	6,039	3,074	2,895
1996	13,545	7,593	4,106	4,386
2000	15,321	7,888	5,637	6,628
2001	16,684	8,316	6,478	7,692
2002	15,729	6,841	6,928	7,363
2003	15,481	6,065	7,154	5,970

The combined category of **unemployment compensation and income maintenance payments** doubled during the years at issue, reflecting the economic downturn in the second half of the period. During the first half of the 1990s, total expenditure for both benefits increased from NIS three billion to NIS four billion and remained at that level until 1996. From then on, there was a steady increase until 2001, bringing the total expenditure to NIS 7.7 billion. In the past two years, however, these two items have decreased by nearly NIS two billion, mostly (NIS 1.5 billion) in the unemployment compensation expenditure. Since unemployment has actually increased during this time, the decrease in expenditure means that the unemployed are receiving less compensation. This reflects the fact that the terms of eligibility for compensation have been tightened.

Old-age pensions accounts for the largest share of National Insurance benefit outlays – nearly 40 percent of the total. Total pension expenditure, deflated by general population increase, grew by 25 percent during the period at issue. Much of the increase can be traced to a change in the composition of groups of the elderly during the past decade. A long-term decrease in the number of retirees entitled to income supplements to their basic old-age pension turned around when elderly immigrants

joined the population of income supplement recipients. The terms of pensions have been eroded severely in the past two years, resulting in a decrease of NIS 1.5 billion in the total outlay on this account.

Child allowances have been replaced by general disability benefits as the second largest benefit item. In the early 1990s, NIS six billion was expended for child allowances, but eligibility for the benefit was subsequently expanded in two phases. First, the freeze of allowances for first and second children (applied in the 1980s as part of the economic stabilization policy) was lifted. Second, the preferential treatment of children of army veterans was revoked and the allowance was applied to all households, whether their heads had served in the army or not. Later corrections (including the "Halpert Law") increased the child allowance expenditure somewhat. However, the government's recent initiatives have reduced total outlays for this benefit by almost NIS 2.5 billion and brought the current level to exactly that of the beginning of the 1990s.

Summing up, the trends in the various benefits were examined and controlled for one factor only, the demographic one. A full correction that takes changes in the overall standard of living into account, such as that performed for the total benefit expenditure would show that the situation with regard to some benefits has worsened substantially, even though at first glance expenditure seems to have grown considerably during the past decade. The directions and intensities of these changes have differed vastly and are not always due to systematic and firmly based decisions. The time has come, it seems, to examine systematically the overall structure of the benefits, their relationship with the general standard of living, and their macroeconomic implications.

Appendix: Definitions, Tables and Sources

Definitions

Government expenditure for social services includes all expenditure by government offices and by the National Insurance Institute for education, health, income maintenance, personal social services, housing, employment, and immigrant integration. The analysis in this book includes all expenditure implemented through the current budget (current expenditure) and the development budget (investment). We treat government expenditure in net terms, i.e., total expenditure less earmarked revenue from outside agencies (such as co-payments from recipients of services).

The analysis refers to total government expenditure for services provided in-kind by the government (public consumption) and for subsidies and transfers to other economic sectors, such as National Insurance allowances, government support of nongovernmental health institutions and support of nongovernmental schools. Thus, the data reflect the activity of the government as a funding agent for the various social services, irrespective of the agency that delivers them.

The financial data pertain to fiscal years that correspond to calendar years (January-December). Until 1990, the fiscal year began in April of the year at issue and ended at the end of the following March. For the transition period – fiscal 1991 – a nine-month budget (April-December) was approved. To

facilitate comparison with data from previous years, we “translated” the 1991 budget expenditure into full-year terms by linear extrapolation.

The data are shown in constant 2002 budget prices. The absolute figures were deflated by the Consumer Price Index or by an implicit price index for Civilian Public Consumption, as the case may be. Investment expenditure, implemented through the development budget, was deflated by the Construction Inputs Price Index.

