

Israel's Social Services 2005

Government Expenditure for Social Services

Taub Center for Social Policy Studies in Israel*

Jerusalem, April 2005

* The Taub Center assists in shaping public policy to the benefit of the population of Israel by means of research and education in social policy issues. Established in 1982 under the leadership and vision of Herbert M. Singer, Henry Taub, and the American Jewish Joint Distribution Committee (JDC), the Center is funded by a permanent endowment created by the Henry and Marilyn Taub Foundation, the Herbert M. and Nell Singer Foundation, Jane and John Colman, the Kolker-Saxon-Hallock Family Foundation, and the JDC. This chapter is taken from the annual Taub Center publication ***Israel's Social Services 2005***.

Visit us on-line at www.taubcenter.org.il.

Main Findings

Government Expenditure for Social Services

1. Economic developments over the past two years followed opposing trends: while the overall economic situation has been improving, the economic situation of weaker population groups is continuing to deteriorate. This is not yet adequately reflected in the government's expenditure policy – in either the 2005 budget or the 2006 draft budget.
2. The turnaround in the business cycle has resulted in an improvement in the employment picture. At first, unemployment remained high despite the expansion of economic activity: the unemployment rate in 2004 stood at 10.4 percent as against 10.7 percent in 2003. By the fourth quarter of 2004, however, the rate had fallen to 10 percent and in the course of 2005 it dropped to 9 percent.
3. Economic growth has been uneven, focusing on industries that are intensive in skilled labor. This trend, coupled with the government's tax and transfer payment policies, has resulted in a continuous increase in poverty and a steady widening of economic gaps despite overall economic improvement in Israel.
4. Social expenditure in 2005 was NIS 100 billion – NIS 62 billion for in-kind service provision and NIS 38 billion for social transfer payments. This represents a NIS 2.5 billion increase over the previous year. From a long-term perspective, however, it is a decline of NIS 9 billion relative to expenditure in 2001. In per-capita terms, expenditure fell by 14.8 percent during this time – from NIS 16,970 in 2001 to NIS 14,461 in 2005.
5. Without a real change in the composition of the budget, it seems unlikely that a policy that limits the growth in

government outlays to a rate that is lower than the rate of population growth can strengthen the country's social fabric. Transfer payments are a main component of the income of the weaker population groups, and the in-kind services that the government provides figure prominently in the consumption of these population groups.

Education

1. The education system has done its part for much of the Israeli public, teaching language, basic skills, and essential knowledge. Many young people, upon reaching adulthood, successfully integrate into higher education and various industries. For others, though, it has not provided enough of the necessary skills for successful functioning in a modern society.

2. Success and failure as measured in the education system are not equally apportioned. Success is typical of certain social groups and sectors; failure belongs to others. There can be no doubt that the potential talents of many individuals amongst those who fail to achieve satisfactorily in the education system are not being realized.

3. These and other developments lead to several conclusions about the educational policies that are called for:

With respect to teaching personnel, teachers should spend more hours actually teaching than they do today and should receive higher wages for their work.

With respect to curricula, a compulsory core curriculum for the entire system, including all subjects that are crucial for the success of graduates in a modern and technologically advanced society, should be established.

With respect to the budget, funding should be sufficient to assure the implementation of these two tasks and should be apportioned in an equitable, fair, and efficient way.

4. Developments in the education system have resulted in a continuous decline in enrollment in the State system and, at the

same time, the percent of those enrolled in the *haredi* (ultra-Orthodox) school system has been rising. Taub Center studies have found that these shifts take place in the early grades and are not followed by continuing transfers among school systems. In a study of inter-system transfers by level of education it was found that the net number of transfer students does not exceed several hundred. Thus, the large increase observed in *haredi* education can be traced mainly to natural increase.

Health Care

1. National health care expenditure, in current prices, was NIS 46 billion in 2004, some 8.3 percent of the GDP. This indicates a continuation of the decline that began in 2003, following peak expenditures for health care of 8.6 percent of GDP in 2002. In previous years, there had been an upward trend that became especially steep after 2000.
2. In 1990-2002, the increase in real average per-capita health care expenditure slightly outpaced the increase in per-capita GDP. In the OECD and EU countries, the same trend was evident but with an even higher increase relative to per-capita product than in Israel.
3. The share of public funding for the health care system continued to decline in 2004 and the proportion of private funding rose to 30 percent of total national health care expenditure. This is one of the highest rates of private funding among developed countries characterized by public entitlement to medical services.
4. Israel has one of the highest levels of life expectancy among developed countries and may be able to improve this further mainly by dealing with two parameters: lowering infant mortality, especially among the Arab population, and improving women's health.
5. The number of doctors per capita has been declining in recent years. This is liable to become a long-term trend as the potential

sources of immigrant doctors thin out. Therefore, a rethinking is needed in the planning of the most basic resource of the Israeli health care system.

Personal Social Services

1. Personal social services are not reaching all persons in need, leaving some groups and individuals in distress and without assistance from the state. Although various initiatives have appeared at the local and national levels (donations in cash and goods, soup kitchens, etc.), they cannot substitute for the professional aid that is provided by government welfare services and social workers.

2. Almost half of total government expenditure on personal social services is earmarked for the elderly – 42 percent for long-term care and 8 percent of the remainder (net of long-term care) for other services. This represents NIS 2.2 billion for long-term care and NIS 220 million for other services (in constant 2004 prices).

3. Among services for children and youth in distress, current policy gives priority to community based services. In the past two years a special effort has been made to refer fewer children to institutional care, to return institutionalized children to the community, and to strengthen relations between children in institutions and their families.

4. The extent and quality of social services varies considerably from one locality to the next. A number of factors are responsible for this inequality: uneven participation of central and local government in local welfare budgets; differences in the number of volunteer organizations in different localities and the extent of their activity; and, different local attitudes toward the development of social services. The inequality is especially visible in the large discrepancies that exist between Jewish and Arab localities, but it also persists among localities in the Jewish sector.

Transfer Payments – National Insurance Benefits

1. In recent years, benefits have been eroding due to the government's attempts to reduce its budget and, in particular, its social budget. The most conspicuous cutbacks were in benefits for those of working age: child allowances, income maintenance, and unemployment compensation. Disability benefits were hardly affected during the review period.
2. The three main benefit categories – old-age and survivors, children, and general disability – account for about two-thirds of the total benefit expenditure, down from around 70 percent in the middle of the previous decade (1995). An especially pronounced decline occurred in the share of child allowances, from one-fifth of total National Insurance payments in 1995 to about one-tenth in 2005. In contrast, the share of disability benefits increased consistently and substantially during the decade.
3. Growing public awareness regarding the needs of persons with disabilities led to the passage of the Access to Public Places for the Disabled Law in 2005, which became effective at once for most public buildings. Another development in the advancement and integration of persons with disabilities in employment and the community was set in motion by the government's decision to approve the recommendations of the Laron Committee (June 2005). Pursuant to this decision, legislative changes meant to encourage persons with disabilities to join the labor force will be enacted.
4. The abrupt and across-the-board cutbacks in child allowances within the framework of the Emergency Economic Plans (since 2002) have exacerbated poverty among children and especially in households in which the head of household does not participate in the labor market.
5. Economic growth and the toughening of the terms of eligibility for unemployment compensation have caused the unemployment rate to fall slightly while severely reducing, by

more than one-third (36 percent), the share of unemployment-compensation recipients – from one-half of all registered unemployed in 1998 (before the rules were changed) to about one-fifth in 2004.

The 2005 Social Survey

1. The widespread belief among those surveyed is that economic polarization is increasing and socio-economic gaps are widening. The economic improvement in the past two years did not change the respondents' perceptions of the intensity of the gaps. In fact, the strong groups in society felt that they were getting stronger and the weak groups felt that they were continuing to get weaker.

2. The Taub Index of Social Confidence combines survey responses to a series of questions that reflect and pertain directly to the most basic elements of the public's sense of social welfare. The main items concern changes in standard of living, the sense of being exposed to violence, basic economic security, and fear of unemployment.

3. A brief presentation of the survey findings over time shows the following: in 2001 (the first year for which the index was calculated), the Taub Index score was 58 (out of 100). In 2002-2003, the index score declined to 48 points, reflecting the public's growing lack of social confidence as the recession and unemployment intensified. In 2004 and 2005, the index score rose to 53 and 55 points, respectively.

4. The index score for those with an income level "far above average" stood at nearly 70 points in 2005 while the figure for those with "far below average" income came to only 44 points. The index score for the population with a "slightly under the average" income level was also below 50 points this year.

5. The improvement in the feeling of job security first observed in 2004 continued in 2005 after a rather lengthy period when the fear of unemployment was very acute. The percent of

respondents who were totally unconcerned or only slightly concerned about themselves or a close family member becoming unemployed rose to 46 percent in 2005 as against 40 percent last year and 30 percent in 2003.

Selected Issues*

Privatization of Social Services: A Framework for Discussion

1. One of the most important conclusions from studies of privatization is that the issue of ownership – whether public, NPO, or business – has little effect on the efficiency of production and distribution of social services at large. Therefore, there is little to be gained by the mere act of *switching* ownership from public to private business within the framework of a privatization policy.
2. The main contribution to greater efficiency in social services is made by establishing real competition among service providers, first among public providers and then, between them and for-profit business providers who operate on the fringes of the public providers. Such competition hinges on a government policy that will create the requisite basic conditions.
3. Privatization is not meant to absolve the state of its responsibilities, which include: control of public budgets to assure efficient use and guarantee quality of services; regulation of the providers' advertising of the quality of their service; and setting rules of eligibility for public subsidies, in cases where the consumer wishes to improve the public service by paying for it privately through a business-type provider or through the facilities of the public provider by its employees.

* Selected Issues appear as chapters in the full Hebrew report and have not been included in this English translation.

Education: On Privatization and Education

1. Due to a long standing tradition in the organization of education in Israel, almost all pre-schools are privately owned, almost all primary schools are public, and most post-primary schools are private. This distribution is based on a narrow definition that disregards the fact that most educational institutions at all levels (pre-school, primary, and post-primary), even when defined as private, are run by public not-for-profit organizations (*ORT, Amal, Amit, WIZO, Naamat*, the Independent school system, *Ma'ayan Torah Education*, etc.) that are fully funded by the state and function in the framework of regulations set by the state.

2. Even though most Israeli education institutions are public, be it by formal or informal definition – in the sense that most of their funding, curricula, and terms of employment are determined by the state – they maintain funding mechanisms that sometimes evolve into student selection systems that undermine and may at times even defeat any policy that aims to enhance equality in the education system.

3. No substantial differences were found among schools on the basis of their organizational affiliation as private or public institutions. Accordingly, the state has several main duties to perform: assuring a level of budgeting that permits good education for all pupils, including those from the socially and economically weakest strata, and applying meaningful affirmative action for this purpose; establishing rules for the sound management and operation of schools; establishing certification and dismissal rules for teachers (threshold requirements in training and education, periods of internship, terms of dismissal for teachers, etc.); and, negotiating national labor accords in teaching occupations (in regard to wages and other working conditions).

Welfare: Efficiency and Quality in Nursing Homes – NPOs versus Business Entities

1. One of the characteristics of this industry is that some nursing homes are run as businesses that aim to maximize their profits and others are nonprofit organizations that are prohibited from distributing profits and work on the public behalf. This chapter discusses the question of which type of organization is more efficient, which provides a higher quality of service, and which is more reliable.
2. The empirical findings indicate that while not for profit (NPO) homes incur a higher cost per day for inpatient care than business-owned nursing homes do, they also provide better service. Therefore, the differences in cost may be attributed to differences in quality and does not imply a difference in efficiency.
3. Two factors explain the finding that NPOs provide higher quality service, on average, than businesses. First, NPOs tend to act on the public behalf, which is reflected in a higher quality of care. Second, as a result of Ministry of Health policies in setting the cost per day of nursing home care, the rates for NPO nursing homes are higher than for the business-run homes. The findings show that the institutions in the industry adjust the quality of service that they provide to the rate paid them by the Ministry of Health.
4. The government is a dominant player in this industry because it pays for some 70 percent of long-term care beds. It also sets the rates that the institutions are paid and the standard by which the institutions are run. Finally, it is responsible for their licensing and supervises the quality of the care that they provide.
5. The study found no difference between NPOs and businesses in terms of economic efficiency. Furthermore, the study's findings indicate that NPOs that operate in the nursing home industry contribute to the public welfare by elevating quality

and lowering price. Therefore, it is not clear whether forcing the NPOs to run their homes on a “business” basis would be to the public’s benefit.

Health Care: Relations between Community-Based Medical Services and the Inpatient System

1. The authors propose that action be taken to improve relations between the community-based medical system and the inpatient system. This must be done at both the clinical and the administrative levels, by excluding the patient from disputes between insurers and service providers.

2. The following measures are recommended: (a) The sick funds and the hospitals should reach an agreement for the establishment of a medical liaison office in each hospital to resolve disputes without patient involvement and to divide the risk. (b) Every inpatient should have a personal medical representative who would serve as an advocate in respect to inpatient care and who would also be responsible for establishing contact with the physician in the community, where necessary. (c) Continuity of care should be improved by establishing regional or sick fund “parent departments”. (d) There is a need to advance the national project that aims to establish an online interface among the various health care organizations’ information systems to assure the availability of relevant, concise information about the patient at all junctures of the public health care system (a computerized personal medical file).

3. Due to the random development of the health care system, the country’s hospitals are not optimally dispersed. Thus, there are three comprehensive medical centers in greater Tel Aviv, only a few minutes away from each other, whereas Israel’s fourth largest city, Ashdod, has no hospital at all. The lack of horizontal coordination among these centers results in severe waste of resources and fierce competition.

Government Expenditure for Social Services

In the past two years, as economic growth resumed and the general economic situation improved, poverty increased and economic gaps widened. Thus, the dilemmas of socio-economic policy remain unresolved: is a pro-growth macroeconomic policy enough to enhance the well being of weak population groups? And if the general improvement does not trickle down enough, or does so at an unsatisfactory pace, how should the government intervene? Should Israel revert to its traditional policy of spending more on social services and transfer payments, or should it take a different approach, more focused and less universal, including significant changes in expenditure targets?

Ideological outlooks influence attitudes toward these questions. Even people who share similar worldviews, however, may disagree due to practical difficulties that originate, among other things, in limitations in identifying and measuring costs and benefits and, primarily in comparing the cost-benefit ratios of different public social outlays. The review that follows strives to establish a factual basis for discussion of a desirable government socio-economic policy. Apart from describing developments and noting main long-term trends, the analysis also makes a partial assessment of the efficacy of the expenditures.

1. The State Budget as a Major Tool in the Implementation of Government Policy

The state budget is a major instrument in the implementation of government policy. The budget that the government presents the Knesset for approval reflects policies and priorities; the final outlay data released at the end of the year give an indication of how the policies were actually carried out. When the plan and the execution do not tally, the discrepancies may indicate that these policies have not been implemented and/or that there has been a deviation from the stated priorities.

**Table 1. Social Expenditure in the Current Budget, 2004
According to Draft Budget, Adjusted Budget, and
Final Expenditure (NIS billions and percent)**

Type of expenditure	Draft budget	Adjusted budget	Final Expenditure	Deviation from:	
				Draft budget %	Adjusted budget %
Total	93.5	92.7	91.3	-2.3	-1.5
Income maintenance	40.5	38.6	38.6	-4.6	0.0
In-kind services	53.0	54.1	52.7	-0.6	-2.6
Thereof:					
Education	29.5	30.1	29.2	-1.0	-3.0
Health care	15.8	16.0	16.0	+1.2	0.0
Personal social services	5.2	5.2	5.3	+0.6	+0.4
Other services	2.5	2.8	2.3	-8.9	-18.3

In 2004, government expenditure for social services again fell short of the programmed level. According to the budget proposal social expenditure in the current budget amounted to NIS 93.5 billion and after mid-year reductions, the final budget figure was NIS 92.7 billion. In practice, social expenditure in the current budget came to NIS 91.3 billion. Thus, the actual expenditure was 2.3 percent under the original plan and 1.5

percent under the adjusted budget (Table 1). These deviations between actual and planned budget outlays, however, were smaller in 2004 than in 2003 (Table 2).

Table 2. Deviations of Final Social Expenditure Implementation, from Proposed Budget and Adjusted Budget, 2004 vs. 2003
(Current Budget, Percent)

Type of expenditure	2004		2003	
	Deviation from Proposed budget	Deviation from Adjusted budget	Deviation from Proposed budget	Deviation from Adjusted budget
Total	-2.3	-1.5	-6.0	-3.2
Income maintenance	-4.6	0.0	-6.1	-2.2
In-kind services	-0.6	-2.6	-5.9	-4.0
Thereof:				
Education	-1.0	-3.0	-5.4	-2.3
Health care	+1.2	0.0	-5.6	-3.8
Personal social services	+0.6	+0.4	-5.5	-3.7
Other services	-8.9	-18.3	-16.0	-25.0

Despite the improvement, it bears emphasis that program and implementation deviations remained significant in 2004. Furthermore, in certain expenditure items the deviations in implementation were even larger relative to the adjusted budget than to the original budget proposal. In other words, during the year urgent needs that warranted budget increases arose but outlays failed to keep up, causing the gaps to widen. Some budget increases are accompanied by more intensive involvement by the Ministry of Finance in execution. This results in less flexibility in budget use and, ultimately, in underutilization of the budgets.

The deviations from original plan were larger in income-maintenance expenditure than in outlays for in-kind services, whereas deviations from the adjusted budget were actually greater in expenditure for in-kind services and, especially, education and items related to immigrant integration (included in the "other services" category).

2. Economic Developments

Economic developments in 2004 moved in opposing directions: the overall economic situation continued to improve while the weak population groups continued to lose ground. This dualism has not yet found sufficient expression in government expenditure policies, be it in the 2005 budget or in the 2006 draft budget.

The expansion of economic activity that began in the middle of 2003 continued in 2004 after two years of negative growth. Gross Domestic Product (GDP) grew by 4.3 percent and business sector product grew by 6.1 percent, as against 1.3 percent and 1.7 percent, respectively, in 2003 (Table 3). On the uses side, exports contributed to growth due to the general expansion of global trade, including trade in high-tech products, and private consumption did the same due to higher disposable income, relative easing of security tension, and an increase in consumer confidence.

The favorable trend persisted in the first half of 2005 as well, with GDP growth projected at 5.1 percent and growth in business sector product at 6.4 percent. The growth estimate for 2006 is somewhat more modest.

The turnaround in the business cycle eventually brought about an improvement in the employment situation. At first, the decline in unemployment lagged behind the expansion of economic activity. Thus, in 2004 the unemployment rate remained at 10.4 percent as against 10.7 percent in 2003. By the last quarter of 2004, however, the unemployment rate had

already fallen to 10 percent and should reach 9 percent in 2005. No less important, the decrease in unemployment coincided with a rise in the labor force participation rate from 54.5 percent in 2003 to 54.9 percent in 2004 and 55.3 percent in the second quarter of 2005.

Employment opportunities also increased due to the replacement of foreign workers by Israelis. The number of Israelis employed increased by 2 percent in 2003, 3 percent in 2004, and (estimated) 4 percent in 2005. Concurrently, the share of non-Israelis among total employed in the business sector fell from 12.3 percent in 2003 to 10.8 percent in 2005 (as against 15 percent in 2000). Nevertheless, in the first half of 2005, the number of non-Israelis employed has risen again.

Wages also increased in 2004; after two years of a cumulative decline of more than 9 percent, real average wages rose by 2.7 percent. The rise in employment, higher average wages, and tax cuts brought about an increase in disposable income from wages of 5.2 percent. At the same time, though, there was a decrease in transfer payments, with the result that disposable income from wages and transfer payments grew by only 3.1 percent.

The positive economic developments were reflected in a rise in the average standard of living. Per-capita private consumption increased by 3.2 percent in 2004 and another 2.3 percent in the first half of 2005, after a 2 percent cumulative decrease in 2002 and 2003. Thus, the average standard of living was about 4 percent higher in 2005 than at the beginning of the decade.

However, due to the unbalanced nature of the economic growth that focused on industries that are skilled labor intensive and due to the government's tax and transfer-payment policies, poverty continued to rise and economic disparities widened steadily despite the overall improvement. For example, in 2004 the unemployment rate among the well educated (16+ years) was 5.3 percent while 16.1 percent of the poorly educated (up to

8 years) were unemployed. Household gross income rose by 2.5 percent in the uppermost decile and decreased by 2.6 percent in the lowest income decile (both rates in 2004 relative to 2003). The gap in consumer spending between households in the uppermost quintile and those in the lowest quintile widened from a factor of 2.4 in 2003 to 2.6 in 2004.

The income distribution data reinforce the estimates about the widening of economic disparities. In 2004, while the Gini index of inequality in distribution of economic income decreased by about half a percent, the index of inequality in distribution of *disposable* income rose by 3.1 percent (3.4 percent not including the population of eastern Jerusalem). Furthermore, the Gini index climbed much more quickly in 2004 than in previous years; the increase this year alone accounted for more than half of the cumulative increase in the past five years. This is largely the result of the steadily decreasing effectiveness of taxes and transfer payments on the easing of inequality in income distribution. Thus, taxes and transfers reduced inequality by 34.5 percent in 2002, by 30 percent in 2003, and by only 27.4 percent in 2004.

The widening of economic gaps is also reflected in the data on the incidence of poverty. In 2004, 20.3 percent of households were under the poverty line in terms of disposable income, as against 19.3 percent in 2003 and 18.1 percent in 2002. What is more, the poor households became poorer: the "poverty gap" (the distance of the average income of poor households from the poverty line) was 33.3 percent in 2004 as against 30.5 percent in 2003 and 29.7 percent in 2002.