Classification of Social Expenditures

Social service expenditures were classified functionally, by main fields (education, health, etc.) irrespective of the agency that delivers the service. This classification is different from that used conventionally in the state budget and the statements of the Accountant General, which categorize expenditures by administrative units (e.g., ministries and departments). In education, for example, we included expenditure implemented through the budgets of the Ministry of Education, the Ministry of Labor and Social Affairs (vocational training), and the Ministry of Religious Affairs (*yeshivot*). Below is a detailed list of items included in each field.

Education: Education expenditure includes outlays by the Ministry of Education and Culture for school systems (preschool, primary, post-primary, post-secondary), general expenses for the education system, government participation in higher education budgets, government expenditure for vocational training (Ministry of Labor and Social Affairs) and for *yeshivot* (Ministry of Religious Affairs). We also included transfers to post-primary schools from education levy receipts until this duty was abolished in 1987.

Health: Health expenditure includes expenditures of the Ministry of Health for health services (general inpatient, long-term, and psychiatric care; vocational training; public health

services; government participation in the funding of National Health Insurance; and transfer payments to public medical institutions), including Defense Ministry participation in the Health Ministry budget. We also included the health expenditures of the National Insurance Institute (inpatient maternal care, medical care for work accidents, health outlays under the Long-Term Care Insurance Law, and transfers to the health funds from Parallel Tax receipts until this tax was abolished in 1997). We also included health expenditure of the Unit for Care of Victims of Nazi Persecution. To facilitate comparison with previous years' data, we did not classify the health tax that citizens pay by force of the State Health Insurance Law as government expenditure; instead, we treated this tax as a substitute for the health fund dues that households remitted directly to the funds in previous years.

Income maintenance: Income-maintenance expenditure includes transfers from the National Insurance Institute (with the exception of reserve duty compensation and lines explicitly included in other social service fields) and benefits for victims of Nazi persecution.

Other social services: This item includes government outlays for personal social services (expenditure by the Ministry of Labor and Social Affairs for the care of children, the elderly, the disabled, and the retarded; and community work. We also included most expenditure by the National Insurance Institute on account of the Long-Term Care Insurance Law); housing (expenditure by the Ministry of Construction and Housing); employment (expenditure by the Ministry of Labor and Social Affairs for labor relations, personnel planning and referral, and occupational safety); and immigrant integration (expenditure by the Ministry of Immigrant Absorption).

**Table 1. Indicators of Social Service Expenditure:
Total Budget and Current Budget**

	Social service expenditure as percentage of:		
	<u>Government expenditure</u>		GDP
	Total	Excl. debt servicing	
1. Total budget (current and development)			
1980	23.9	31.7	17.8
1985	18.2	32.1	15.5
1989	26.1	42.0	16.4
1990	30.3	45.2	18.6
1995	36.7	52.4	20.2
1996	36.8	53.2	21.2
1997	37.3	53.7	20.5
1998	37.1	54.0	20.2
1999	38.6	55.1	20.3
2000	38.5	55.0	19.7
2001	39.2	56.1	21.4
2002	38.4	54.2	20.9
2003	36.3	53.6	21.3
2. Current budget			
1980	26.4	30.4	15.1
1985	24.6	32.3	14.4
1989	34.0	42.8	15.6
1990	35.2	43.6	16.2
1995	42.1	50.6	17.3
1996	43.3	51.3	18.1
1997	44.4	52.4	18.1
1998	44.9	53.1	18.1
1999	46.0	53.9	18.2
2000	46.0	54.3	17.8
2001	47.5	55.4	19.4
2002	46.4	54.0	19.2
2003	45.1	53.4	19.2

Table 2. Government Expenditure, by Use (percent)