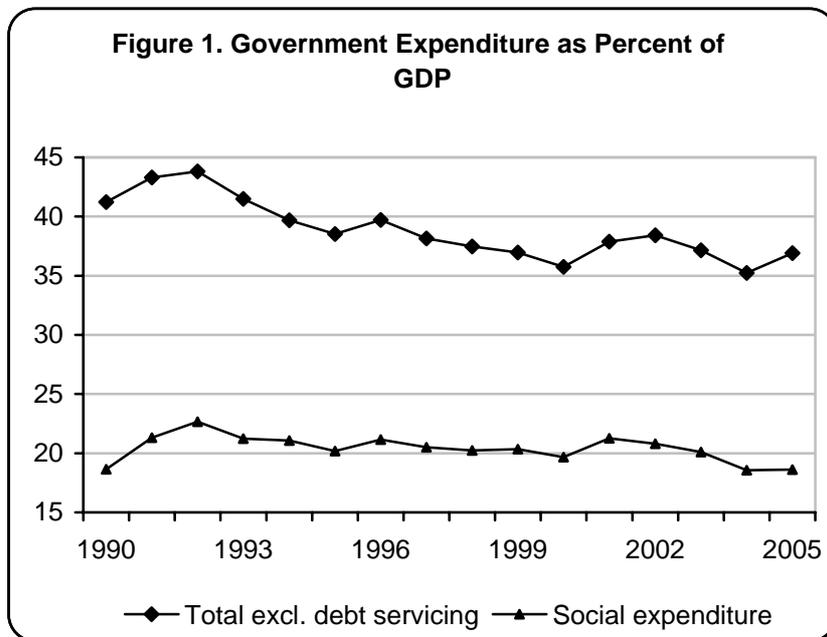
Table 3. Economic Developments – Positive and Negative Indicators (percent)

	2003	2004	2005
Economic growth			
* GDP	1.3	4.3	5.1
* Business sector product	1.7	6.1	6.4
Employment			
* Labor force participation	54.5	54.9	55.3
* Unemployment rate	10.7	10.4	9.0
* Increase in number of Israeli employed	2.0	3.0	4.0
Increase in income and standard of living			
* Real wage per employee post	-3.0	2.7	1.2
* Per-capita private consumption	-1.0	3.2	1.6
Widening of economic gaps and increase in poverty			
* Unemployment rate among:			
High education	5.9	5.3	
Low education	16.6	16.1	
* Change in household gross income:			
Highest decile		2.5	
Lowest decile		-2.6	
* Gini index for disposable income	0.3685	0.3799	
* Incidence of poverty among households	19.3	20.3	
* Poverty gap	30.5	33.3	

Thus, the resumption of economic growth, the improvement in employment, and the increase in income have not yet eased the plight of Israel's weak strata. In fact, the situation of these groups has actually worsened. An economic policy that aims to boost employment and income by means of pro-growth measures alone seems to be insufficient. To improve the welfare of the weak population groups, more direct and focused policy measures are needed.

3. The Government's Expenditure Policy

In 2002 and 2003, the government reduced its spending with the purpose of freeing up resources for the use of the business sector and renewing economic growth. Much of the cutback took place in budget items related to social services, especially current transfer payments. The Ministry of Finance held that government assistance for households creates disincentives to labor force participation and that decreasing support would encourage employment. In the wake of these cutbacks, the share of net government expenditure (excluding debt servicing) fell from 38.4 percent of GDP (2002) to 35 percent (2004) and the relative share of social expenditure fell from 20.8 percent to 18.6 percent in the respective years (Figure 1).



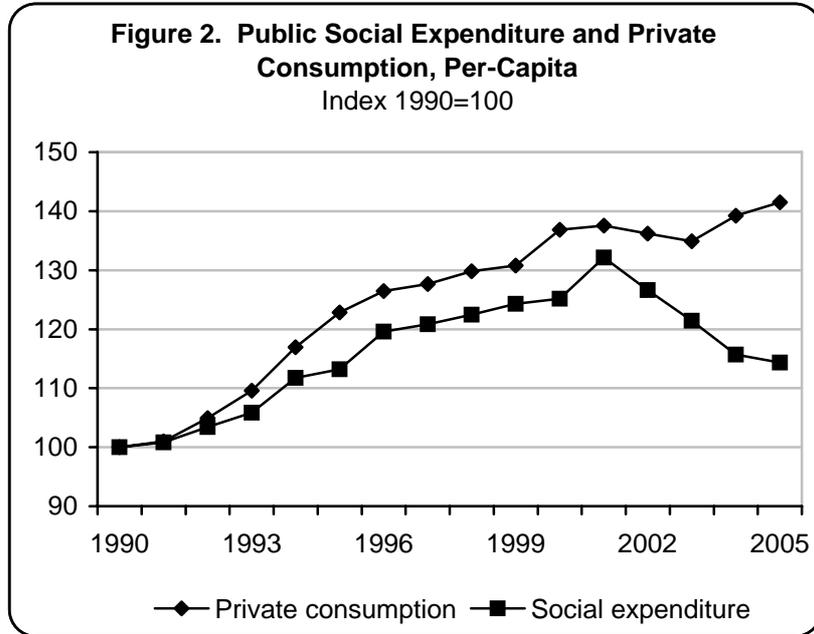
Once economic growth resumed, the government set the consolidation of growth as a principal goal in the coming years and continued to apply a policy of budgetary restraint. In 2005, and in the approved budget proposal for 2006, total expenditure is dictated by two constraints: a real annual increase in spending of one percent and a deficit target of 3 percent of GDP. With higher growth rates, keeping within these constraints is expected to have the effect of reducing the share of government spending in GDP and, thereby, continuing to free resources for the use of the business sector. Furthermore, keeping to these limits will also make it possible to lower the tax burden gradually.

Concurrently, the 2005 budget and the approved 2006 budget proposal speak explicitly of an additional target: strengthening the social fabric of society. Accordingly, in 2005, benefits were increased for elderly citizens who depend solely on income maintenance, the national health insurance budget was raised, and a hot lunch program for children attending a long school day was budgeted. In 2006, the government intends to earmark funds for strengthening the periphery and the Arab sector, curbing violence, and the building of more classrooms. These increases were relatively modest and so despite the declared policy and the budget supplement, the share of social expenditure in GDP remained 18.6 percent in 2005,¹ as in 2004. The contradiction between the declared policy and the data is even more noticeable in view of the expected proportional increase in total net government expenditure excluding debt servicing in GDP.

Without a real change in the composition of the budget, it is doubtful whether a policy that limits the increase in government expenditure to a rate lower than the rate of increase in population can strengthen the social fabric. Transfer payments account for much of the income of the weaker population groups and government's in-kind services figure prominently in their consumption. If the budget constraints are honored and social

¹ Based on the 2005 government budget as adjusted to August 2005.

expenditure is not increased at the expense of other expenditure items, per-capita social spending will decline and inequality and disparities will widen.



A comparison of per-capita private consumption with per-capita government social expenditure serves to illustrate the widening gaps. In the 1990s, per-capita private consumption increased by 31 percent and average per-capita government social spending grew by 24 percent. Since then, in 2000–2004, per-capita private consumption increased by another 6 percent while the government's average per-capita social expenditure declined by 11 percent. These opposing trends created an intolerable gap: whereas per-capita private consumption was about 40 percent higher in 2004 than in 1990, average per-capita government social expenditure increased by only 10 percent during that time.

4. Government Expenditure by Main Areas of Activity

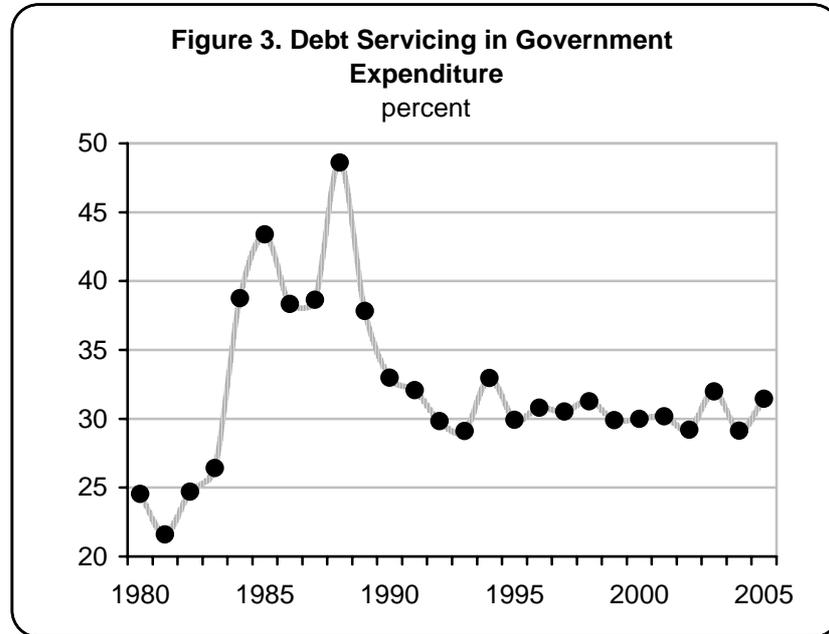
In 2004, 29 percent of government expenditure was earmarked for debt servicing and the rest was divided among social services (52.6 percent), defense (24.6 percent), and economy and administration (22.8 percent). In 2005, the share of *disposable* government expenditure (i.e. expenditure net of debt servicing) decreased, and within this, the proportion of social expenditure declined and that of economy and administration increased.

Table 4. Distribution of Government Expenditure by Main Areas of Activity (Percent)

	1985	1992	2001	2003	2004	2005
Total	100.0	100.0	100.0	100.0	100.0	100.0
Debt servicing	43.4	29.8	30.2	32.0	29.1	31.5
Disposable expenditure	100.0	100.0	100.0	100.0	100.0	100.0
Social services	32.1	51.7	56.1	54.1	52.6	50.4
Defense	40.2	26.1	23.6	24.3	24.6	24.9
Economy and administration	27.7	22.2	20.3	21.6	22.8	24.7

From a long-term perspective, the share of social services in disposable government expenditure has been rising steadily since the middle of the 1980s. In 1992, for the first time, it accounted for more than half of disposable government expenditure and reached a peak of 56 percent in 2001. The trend turned around in 2002; by 2005 social spending reverted to about half of disposable government expenditure. The proportional increase in social expenditure occurred mainly at the expense of defense spending whereas the decline in recent

years has been accompanied by a relative increase in spending for economy and administration.



Debt Servicing

Obviously, the less a government has to spend on its debt – principle and interest – the more it can allocate for other activities. The government debt, in turn, is a function of the budget deficit and how it is financed. Israel's vigorous policies on limiting the budget deficit, applied since the middle of the 1980s, caused the ratio of debt to GDP to drop sharply – from 200–300 percent in the early 1980s to 90 percent in 2000. Consequently, the proportion of debt servicing in total government expenditure also fell, from 43 percent in 1985 to 30 percent in 2000. The trend turned around in 2001 and the debt to GDP ratio rose to 107 percent by 2003. In 2004, the budget

deficit contracted, allowing the debt to GDP ratio to fall back to 105 percent.

The effect of changes in the size of the government debt on debt-service expenditure is not limited to the year in which the change takes place; it spreads over time. Therefore, the increase in debt at the beginning of the decade induced a downward trend in the disposable share of government expenditure: from 71 percent in 2004 to 68.5 percent in 2005 and, according to the budget proposal, 65 percent in 2006.

Defense

Defense expenditure peaked in the mid-1970s. In the 1980s and the early 1990s, its share in disposable government expenditure declined significantly: from about 40 percent in 1980 to 24 percent in 1994. Since then, it has been more-or-less constant at around one-fourth. In recent years, however, the level of defense aid from the United States has risen (due to the reassignment of some American economic aid to defense), creating the possibility of freeing more *local* currency resources from defense to other activities. Thus, the proportion of defense expenditure in local currency has contracted more than the data on total defense spending indicate.

Economy and Administration

Economy and administration expenditure includes a wide variety of activities – from economic incentives to encourage capital investment, research and development, exports, agricultural and other subsidies to maintenance of public order and law enforcement, environmental protection, advancement of Israel's foreign relations, and more.

The share of economy and administration in disposable government expenditure fell from more than 30 percent in the early 1980s to about one-fourth at the end of that decade. There was a further decline in the 1990s but in recent years there has

been a rise. In 2001 and 2002, about one-fifth of total disposable expenditure was allocated and in 2005 the figure was back to around one-fourth. Since the share of defense expenditure was stable, the relative increase in economy and administration expenditure came at the expense of social spending.

Since there appears to be a substitutability effect between economy and administration expenditure and social expenditure, the recent upward trend in the former group deserves further investigation. First, the increase was divided more-or-less equally between the current budget and the development budget. Second, in the current budget, the main contribution to the increase was made by expenditure items related to public security as well as pension and severance payments to retired civil servants. Third, most of the increase in the development budget concentrated on investments in development of roads and railroads.

Social Expenditure

Social expenditure finances services that the government provides to the public in-kind, services provided to the public by other public and private institutions with full or partial government funding, and various social transfer payments via the National Insurance Institute. In-kind government social services include education, health care, personal social services, public housing, and assistance for recent immigrants. The main transfer payment programs are child allowances, old-age and survivors' pensions, benefits for persons with disabilities, unemployment compensation, and income maintenance.

In 2004, social expenditure came to NIS 97.7 billion, most of which – 93 percent – was from the current budget. In 2002–2004, real social expenditure decreased by 11 percent in cumulative real terms: 3.4 percent in 2002, 2.4 percent in 2003, and 5.1 percent in 2004. This steep relative decline came after a

continuous rise since the middle of the 1980s (5.5 percent on annual average in 1984–2001). In 2005, real social expenditure seems to have grown by 2.5 percent, largely due to an increase in housing investment. If this upturn actually occurred, expenditure will have recovered to the level of about five years ago. However, in recent years there have been significant discrepancies between the budget plan and final outlays (see Section 1 above). A similar discrepancy in 2005 would continue the downtrend in government expenditure this year, as well.²

5. Social Expenditure: In-Kind Services and Transfer Payments

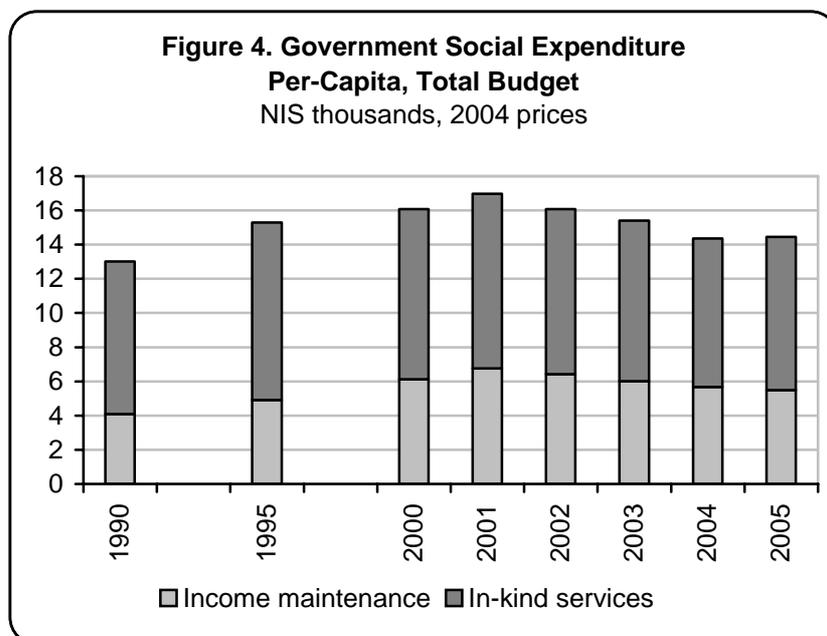
Social expenditure is divided between in-kind services and transfer payments. While the latter fall under the purview of government ministries and are fully included in the state budget, most transfer payments are made by the National Insurance Institute and the state budget is charged only for the difference between total outlays and National Insurance receipts from contributions (premiums charged to the public). To obtain a full picture of the social expenditure, the discussion that follows (and the data in the Appendix) addresses itself to total transfer payments from government to the public, including the National Insurance Institute.

Thus defined, social expenditure in 2005 was NIS 100 billion – NIS 62 billion for in-kind services and NIS 38 billion in transfer payments. This marks an increase of NIS 2.5 billion from the previous year but a 9 percent decline relative to 2001. In real per-capita terms, expenditure fell by 14.8 percent – from NIS 16,970 in 2001 to NIS 14,461 in 2005.

² It is important to note that the gap between planned and actual final outlays in the development budget of the Ministry of Construction and Housing tends to be especially large and explains most of the increase.

Table 5. Government Social Expenditure
(NIS billions, 2004 prices)

	Total	In-kind services	Transfer payments
2001	109.3	65.8	43.5
2003	103.0	62.8	40.2
2004	97.7	59.1	38.6
2005	100.1	62.1	38.1
Per-capita expenditure (NIS)			
2001	16,970	10,218	6,751
2003	15,397	9,394	6,003
2004	14,351	8,684	5,667
2005	14,461	8,964	5,497



Over the years, there has been a general downward trend in the share of expenditure for services and, in contrast, an increase in the share of transfer payments (Table 6). A striking deviation from the overall trend occurred in the early 1990s due to the need to provide public housing for hundreds of thousands of new immigrants from the former Soviet Union. During the rest of that decade, the proportion of in-kind expenditure decreased by 11 percentage points and that of transfer payments increased proportionately. In recent years, in-kind expenditure has accounted for about 60 percent of total government social spending and transfer payments for about 40 percent.

The changes in the composition of social expenditure reflect major differences in the development of each component in the 1980s and 1990s (Table 7)³. Expenditure for in-kind services was more-or-less stable during the 1980s, rose steeply in the first half of the 1990s (mainly due to immigrant integration needs), and remained stable in the second half of the 1990s. In contrast, real expenditure for transfer payments has increased continuously for two decades. Thus, while real in-kind expenditure doubled between the beginning of the 1980s and the start of the twenty-first century, transfer payment outlays more than quadrupled. In 2002–2004, contrary to widely held assumptions, the cutbacks in social spending reduced both components in equal measure.

³ Real changes were calculated in expenditure for in-kind services by deflating the nominal data by the Public Consumption Price Index; for transfer payments the Consumer Price Index was used.

Table 6. Social Expenditure by Main Components (Percent)

	Total	In-kind services	Transfer payments
1980	100.0	69.3	30.7
1989	100.0	57.6	42.4
1992	100.0	71.1	28.9
2001	100.0	59.6	40.4
2002	100.0	59.0	41.0
2003	100.0	60.1	39.9
2004	100.0	60.5	39.5
2005	100.0	62.2	37.8

Table 7. Main Components of Social Expenditure
(Index: 1980=100)

	In-kind services	Transfer payments
1980	100	100
1989	99	175
1996	190	271
2001	197	405
2004	177	359
2005	186	354

6. In-Kind Social Services

a. Trends in Total In-Kind Expenditure

Total expenditure for in-kind social services was NIS 62 billion in 2005 as against NIS 59 billion in 2004 and NIS 66 billion at the beginning of the decade. The largest item in this aggregate is education, on which approximately NIS 31 billion was spent.

Table 8. Expenditure for In-Kind Social Services
(NIS billions, 2004 prices)

	Total	Education	Health care	Personal social services	Other
2001	65.8	32.6	16.2	5.0	11.9
2003	62.8	31.7	15.7	5.4	10.1
2004	59.1	29.7	16.1	5.3	8.0
2005	62.1	30.5	16.4	5.3	9.8
Per-capita expenditure (NIS)					
2001	10,218	5,071	2,515	783	1,849
2003	9,394	4,731	2,350	804	1,509
2004	8,684	4,361	2,368	777	1,179
2005	8,964	4,408	2,373	768	1,414

The changes in the composition of expenditure for in-kind services (Table 9) were strongly affected by the mass immigration of the early 1990s. The increase in expenditure for immigrant integration, especially in government investment in housing, found expression in a proportional increase in expenditure on the “other services” aggregate, which includes, the budgets of the Ministry of Construction and Housing and the Ministry of Immigrant Absorption. The influence of this component has been decreasing in recent years. Excluding the impact of mass immigration, the share of education expenditure has been remarkably stable (at about half of the expenditure on

services in the 1980s and the early 1990s), that of health care expenditure has been falling, from about one-third of expenditure on services in the 1980s to roughly one-fourth in the early 2000, and that of the personal social services has been rising somewhat, especially since the mid-1990s.

Table 9. Components of In-Kind Social Service Expenditure (Percent)

	Total	Education	Health care	Personal social services	Other
1985	100.0	48.5	33.7	5.2	12.6
1989	100.0	49.4	33.1	6.8	10.7
1992	100.0	32.3	19.1	4.2	44.4
1995	100.0	43.5	26.3	5.8	24.4
2001	100.0	50.0	24.8	7.7	17.5
2002	100.0	49.8	25.4	8.7	16.1
2003	100.0	50.4	25.0	8.6	15.9
2004	100.0	50.2	27.3	8.9	13.6
2005	100.0	49.3	26.5	8.6	15.7

b. The Share of Government in National Education and Health Care Expenditure⁴

National education expenditure is composed of spending for all public and private education institutions from preschool to higher education; household outlays for private tutoring, textbooks, etc.; and investment expenditure for the building and equipping of new educational institutions. National health care expenditure includes spending for all health care services provided at clinics and hospitals, the services of private physicians and dentists, medicines and medical equipment, government health care administration, health care research, and

⁴ The data in this section are based on definitions and estimates of the Central Bureau of Statistics; they may differ from data in other sections of this survey that are based on Taub Center calculations.

investment in the construction and equipping of health care facilities. The funding of national expenditure for education and health care is divided between the government sector, including local government, and the household sector.⁵

According to estimates by the Central Bureau of Statistics, the proportion of gross national income spent on education has climbed from 8.5 percent in the late 1980s and early 1990s to approximately 10 percent since 1996. During this time, the share of government in funding has fluctuated: from 76 percent in the late 1980s to 80 percent in the mid-1990s and back to 78 percent in 2001–2003.

The share of GDP spent on health care was 7.9 percent in the mid-1990s, 8.6 percent in 2002, and 8.3 percent in 2004. During this time, the proportion of total national health care expenditure financed by government has declined – from 75 percent in 1996 to 67 percent in 2000, and remains unchanged from then until 2004.

The increase in total national expenditure for education and health care on the one hand, and the proportional decline in government funding for these services on the other hand, has led to a significant increase in household outlays for education and health. This development – the “privatization” of education and health care funding – increases the danger of widening inequities in the use of these services. Indeed, at least in respect to health care, surveys by the Taub Center indicate that a rather large share of the population refrain from using some essential medical services due to its cost to the user. At the same time, some of the added private expenditure for education was a result of the expansion of the higher education system (the establishment of colleges, etc.) and reflected an increase in accessibility to higher education.