	Total	Thereof: Debt Servicing	Total excl. Debt Servicing			
			Total	Social Services	Defense	Other
1. Total budget (current and development)						
1980	100.0	24.5	100.0	31.7	39.5	28.8
1985	100.0	43.4	100.0	32.1	40.2	27.7
1989	100.0	37.8	100.0	42.0	33.1	24.9
1990	100.0	33.0	100.0	45.2	31.3	23.5
1995	100.0	29.9	100.0	52.4	24.6	23.1
1996	100.0	30.8	100.0	53.2	24.5	22.3
1997	100.0	30.5	100.0	53.7	24.7	21.6
1998	100.0	31.3	100.0	54.0	24.8	21.2
1999	100.0	29.9	100.0	55.1	23.7	21.2
2000	100.0	30.0	100.0	55.0	24.0	21.0
2001	100.0	30.2	100.0	56.1	23.6	20.3
2002	100.0	29.2	100.0	54.2	25.4	20.4
2003	100.0	32.3	100.0	53.6	23.8	22.6
2. Current budget						
1980	100.0	13.3	100.0	30.4	44.5	25.0
1985	100.0	24.1	100.0	32.3	43.6	24.1
1989	100.0	20.6	100.0	42.8	35.4	21.8
1990	100.0	19.3	100.0	43.6	34.6	21.8
1995	100.0	16.7	100.0	50.6	27.7	21.7
1996	100.0	15.5	100.0	51.3	27.6	21.1
1997	100.0	15.3	100.0	52.4	27.3	20.3
1998	100.0	15.4	100.0	53.1	27.2	19.7
1999	100.0	14.6	100.0	53.9	25.9	20.2
2000	100.0	15.3	100.0	54.3	26.1	19.6
2001	100.0	14.4	100.0	55.4	25.7	18.8
2002	100.0	14.2	100.0	54.0	27.6	18.3
2003	100.0	15.7	100.0	53.4	26.4	20.2

Table 3. Expenditure on Social Services, by Main Item
(NIS million, 2002 prices)*

1. Total budget (current and development)

	Total	Income mainte- nance	In-kind services						
			Total Educa- tion	Health	Personal social services	Em- plov- ment	Immigrant integration	Housing	
1980	42,361	10,714	31,646	15,219	10,427	1,798	256	288	3,659
1985	43,078	13,973	29,105	14,678	10,173	1,574	246	323	2,111
1989	50,261	18,765	31,496	15,853	10,630	2,193	359	689	1,772
1990	58,310	18,978	39,332	16,869	11,066	2,334	356	2,821	5,885
1995	81,468	27,144	54,324	24,050	14,553	3,214	503	1,875	10,128
1996	89,081	29,015	60,066	27,597	15,928	3,356	464	1,875	10,846
1997	90,083	31,300	58,782	28,269	15,863	3,606	530	1,791	8,723
1998	92,843	33,907	58,936	28,323	15,956	3,861	540	1,824	8,433
1999	96,758	35,565	61,193	29,682	16,014	4,175	612	1,998	8,712
2000	98,450	38,458	59,992	30,134	14,856	4,495	588	2,083	7,836
2001	106,033	43,363	62,670	31,280	15,522	4,839	613	1,808	8,608
2002	102,711	42,088	60,623	30,198	15,398	5,270	656	1,545	7,556
2003	104,108	40,540	63,568	30,371	15,673	5,319	677	1,721	9,807

Average annual percent change

1980-1985	0.3	5.5	-1.7	-0.7	-0.5	-2.6	-0.8	2.4	-10.4
1985-1989	3.9	7.6	2.0	1.9	1.1	8.7	9.9	20.8	-4.3
1989-1996	8.5	6.4	9.7	8.2	5.9	6.3	3.7	15.4	29.5
1996-2000	2.5	7.3	0.0	2.2	-1.7	7.6	6.1	2.7	-7.8
2000-2003	1.9	1.8	1.9	0.3	1.8	5.8	4.8	-6.2	7.8

*Income-maintenance expenditure is deflated by the Consumer Price Index; all other expenditure in the current budget is deflated by the Public Civilian Consumption Price Index, and expenditure in the development budget is deflated by the Construction Price Index.