⁵ In recent years, about 3 percent of national education and health care expenditure has been covered by donations or from unknown sources.

c. Education

Expenditure on education is the largest item in government spending for in-kind social services. In 2004, the government spent NIS 29.7 billion on education, about NIS 2 billion less than in 2003, which represented a real decrease of 6.2 percent. The projected expenditure in 2005 is NIS 30.5 billion, reflecting – if it comes to pass – a 2.8 percent real increase relative to 2004.

The decline in government education expenditure in 2004 marks the continuation of a trend that began in 2002 and has brought about a 9 percent cumulative real decrease. Until then, government education expenditure had risen steadily from the mid-1980s. From 1987 to 2001, real government education expenditure increased at an average annual pace of 5.3 percent. Growth was especially vigorous from 1989 to 1996, at 8.2 percent per year, as pupils who had come in the mass immigration of the early 1990s were being admitted to the education system. Since 1997, the growth rate has been slowing and the average annual rate has been only 2.4 percent.

The following discussion focuses on two main aspects: changes in priorities and developments in the quality of education.

The government's priorities in education may be observed by examining the distribution of current expenditure (Table 10). The distribution has been largely unchanged for the past decade and a half. The only perceptible change was an increase in the share of spending for preschools, reflecting the extension of compulsory education to the 3–4 age cohort. Another change, a proportional decrease in spending for *yeshivot* (institutes of religious learning), is most certainly due to the elimination of redundancies that occurred when their budgeting was transferred from the Ministry for Religious Affairs to the Ministry of Education. The long and relatively stable period in distribution raises the possibility that the trend in expenditure has been

affected mainly by natural (demographic) developments and that policies and priorities have had only limited influence.

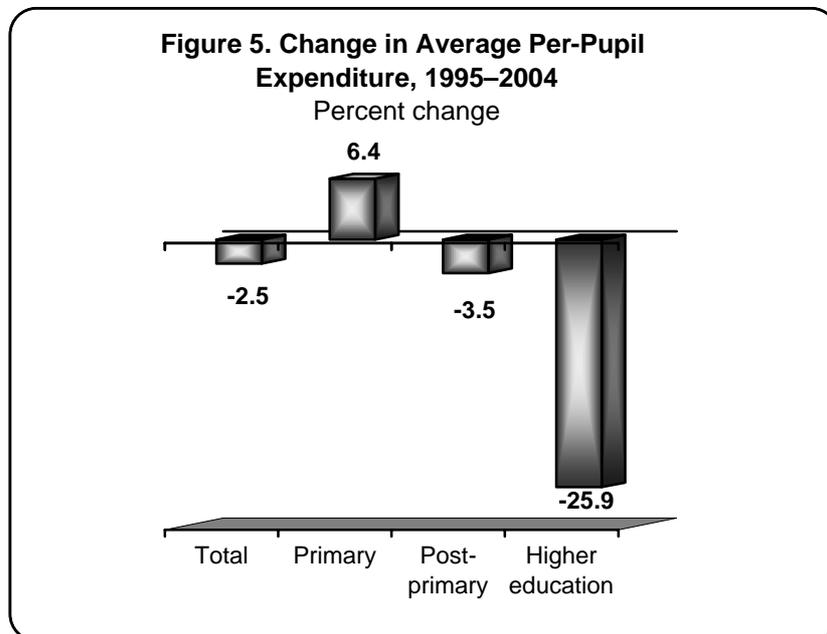
Table 10. Distribution of Current Education Expenditure by Main Components (Percent)

	1990	1995	2000	2004	2005
Total	100.0	100.0	100.0	100.0	100.0
General expenditure	7.8	7.1	7.0	6.8	7.5
Preschool	4.9	4.6	6.1	7.7	7.4
Primary	26.7	28.5	26.4	28.7	28.3
Post-primary	34.5	34.6	35.5	35.9	33.8
Higher education	17.2	17.4	18.3	16.6	18.6
Vocational training	3.1	3.0	2.6	2.2	2.4
<i>Yeshivot</i>	5.8	4.8	4.1	2.1	1.9

Another aspect of priorities pertains to the distribution between the current budget and the development budget. The development budget includes expenditure for the construction, renovation, and equipping of schools, i.e., expenditure related to adjustment of the physical infrastructure of the education system for the future. In recent years, only 2–3 percent of total government education expenditure has been devoted to investment outlays. In absolute terms, in constant 2004 prices, development expenditure has been NIS 1.1 billion on annual average in 1998–2001, NIS 815 million on annual average in 2002–2003, and NIS 497 million in 2004. The declining level of investment, low to begin with, raises the fears that the future is being neglected. Considering the natural increase of the pupil population, a dangerous gap between needs and available infrastructure may develop and have a negative impact on the quality of education. It is true that investment is expected to double in 2005 and that the 2006 budget proposal speaks explicitly of the need to build classrooms, especially in the Arab

sector. Again, however, the experience in recent years points to considerable discrepancies between planning and implementation.

Current per-pupil average expenditure, in constant prices, may be considered a rough overall indicator of quality of education. Data on the change in average per-pupil expenditure in the past decade in general, and by levels of education in particular, are shown in Figure 5. Since the average expenditure increase may reflect a greater increase in the actual prices of inputs than that reflected in the general price index, partial data are also used to examine the change in average classroom hours per pupil and are also shown.



Average per-pupil expenditure decreased in the system at large, mainly due to a sharp decline in average per-student expenditure in higher education. In the past decade, higher-education enrollment increased by some 60 percent, mostly in

colleges and other new educational settings that cost less per student than the older, well-established universities. Thus, the decrease in average per-student expenditure in higher education may reflect a change in the mix of students and not necessarily a decline in the quality of education. At the primary level, the average per-pupil expenditure increased by 6.4 percent and average hours per pupil rose even higher, by 7.2 percent – which could indicate an improvement in quality and efficiency. Finally, at the post-primary level, although average per-student expenditure decreased, average per-student hours rose by 5.2 percent. Here again, efficiencies may have helped to prevent a decline in the quality of education. The downward trend in average per-student expenditure is projected to have continued in 2005.

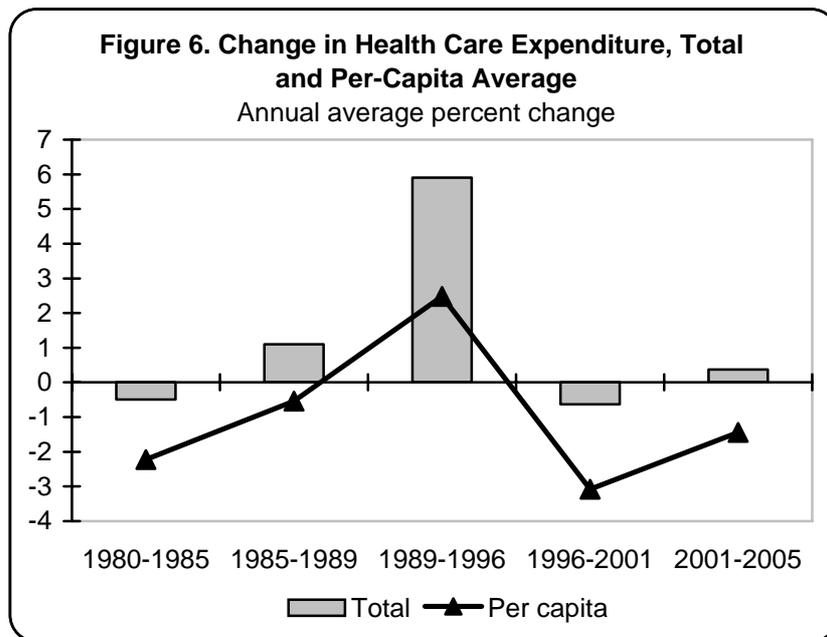
d. Health Care

Government expenditure for health care came to NIS 16.1 billion in 2004, up 2.6 percent in real terms from 2003. Expected expenditure in 2005 is NIS 16.4 billion, marking another real increase of 1.8 percent.

From a long-term perspective, government health expenditure can be divided into three periods since 1980. The first ten years, 1980–1989, were noted for stability. The next seven years, 1990–1996, witnessed rapid growth as expenditure attained a plateau that was more than 50 percent higher. Since then, for nearly a decade, expenditure has remained at the new level, with minor fluctuations (with the exception of a 6.2 percent decrease in 2000 versus 1999).

If expenditure remains constant for years, average per-capita expenditure must decrease. Furthermore, the prices of health care services have tended to rise more quickly than those in the general price index. For example, in 1997–2004 (the third period listed above), the cumulative increase in the price of a day of inpatient care was more than 8 percent higher than the

general Consumer Price Index. The combined effect of these factors – stability in expenditure, population increase, and the rise in relative prices of health care services – allows an estimate that government funding for health care services to the public has been eroded by at least 25 percent since 1997.⁶



Government expenditure for health care includes investments in buildings and equipment. From 1993 to 1997 the investments stood at some NIS 655 million (in 2004 prices) and decreased to NIS 357 million a year in 1998–2002 and to only NIS 180 million in 2003–2004. In recent years, investments are 1–2 percent of total government health expenditure. If the level of investment is too low, the physical infrastructure of the health

⁶ During the review period, the price index of health care services (included in the Consumer Price Index) rose by roughly 16 percent more than the total CPI.

care system erodes, as noted in regard to the education system, and is likely to result in poor quality services in the future.

Current expenditure is divided between government participation in health insurance – effectively, government funding for health care services delivered by non-governmental institutions – and expenditure for health care services provided directly by the government. Over the years, the share of the former has declined and that of the latter has risen (Table 11). Some of the decrease in transfers to other institutions is the result of the elimination of the “parallel tax” (paid by employers) in 1997.

Table 11. Distribution of Current Expenditure on Health Care, by Main Components (Percent)

	1990	1995	2000	2004	2005
Total	100.0	100.0	100.0	100.0	100.0
Participation in medical insurance	71.2	70.0	66.0	67.2	67.8
In-kind expenditure	28.8	30.0	34.0	32.8	32.2
 Total	 100.0	 100.0	 100.0	 100.0	 100.0
General hospitals	10.0	11.9	3.4	3.5	2.8
Psychiatric care	21.9	23.2	22.6	25.2	26.7
Long-term care	17.1	17.2	20.8	24.5	22.6
Public health	14.0	17.2	22.1	18.6	16.4
Misc.*	37.0	30.5	31.1	28.1	31.5

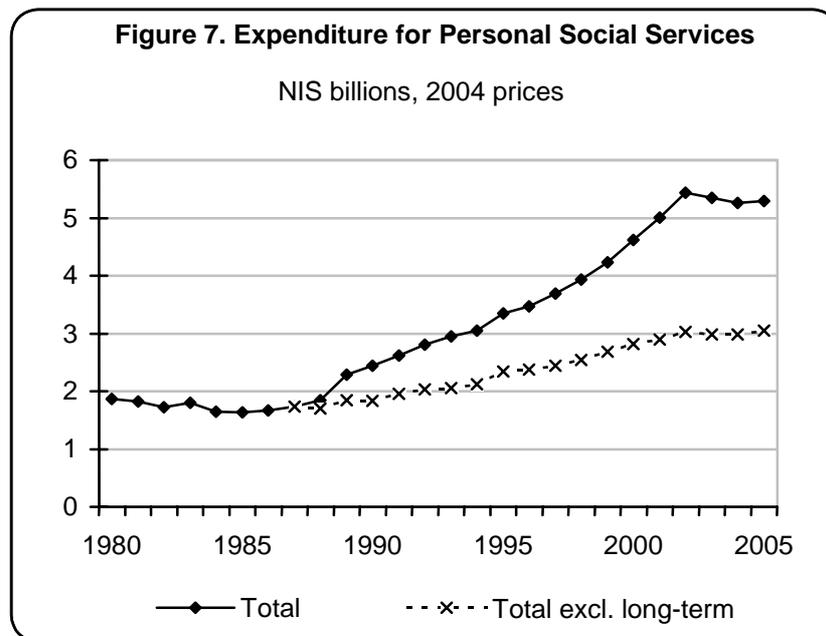
* Including health care expenditures outside the Ministry of Health budget, mainly National Insurance Institute outlays for maternity hospitalization, treatment of workplace accidents, etc.

Within the broad category of in-kind expenditure, spending for general hospital services has declined markedly and two major expenditure items – psychiatric care and long-term care – have increased moderately. The changes in the distribution of

expenditure indicate that the focus is on special health care services.

e. Personal Social Services

The Ministry of Social Affairs and local authority welfare departments administer personal social services. In 2004, government expenditure for these services came to NIS 5.3 billion, 1.5 percent less in real terms than in 2003, after a similar real decrease in 2003 versus 2002. In 2005, no real change in expenditure for these services is expected. In the 1980s, until the Long-Term Care Law was enacted in 1988, expenditure was around NIS 1.7 billion per year (in 2004 prices) with no significant annual fluctuations. There has been a steady increase since then and the annual level of expenditure has roughly tripled.



Government expenditure for personal social services is divided into two main components: long-term nursing care benefits (which represents around 43 percent of today's total) and other services, including social services for children and youth, geriatric care, care of special population groups (inactive youth, persons with disabilities, and the mentally retarded), and social and community services for individuals and families.

7. Transfer Payments – the National Insurance System

For more than two decades, until 2001, transfer payments to the public, via the National Insurance Institute, increased continuously. An abrupt turnaround took place in 2002, as cutbacks in benefits, revision of the eligibility rules, and tougher enforcement brought the level of expenditure down. Expenditure in 2005 was NIS 38 billion, down 12.4 percent in real cumulative terms from its peak in 2001.

The rates of decrease from the peak year to 2005 varied among the different programs (Table 13). There were especially large cumulative decreases in child allowances (45 percent), unemployment compensation (48 percent), and income-maintenance (26 percent). In contrast, general disability benefit outlays increased. The cumulative data show that the decrease was primarily in child allowances (67 percent of the total decrease in transfer payments) and unemployment compensation and income-maintenance benefit (50 percent).

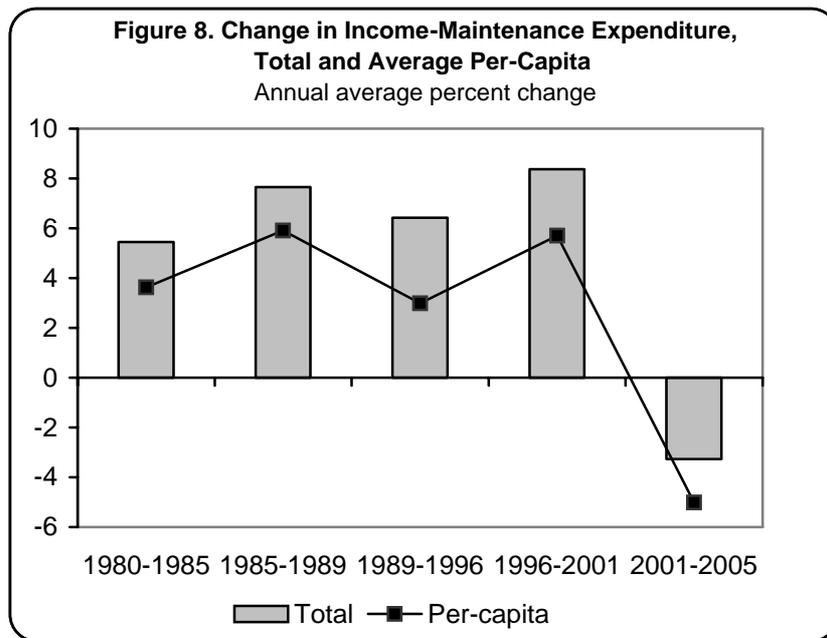
Table 12. Expenditure for Transfer Payments

(NIS billions, 2004 prices)

	Total	Old-age and survivors	Children	General disability	Unemployment and income maintenance	Other
2001	43.5	16.1	8.0	6.3	7.4	5.7
2003	40.2	15.5	6.1	7.0	5.6	5.9
2004	38.6	15.8	4.8	7.1	5.0	5.9
2005	38.1	15.9	4.4	7.3	4.7	5.7

Per-capita expenditure (NIS)

2001	6,751	2,501	1,247	971	1,153	880
2003	6,003	2,315	906	1,052	844	886
2004	5,667	2,317	704	1,044	741	861
2005	5,497	2,301	636	1,055	679	825



**Table 13. Distribution of Decrease in Transfer Payments –
2005 vs. 2001 (Percent)**

	Relative share	Cumulative change
Total	100.0	-12.4
Old-age and survivors	3.1	-1.0
Children	66.9	-45.1
General disability	-19.4	+16.8
Unemployment and income maintenance	50.2	-36.6
Thereof:		
Unemployment	32.8	-47.7
Income maintenance	17.5	-25.5
Other	0.9	-0.8

The primary motivation in making these cutbacks in transfer allowances (as noted in Section 3) was to reduce government outlays and cut the budget deficit, as well as the belief that personal and household subsidies by government create disincentives to labor force participation and economic activity. Since the amount of the benefits and the eligibility rules are set by law, the government had to allocate ever-increasing budgets for transfer payments each year, if only for demographic reasons (population increase, including immigration, and changes in population composition). Liberal interpretation and generous application of the eligibility rules, on the one hand, and an increase in the public's awareness of its rights, on the other hand, contributed to this development. Thus, the real growth rate of social transfer payments rose from 6 percent on annual average in the 1980s to 8 percent in the 1990s until 2001. Gradually, transfer payments became a heavy burden on the budget. Their share in government expenditure, in current prices, rose from 7 percent in 1980 to 11 percent in 1990 and 16 percent in 2001. Against this background, it was increasingly believed that only by changing the policy on transfer payments

could government expenditure be trimmed and the budget deficit lowered to the acceptable levels that characterize stable economies. Concurrently, as economic growth stopped and the unemployment rate grew, it was claimed that the transfer payments were making it less worthwhile for people, especially those of low income, to work. In particular, they pointed to the steep increase in the number of income-maintenance recipients of working age: from about 9,900 households in 1982, when the Income Maintenance Law went into effect, to 32,000 in 1990 and 155,000 in 2003.

Although the rationales in favor of arresting the rapid increase in transfer payments are substantial, one cannot ignore the socioeconomic price of the cutbacks that were made. Transfer payments together with the tax system are meant to impact on the inequality in the distribution of national income. As noted previously, the effect of taxes and transfer payments on the Gini index of income distribution inequality has been diminishing in recent years. Indeed, the contribution of taxes and transfers to reducing the index dropped from 32.5 percent in 2001 to only 27.4 percent in 2004. Their contribution to reducing the incidence of poverty has also fallen: in 2001, the number of poor households as measured by the criterion of disposable income was 47.5 percent lower than the number of poor households according to economic income; in 2004, the figure was only 40 percent.

Furthermore, transfer payments function as a social safety net, i.e., they should assure the weak population groups – the elderly, persons with disabilities, and the unemployed, for example – a minimum level of income that corresponds, at an appropriate ratio, to the national standard of living. Thus, the effect of reducing transfer payments should be tested not only in absolute terms but also in relative terms, taking into consideration developments in the benefit recipients' environment.

For this purpose, a calculation was made of the relationship between the various transfer payments, on per-recipient average, and the average standard of living, as reflected in per-capita private consumption, at three points in time (Table 14). At the first point, 1989, the impact of mass immigration from the former Soviet countries had not yet made an impact. (For reasons of data availability, the first point of reference for child allowances is 1990, and for unemployment compensation is 1991.) The second point in time is 2001, preceding the government decision that changed the long-term trend in transfer payments; the third is 2004, the latest year for which full budget implementation data exist. The changes in these ratios are shown in index terms, with 1989 as the base year.

Table 14. Average Benefits Relative to Average Standard of Living (Percent)

	1989	2001	2004
Old-age and survivors	100	92	83
Children	*100	76	43
General disability	100	106	104
Unemployment compensation	**100	111	111
Income maintenance	100	94	71
* 1990			
** 1991			

In all benefits except for unemployment compensation, the ratio calculated was lower in 2004 than in 2001. Furthermore, in regard to old-age and survivors' pensions, child allowances, and income maintenance, the calculated ratio was lower in 2004 than in the base year. The decrease was especially marked in child allowances and income-maintenance benefits. Although these rough calculations are not without drawbacks, they lead inevitably to the conclusion that the cutbacks conflict with the relativity concept described above.

The largest item among the transfer payments is **old-age and survivors' pensions** (Table 15). The level of expenditure on this account is largely a function of the size of the elderly population and the proportion of elderly who receive the benefit. In the 1990s, the upward trend in expenditure was influenced by an influx of seniors during the period of mass immigration, many of whom were entitled to income supplements to their basic pensions. The decrease in expenditure since 2002 reflects the 4 percent across-the-board reduction in the size of the benefit, raising of the age of eligibility, greater use of income tests, and the indexing of the benefit to the Consumer Price Index instead of the national average wage. Against this, the number of benefit recipients increased.

In most years, **child allowances** ranked second among income maintenance programs. In the 1990s, expenditure for this item increased due to three main changes: reinstating the child allowances for first and second children in the household, eliminating the criteria that reduced allowance levels for non-army "veteran" families, and the Large Families Law. The decisions that the Government has made since 2002 include a 15 percent decrease in the allowances and gradual equalization over seven years of the allowances for all children regardless of their birth order in the family (and effective immediately for children born after June 2003). For these reasons, real expenditure in recent years has fallen to a lower level than that prevalent in the middle of the 1990s. What is more, expenditure is expected to continue declining as further phases in the plan to equalize allowances for all children are implemented.