Table 3. (continued)

	Total Income		In-kind services						
	mainte- nance		Total Educa- tion	Health	Personal social services	Em- ploy- ment	Immigrant integration	Housing	
1980	38,184	10,714	27,470	14,807	#####	1,771	256	288	178
1985	40,721	13,973	26,747	14,464	#####	1,553	246	323	155
1989	48,442	18,765	29,677	15,658	#####	2,176	359	689	283
1990	52,224	18,978	33,245	16,592	#####	2,319	356	2,821	231
1995	70,432	27,144	43,288	23,191	#####	3,186	503	1,875	319
1996	76,490	29,015	47,475	26,404	#####	3,318	464	1,875	323
1997	79,931	31,300	48,631	27,051	#####	3,576	530	1,791	302
1998	83,355	33,907	49,448	27,287	#####	3,838	540	1,824	283
1999	86,910	35,565	51,344	28,625	#####	4,132	612	1,998	286
2000	89,358	38,458	50,900	29,055	#####	4,463	588	2,083	264
2001	96,275	43,363	52,912	30,232	#####	4,802	613	1,808	286
2002	94,308	42,088	52,220	29,402	#####	5,236	656	1,545	255
2003	93,584	40,540	53,044	29,680	#####	5,263	677	1,721	274
Average annual percent change									
1980-1985	1.3	5.5	-0.5	-0.5	-0.3	-2.6	-0.8	2.4	-2.7
1985-1989	4.4	7.6	2.6	2.0	1.2	8.8	9.9	20.8	16.2
1989-1996	6.7	6.4	6.9	7.8	5.3	6.2	3.7	15.4	1.9
1996-2000	4.0	7.3	1.8	2.4	-1.1	7.7	6.1	2.7	-4.9
2000-2003	1.6	1.8	1.4	0.7	2.2	5.7	4.8	-6.2	1.2

Table 4. Distribution of Expenditure on Social Services (Percent)

	Total	Income maintenance	In-kind services			
			Total	Education	Health	Other *
1. Total budget (current and development)						
1980	100.0	30.7	69.3	30.9	21.1	17.3
1985	100.0	41.0	59.0	28.6	19.9	10.5
1989	100.0	42.4	57.6	28.4	19.0	10.1
1990	100.0	36.0	64.0	26.1	17.1	20.8
1995	100.0	34.1	65.9	28.7	17.3	19.9
1996	100.0	33.3	66.7	30.3	17.5	18.8
1997	100.0	35.8	64.2	30.6	17.2	16.4
1998	100.0	37.5	62.5	29.9	16.8	15.9
1999	100.0	37.7	62.3	30.1	16.2	16.1
2000	100.0	39.1	60.9	30.5	15.1	15.3
2001	100.0	40.4	59.6	29.8	14.8	15.0
2002	100.0	41.0	59.0	29.4	15.0	14.6
2003	100.0	38.6	61.4	29.5	15.2	16.7
2. Current budget						
1980	100.0	36.0	64.0	34.5	23.7	5.8
1985	100.0	44.2	55.8	30.2	20.9	4.8
1989	100.0	44.5	55.5	29.3	19.7	6.6
1990	100.0	41.3	58.7	29.3	19.3	10.1
1995	100.0	39.9	60.1	32.2	19.7	8.2
1996	100.0	39.0	61.0	33.9	19.4	7.7
1997	100.0	40.5	59.5	33.1	18.8	7.6
1998	100.0	41.9	58.1	32.1	18.4	7.6
1999	100.0	42.0	58.0	32.3	17.7	7.9
2000	100.0	43.1	56.9	32.5	16.1	8.3
2001	100.0	44.5	55.5	31.7	15.9	7.9
2002	100.0	44.6	55.4	31.2	16.0	8.2
2003	100.0	42.8	57.2	32.0	16.6	8.6

*Composed chiefly of personal social services, immigrant integration, and housing.

Table 5. Expenditure on Income Maintenance, by Main Component
(NIS million, 2002 prices)*

	Total	Old-age and survivors	Child allowances	General disability	Un- employ- ment	Income Support	Other NII	Victims of Nazis
1980	10,715	4,816	3,236	1,178	195	0	951	340
1985	13,973	6,441	3,613	1,824	364	466	993	271
1989	18,765	8,182	4,323	2,181	1,399	570	1,679	431
1990	18,978	8,473	4,207	2,142	1,387	630	1,705	434
1995	27,144	11,001	6,179	3,148	1,807	1,605	2,685	718
1996	29,015	11,513	6,454	3,490	2,014	1,714	2,913	917
1997	31,300	12,038	6,769	3,840	2,694	1,907	3,071	981
1998	33,907	12,972	6,911	4,261	3,116	2,292	3,280	1,074
1999	35,565	13,276	7,310	4,605	3,186	2,584	3,455	1,150
2000	38,458	14,407	7,417	5,301	3,161	3,071	3,867	1,233
2001	43,363	16,062	8,006	6,236	3,712	3,693	4,317	1,337
2002	42,088	15,450	6,720	6,805	3,533	3,699	4,480	1,401
2003	40,540	15,481	6,065	7,154	2,601	3,369	4,308	1,561
Average annual percent change								
1980-1985	5.5	6.0	2.2	9.1	13.3	..	0.9	-4.4
1985-1989	7.6	6.2	4.6	4.6	40.0	5.2	14.0	12.3
1989-1996	6.4	5.0	5.9	6.9	5.3	17.0	8.2	11.4
1996-2000	7.3	5.8	3.5	11.0	11.9	15.7	7.3	7.7
2000-2003	1.8	2.4	-6.5	10.5	-6.3	3.1	3.7	8.2

*Deflated by the Consumer Price Index.

Table 6. Distribution of Expenditure on Income Maintenance (Percent)

	Total	Old-age and survivors	Child allowances	General disability	Un- employ- ment	Income Support	Other NII	Victims of Nazis
1980	100	44.9	30.2	11.0	1.8	0.0	8.9	3.2
1985	100	46.1	25.9	13.1	2.6	3.3	7.1	1.9
1989	100	43.6	23.0	11.6	7.5	3.0	8.9	2.3
1990	100	44.6	22.2	11.3	7.3	3.3	9.0	2.3
1995	100	40.5	22.8	11.6	6.7	5.9	9.9	2.6
1996	100	39.7	22.2	12.0	6.9	5.9	10.0	3.2
1997	100	38.5	21.6	12.3	8.6	6.1	9.8	3.1
1998	100	38.3	20.4	12.6	9.2	6.8	9.7	3.2
1999	100	37.3	20.6	12.9	9.0	7.3	9.7	3.2
2000	100	37.5	19.3	13.8	8.2	8.0	10.1	3.2
2001	100	37.0	18.5	14.4	8.6	8.5	10.0	3.1
2002	100	36.7	16.0	16.2	8.4	8.8	10.6	3.3
2003	100	38.2	15.0	17.6	6.4	8.3	10.6	3.9

Table 7. Expenditure on Education, by Main Component, Current Budget
(NIS million, 2002 prices)*

	Total	General	Pre-schools	Pri- mary	Post- primary	Higher Education	Vocational training	Yeshivot
1980	14,807	1,547	574	4,212	4,386	3,319	510	259
1985	14,464	1,363	685	3,701	4,686	2,987	490	551
1989**	15,658	1,184	791	4,121	5,490	2,839	483	749
1990	16,592	1,290	821	4,428	5,718	2,850	523	962
1995	23,191	1,647	1,068	6,617	8,017	4,033	704	1,104
1996	26,404	1,885	1,465	7,042	9,368	4,733	759	1,153
1997	27,051	1,852	1,587	7,230	9,742	4,691	714	1,236
1998	27,287	1,855	1,580	7,415	9,920	4,573	740	1,205
1999	28,625	2,010	1,660	7,496	10,298	5,181	802	1,178
2000	29,055	2,045	1,787	7,665	10,319	5,312	746	1,181
2001	30,232	2,136	1,977	8,241	10,949	4,960	777	1,192
2002	29,402	2,119	2,006	8,100	10,544	4,735	803	1,095
2003	29,680	2,077	2,067	8,311	10,289	5,111	853	972
Average annual percent change								
1980-1985	-0.5	-2.5	3.6	-2.6	1.3	-2.1	-0.8	16.3
1985-1989	2.0	-1.3	-0.3	8.0
1989-1996	7.8	6.9	9.2	8.0	7.9	7.6	6.7	6.3
1996-2000	2.4	2.1	5.1	2.1	2.4	2.9	-0.4	0.6
2000-2003	0.7	0.5	5.0	2.7	-0.1	-1.3	4.5	-6.3