**Table 15. Distribution of and Change in Transfer Payments
– Main Components (Percent)**

	1990	1995	2001	2004	2005	Annual avg. % change	
						1999– 2001	2002– 2005
Total	100.0	100.0	100.0	100.0	100.0	7.8	–3.4
Old-age and survivors	44.6	40.5	37.0	40.9	41.5	6.0	–0.9
Children	22.2	22.8	18.5	12.4	11.5	6.0	–13.2
General disability	11.3	11.6	14.4	18.4	19.0	10.2	2.3
Unemployment and income maintenance	10.6	12.6	17.1	13.1	13.2	12.5	–13.4
Thereof:							
Unemployment	7.3	6.7	8.6	5.5	5.5	9.4	–18.1
Income maintenance	3.3	5.9	8.5	7.6	7.7	17.4	–9.4
Other	11.3	12.5	13.0	15.2	14.7	9.2	–0.3

Expenditure for **disability benefits** increased rapidly throughout the review period, especially since the mid-1990s. This is the only area that the benefit cutting policy, introduced in 2002, didn't touch. In fact, special benefits have been added: one for the severely disabled, a supplement for disabled persons with severe deficiencies in earning power, a supplement for disabled children, and so on.

Expenditure for **unemployment compensation and income-maintenance benefits** was the fastest growing component of social transfer payments in the 1990s. The steep increase reflects the economic deterioration and the spread of unemployment during the relevant years, plus a rise in the public's awareness of its entitlements in these respects. Unemployment compensation expenditure climbed in the 1990s even though the rules were toughened in several ways. Since 1995, for example, young unemployed persons (up to age 35) must accept any job offered them, and since 1999 the maximum unemployment

compensation has been capped. The decisions that have been made since 2002, in contrast, caused expenditure to drop sharply. The new policy extended the qualifying period for unemployment compensation, limited the maximum term of eligibility for the young unemployed, and reduced compensation for the repeatedly unemployed and participants in vocational training programs. As for income maintenance, the benefit was cut by 4 percent and the maximum benefit was reduced by 10–23 percent, depending on the household composition. Furthermore, eligibility for the increased benefit rate for new beneficiaries at certain ages was removed, the parameters of the income test were revised, exemptions from an employment test in certain cases were cancelled, and various discounts (on municipal property tax, public transit fares, etc.) for new beneficiaries were reduced or eliminated.

The sources of funding for transfer payments include National Insurance contributions from the public, participation from the state budget, and interest from the National Insurance Institute's financial reserves. Since 1987, as part of a government policy to reduce labor costs, National Insurance contributions from employers and the self-employed were reduced and the Ministry of Finance began to indemnify the National Insurance Institute against the difference. In order to analyze the long-term changes in the composition of funding sources (Table 16), the indemnification sums are included in state budget financing along with government participation in the funding of contributory benefits and government financing of non-contributory benefits. In most years, receipts from National Insurance contributions and budget participation actually exceeded the transfer payments and the surplus – after coverage of operating expenses – augmented the interest earning reserves available to the National Insurance Institute, which are kept with the Accountant General of the Ministry of Finance.

Up until the past two years, state budget financing exceeded National Insurance contributions from the public by several percentage points. The cutbacks in benefits and the one percent increase in National Insurance contributions from employers and the self-employed, coupled with the reduction of the rate of indemnification from the Ministry of Finance starting in July 2002, brought the proportions of the two sources into balance in 2003 with a somewhat higher rate of public contributions in 2004.

Table 16. Funding Sources for NII Transfer Payments
(Percent)

	Total benefit payments*	National Insurance contributions from the public	State budget financing**
1990	100	44	50
1995	100	33	67
2000	100	46	49
2001	100	43	51
2002	100	44	51
2003	100	49	49
2004	100	52	50

* Net of compensation from third parties.

** Not including interest on account of balances deposited with the Accountant General of the Ministry of Finance.

8. Summary

Although the overall state of the economy continued to improve in 2004 and the first half of 2005, the plight of society's weak groups continued to worsen. The economic policy strove to broaden the cycle of employment and raise income by means of growth promoting measures only. To improve the welfare of weak population groups, more direct and focused policy measures are needed.

The 2005 budget and the approved 2006 budget proposal speak of strengthening the country's social fabric as an explicit target. Even so, the ratio of government social expenditure to GDP was unchanged in 2005 relative to 2004, after an uninterrupted decline in 2001–2003. Furthermore, the share of social spending in disposable government expenditure continued to decrease. One cannot strengthen the social fabric by holding the increase in total government expenditure to a lower rate than that of population increase unless one increases social expenditure at the expense of other expenditure items. Nor does it suffice to revise the priorities in the budget plan. Care must be taken that implementation does not deviate significantly from the plan. The deviations in 2004 were smaller than in 2003 but remained significant.

In 1992, for the first time, social expenditure accounted for more than half of disposable government expenditure. Its share in the total peaked in 2001 and has been falling since then. By 2005, the proportion of social spending reverted to about half of disposable government expenditure. At the same time, the share of expenditure for economic and administrative purposes has been rising.

The internal distribution of social expenditure – between in-kind services and transfer payments – has been constant in recent years. Contrary to a commonly held misconception, cutbacks in government social expenditure in 2002–2004 reduced both components by more-or-less the same rate.

Over the years, national expenditure for education and health care has been rising but the share of government in financing it has been decreasing. Thus, household outlays for education and health care have been rising significantly. This “privatization” of education and health care services threatens to widen inequity in the use of these services.

For the past decade and a half, the distribution of current government education expenditure between school levels has not changed significantly. This relative stability, sustained over a lengthy period of time, suggests that the trend in expenditure was affected mainly by demographic developments and only in a minor way by policies and priorities.

In primary schooling, average per-pupil expenditure increased and average hours per pupil rose even faster, possibly attesting to an improvement in quality and efficiency. At the post-primary level, although average per-pupil expenditure declined, the average number of hours per pupil increased, again possibly indicating that greater efficiency helped to prevent a decline in the quality of education.

Government expenditure for health care has been stable in real terms for the past decade. This stability, coupled with population increase and a rise in the relative prices of health care services, leads to a conclusion that government funding of health care services has been eroded by at least 25 percent since 1997.

The changes in the distribution of direct outlays for health care services indicate that the focus has moved to special health care services. Spending related to general hospital care has decreased while expenditure for psychiatric and long-term care has risen moderately.

Investments in the development of physical infrastructure for the education and health care systems have been low and have been declining in recent years. The low and decreasing level of investment arouses concern over a lack of sufficient planning for

the future. As the population grows, a dangerous gap is liable to open between needs and the available infrastructures, to the detriment of the quality of both education and health care.

In 2002, the trend in expenditure for transfer payments to the public via the National Insurance Institute turned around sharply due to decisions to drastically cut the benefits, revise the eligibility rules, and toughen enforcement in the execution of payments. Consequently, a cumulative real decrease in expenditure of 12.4 percent occurred within four years, relative to the peak in 2001. The decrease focused on child allowances, unemployment compensation, and income-maintenance benefits.

The cutbacks in transfer payments were motivated largely by the desire to lessen the heavy burden on the state budget and to minimize the possible adverse effects of transfer payments on the beneficiaries' labor force participation and economic activity. Even though these rationales deserve to be taken seriously, the socio-economic price of the cutbacks cannot be overlooked. The effect of transfer payments (and taxes) on reducing inequality in income distribution and the incidence of poverty has diminished severely. Furthermore, the cutbacks that have been made mark a departure from an underlying concept of Israel's socio-economic policy, i.e., that transfer payments are supposed to create a safety net and assure society's weaker groups a minimum income at an appropriate ratio to the general standard of living.

Until two years ago, the share of state budget financing in the funding of transfer payments was several percentage points greater than that of National Insurance contributions from the public. The cutbacks in benefits and the raising of rates of contribution from employers and the self-employed brought the two sources into balance in 2003, and in 2004 the contributions from the public once again represented a greater share of the overall sources of funding.

The Education System

1. Preface

The main indicators for the education system were marked by stability in the past year: enrollment, class size, and the number and profiles of teachers did not change significantly. On the other hand, the system underwent two important developments with unclear implications for the future: the continued implementation of the Shoshani Committee Report on changes in the budgeting method of primary schools; and the publication of the Dovrat Commission Report, which conducted a comprehensive examination of the education system and presented proposals for change and improvement.

It is absolutely clear by now that the implementation of the Shoshani Committee Report has led to the redistribution of budget resources among schools and segments of the primary education system. In the main, the Arab sector received extra resources and sectors that had previously enjoyed preferential treatment suffered substantial cutbacks. (The issue is discussed at greater length below). It is still premature, however, to point to the full effect of the reform. Firstly, the report is being phased in, over five years. Secondly, additional budget cutting continued last year, too. Thirdly, some school principals and directors of education departments in the local authorities are not yet fully aware of the significance of the changes in the budgeting method. Thus, some of the changes, such as the closure of small schools and the reorganization of school level resources, have not become fully evident for the time being. Just the same, the report has had the demonstrable result of

enhancing equity in resource allocation at the primary school level.

The recommendations of the Dovrat Commission, although adopted by the Government, have met with appreciable difficulties and even their partial implementation now seems problematic, if not doubtful. It is certain, though, that the report has established a basis for all future public debate about the education system by combining much of previous reports on the education system into an inclusive overarching plan. Therefore, its recommendations constitute an adequate point of departure for a discussion of the country's main education issues.

The discussion that follows is dedicated to the two main actors in the education system: pupils and teachers. Regarding pupils, the focus is on the phenomenon of "horizontal" movement between segments of the education system, i.e., transfers between the State and the State-Religious systems, between the official systems and the non-official recognized system, and between public and private schools (Part 2). As for teachers, the main issue is whether Israel is facing a shortage of teachers in the near future and, if so, what is to be done (Part 3).

The budget discussion focuses on the initial results of the change in the budgeting method of primary schools and examines in detail the need to expand the method to preschools and the education system that serves special needs youngsters (Part 4).

Part 5 tackles education policy by probing the origins of the current feeling of crisis in the education system and proposing ways to cope with the relevant issues. The analysis focuses on the polarization that typifies Israel's education system and on population groups that are unable to realize their potential. Lastly, there are proposals in three main fields: quality of personnel, curricula and core curriculum, and changes in school budgeting.

2. The Pupil Population

The important demographic changes that Israel has experienced in recent years are mirrored in changes that have occurred in the ratios among, and the overall size of, the segments of the country's education system. Most significant are increases in the share of the Arab and *haredi* ("ultra-Orthodox") sectors at the expense of the (Jewish) State and State-Religious sector.

The Arab education system is continuing to grow at substantially higher rates than the Jewish sector. In recent years, growth of the Arab education system has been accelerating at all age levels. The main reason is natural increase, although rising enrollment rates are a contributory factor at the preschool and post-primary levels. Neither phenomenon is new but both are joined by a new phenomenon: the enrollment of children not born in Israel in the Arab education system.

Each year since 1998, about 5,000 non-native pupils –1.5–2.0 percent of total system enrollment – have been enrolled in the Arab education system. Their share of enrollment in the non-Jewish education system peaked in 2002–2003 at slightly over 2 percent and has been declining since then. The number of foreign-born pupils in first grade fell from 356 in 2000 to 169 in 2004. The decrease in the number of "immigrants" in the Arab system can be traced to two processes: the resumption of the *intifada* and a toughening of the family unification policy.

The second population group that shows a steeply rising proportion in overall enrollment is the *haredi* sector, which accounted for one-fourth of total enrollment in the Jewish system in 2005. This rising trend affects every aspect of the education system in long-term strategic ways, from achievements in scholastic subjects to the profile of teaching

personnel and budgeting and building needs.¹ This development is especially sensitive in respect to the issue of the transfer of pupils from the official Jewish system (State and State-Religious) to the *haredi* systems.