*Deflated by the Public Civilian Consumption Price Index.

**Due to reclassification of items in the budget of the Ministry of Education as of 1987, figures in cols. 2-5 are not comparable to corresponding figures for earlier years.

Table 8. Net Expenditure on Health, by Main Component, Current Budget
(NIS million, 2002 prices)*

	Total	Gov't financing of Health			Direct expenditure				
		Insurance			General hospitals	Psychiatric care	Long-term care	Public health and other	Other **
Parallel tax	Co-payments	Other transfers							
1980	10,169	4,134	..	1,637	1,153	799	435	619	1,394
1985	10,006	5,442	176	1,196	472	565	403	499	1,252
1989	10,511	6,745	772	294	142	636	522	438	963
1990	10,927	6,407	813	563	314	687	537	441	1,164
1995	14,215	7,414	2,332	209	507	989	734	734	1,297
1996	15,091	7,709	2,042	1,153	205	1,111	781	693	1,399
1997	15,381	872	9,310	886	69	1,065	852	883	1,444
1998	15,677	60	9,438	1,644	103	1,075	921	961	1,476
1999	15,692	0	9,776	1,165	103	1,092	987	1,138	1,430
2000	14,447	0	8,984	551	169	1,112	1,020	1,084	1,526
2001	15,170	0	9,320	471	474	1,211	1,154	982	1,558
2002	15,126	0	9,315	663	257	1,268	1,149	940	1,533
2003	15,429	0	9,511	821	144	1,228	1,150	852	1,725

Average annual percent change

1980-1985	-0.3	3.4	..	-6.1	-16.4	-6.7	-1.5	-4.2	-2.1
1985-1989	1.2	3.5	..	-29.6	-25.9	3.0	6.7	-3.2	-6.3
1989-1996	5.3	4.9	14.9	21.6	5.4	8.3	5.9	6.8	5.5
1996-2000	-1.1	..	44.8	-16.8	-4.6	0.0	6.9	11.8	2.2
2000-2003	2.2	..	1.9	14.2	-5.3	3.3	4.1	-7.7	4.2

*Deflated by the Public Civilian Consumption Price Index.

**Includes government health outlays not recorded in the Ministry of Health budget.

Table 9. Percent Investment Expenditure in Total Education and Health Budgets

	Total	Education	Health
1980	4.5	4.7	4.3
1985	2.4	2.3	2.6
1989	1.7	1.8	1.6
1990	2.0	2.2	1.7
1995	3.4	3.9	2.6
1996	4.9	4.6	5.5
1997	4.1	4.6	3.2
1998	3.1	3.8	1.8
1999	3.2	3.7	2.1
2000	3.3	3.6	2.8
2001	3.0	3.3	2.2
2002	2.3	2.6	1.8
2003	2.0	2.2	1.5

Sources

The data on government expenditure for social services are based on the government's financial statements, prepared by the Accountant General of the Finance Ministry (the 2003 data are budget data updated to the time the report was prepared; the 2004 figures are those in the adjusted budget proposal, presented to the Knesset), and on the Statistical Quarterlies of the National Insurance Institute. (The 2003 data are estimates of final expenditure; those for 2004 pertain to projected receipts and expenditures that was prepared by the Research and Planning Division of the National Insurance Institute.) We also availed ourselves of the explanatory notes attached to the state budget and the Bank of Israel Annual Report for the years at issue. To compute real expenditure, we used the appropriate price indices supplied by the Central Bureau of Statistics.

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