Previous surveys were based on data for 1997–2003; this year the inquiry was expanded to include 2004 and 2005. The data corroborates previous findings that the State (Jewish) education system, although losing ground in terms of total enrollment, “imports” each year more pupils from the State-Religious system than it “exports” to that system. Furthermore, the State education system has never “lost” more than 100 pupils per year to the *haredi Ma’ayan Torah Education*, while its “losses” to the *haredi* Independent system have never exceeded 500 (to be exact, 478 between 1999 and 2000), and the phenomenon is steadily diminishing.

As for transfers between the State-Religious system and the *haredi* systems, again, the numbers are small. In no year did net transfers to *Ma’ayan Torah Education* exceed 200. The total number of pupils moving to the Independent system has never surpassed 400 and came to fewer than 100 in the year reported here.

The extent of school transfers between the two *haredi* systems is similar in magnitude to switching between the *haredi* systems and the State systems. Overall, only the Independent system has a positive balance *vis-à-vis* all the others and only the State-Religious system has a negative balance. The unequivocal conclusion is that the powerful rise in *haredi* system enrollment traces almost solely to natural increase; the

¹ The issue of school construction in the *haredi* sector still awaits thorough examination. On the one hand, new schools are being built, especially in towns and neighborhoods that are populated mainly by *haredim*. On the other hand, buildings formerly used by the State and State-Religious systems are being made available to pupils in the *haredi* system. The extent of the latter phenomenon is vague for the time being.

transfer of pupils from the State or State-Religious systems hardly figures in it at all. This conclusion must, however, be modified by two qualifications:

First, the data report on school age transfers. It is possible that the *haredi* education system manages to recruit children before school age and does so at the expense of the State system. If this is the case, the tendency not to switch education systems would act to the benefit of the *haredi* system.

Second, references to net transfers among the systems masks the fact that youngsters move from system to system and that the smaller the system is, the higher the rates of movement are in respect to it. Accordingly, the entrance and exit of about 1,500 pupils at *Ma'ayan Torah Education* represents a 5 percent turnover rate each year.

3. Teachers and Demand for Teachers

In earlier reports, the issue of the demographic structure and, in particular, the age composition of the teaching workforce and its effect on the education system were addressed. The projections of teacher demand are strongly influenced by teachers' preference for part-time employment, retirement rates, the national and religious fragmentation of the education system, decisions about the allocation of classroom hours, and other organizational and administrative decisions that relate to teachers' working conditions (classroom hours, special duty hours, enrollment districts, etc.).

These topics require further analysis and will not be dealt with here. In the context of demand for teachers, however, it is clear that to improve the teachers' salaries and quality, the teacher-pupil ratio should be reduced. This does not necessarily mean having fewer teachers on the payroll; the population of teachers may even increase. Much depends on the growth of the education system, final agreements regarding to the structure of

teaching positions, demands for classroom teaching hours, the length of the school day, and additional changes, such as the hiring of more teacher-advisors, the spreading of a "safety net" for smaller schools, etc. The reduction of the teacher-pupil ratio can be attained in several ways simultaneously and have the potential of having a very strong effect:

1. increasing the proportion of teachers who work full-time;
2. increasing the proportion of actual classroom teaching hours in a full-time position;
3. making more efficient use of teaching hours allocated to schools;
4. reducing the number of hours of study per class (not necessarily per pupil);
5. reducing the number of classes by reducing the variance in average class size (and not necessarily by increasing average class size).

These measures, some of which are acceptable to the teachers' unions, may result in the employment of fewer teachers **even without forced dismissals**.

One possible way of avoiding forced layoffs is expanding the range of voluntary early retirement options. This measure is believed to avoid unnecessary friction with teachers and is more efficient both in educational and budgetary terms. Generally speaking, the advantages are the following:

1. A teacher who retires costs almost twice as much as a new teacher who enters the system.
2. Since young teachers do not qualify for reduced teaching hours due to tenure the replacement of older teachers with young ones could reduce the demand for teachers by 15 percent.
3. Some of the saving could be invested in increasing the salaries of young teachers.
4. The large-scale induced retirement of elderly teachers would eliminate burned-out and inefficient personnel.

5. If necessary it is possible to bring good teachers out of retirement on an hourly basis, without making contributions to pension and advanced-training funds and without prejudice to their entitlement to full pension.
6. Early retirement makes it possible to reduce the teaching workforce by consent and not by force.

Assume, for example, that every teacher who is interested in early retirement at age 55 and over (for female) or 58 and over (for male) takes up the option. Costs can be calculated on the basis of existing age and tenure data of teachers for 2003, and wage data for 2002. In 2003 there were 31,896 teachers aged 50 and over (addressing only those who belong to the 55-60 year old cohort).² Assuming further that two-thirds are female and one-third are men and that half of them will wish to take early retirement, each retiree will receive a pension for two years more than their current entitlement. Under these assumptions, some 720 (female) teachers aged 55 and 630 teachers aged 56 will retire, as will 360 teachers aged 58 and another 260 teachers aged 59. The average pension for these teachers will be 60 percent of their last wage.

The monthly cost to the employer of a teacher who has an average tenure of thirty years is estimated at about NIS 12,000 and his or her pension cost, assuming a 60 percent pension, is NIS 4,400.³ In contrast, the cost of a young teacher is only NIS 5,600. Hence, the state saves NIS 2,000 from the veteran teacher's retirement: the veteran's wage minus his/her pension cost plus the wage of the new employee. Admittedly, the cost of a young teacher rises rather quickly in the first years.

² The older age groups (60+) are disregarded because female teachers may retire at age 57 without restrictions and male teachers may do so at age 60. Thus, female teachers aged 57 and over and male teachers aged 60 and over who continued to work do so by choice and should not be included among the population of teachers interested in early retirement.

³ This is because not all components of wage are included in the calculation of the pension.

Nevertheless, it would seem that this proposal deserves serious attention due to its educational and professional advantages and the fact that it can be achieved at no financial cost and may even result in some saving. (See calculations in Tables 1 and 2 below.)

Table 1. Cost of Veteran Teachers' Early Retirement

	Teachers who accept early retirement		
	Total	Primary	Post-primary
Number of teachers (average seniority 30 years)	2,000	800	1,200
Current cost per month (NIS)	12,000	12,000	12,000
Monthly pension cost ⁴ (NIS)	4,400	4,400	4,400
Monthly saving (NIS)	7,600	7,600	7,600
Monthly cost of new teacher (NIS)	5,600	5,600	5,600
Total monthly saving per teacher (NIS)	2,000	2,000	2,000
Number of teachers needed	1,693	693	1,000
Reduction in the number of teachers	307	107	200

Table 2. Annual Saving Due to Teachers' Early Retirement (NIS millions)

Annual wage cost of veteran teachers	288.0
Annual pension cost for veteran teachers	105.6
Annual wage cost of new teachers	113.8
Annual saving in first year ⁵	68.6

⁴ 89% of the total wages plus 2% increase per year of tenure.

⁵ The saving is smaller in the second year because new teachers' wages rise more quickly and some may be entitled to a homeroom teacher bonus.

4. Budgeting

School budgeting is a complex issue that has many ramifications. Even today, two years after implementation of the Shoshani Committee Report began and almost a year after the publication of the Dovrat Commission Report, the education system uses different budgeting methods for each educational level. The main difficulties in applying the recommendation concerning a differential standard per pupil are neither educational nor organizational but economic and political.⁶ In the absence of a real budget increase – and all the more so during a period of actual budget cuts – implementing the changeover to a budgeting system with differential allocations on the basis of the socio-economic background of the pupils is not a simple thing to carry out. Under such circumstances, implementing a plan that strives to do away with historical distortions (in terms of equitable allocation) will have to transfer resources from previously favored population groups to groups that until now have been disadvantaged in terms of per-pupil allocation. In practical terms, budgets will have to be shifted from the State-Religious and *haredi* systems to the Arab system. Furthermore, the goal of equity should be attained not by giving weak population groups a larger per-pupil allocation but rather, and mainly, by cutting back the per-pupil allocation for groups that have received preferential treatment thus far.

When examining the budgeting of primary schooling in 2003–2005 (one year before the implementation of the Shoshani Committee Report began and two years since its

⁶ The main recommendation in the Shoshani Committee Report was to budget primary schooling on the basis of a sliding per-pupil scale (2002). It is noteworthy that in years preceding the work of the committee, the Taub Center repeatedly recommended the adoption of this method. After the Shoshani Committee Report presented the issue and adopted the sliding scale method, the Dovrat Commission Report did the same.

implementation), this is exactly what has happened. The budget increase that was earmarked for the implementation of the Shoshani Committee Report was almost totally offset by the across-the-board cutbacks in the Ministry of Education budget and by natural increase. As a result, budgeting for the Arab sector hardly changed (except for a significant increase of more than 10 percent for the Bedouin sector) while budgeting for *Ma'ayan Torah Education* and non-official recognized institutions, as well as the exempt institutions, decreased considerably. The State systems lost a little of their funding (about 1.5 percent) and the State-Religious and Independent systems were largely unaffected.

These figures do not tell the whole story, though. Some schools gained much larger budget increases and others suffered decreases. It is important to bear in mind that the data pertained to only two years out of a process that is intended to take five years and will almost certainly continue for another year or two at least. Be this as it may, the influence of the Shoshani Committee Report is heading in very clear directions.

These directions have generated powerful resistance to the consolidation of the differential budgeting method. The resistance focuses on corrections in the budgeting method for primary schooling and the expansion of the method to the post-primary level. The purpose of the corrective measures is to shift further resources to the Arab sector and to extend the method to post-primary schooling. In the current political and social realities, though establishing a budget preference for the non-Jewish education systems which may come at times at the expense of entire segments of the Jewish systems, some of which are also typified by poor socio-economic and environmental conditions, will be almost impossible.

One possible way – recently adopted in Great Britain and Australia, which have revised their budgeting practices along the lines discussed here – is to give assurances that no school

will have its budget level hurt during the budgeting changeover. This is a more expensive policy, of course, but it could be applied gradually over several years, accompanied by measures such as, encouraging very small schools to merge with larger schools since smaller schools are normally more expensive in terms of per-pupil cost. However, relative to the economic advantage, the educational and social cost of such changeovers is quite large.

It is quite easy to implement the sliding scale at the primary and post-primary levels, but difficulties arise in regard to two important population groups: preschoolers and those in special education.

The problem in regard to preschools is that to apply the per-pupil sliding scale it will be necessary to reduce the standard number of children per preschool. (There is a precedent for this budgeting method today, but the extent of the differentiation is very small and it relies on a profile of the locality and not of the preschoolers.) It may also be necessary to increase the preschool staff positions. In the budgeting of special education pupils, the most meaningful factor should be the pupil's functional-scholastic-educational profile (in contrast to the current rule, in which the most influential factors in the level of budgeting are pupil's medical profile and educational setting). Be this as it may, it is clear that much work lies ahead before a practical proposal for these two important groups of pupils will emerge.

5. Remarks on Education Policy

For the past two years, vagueness has been the rule in education policy. During this time, the Dovrat Commission was appointed and proposed a policy meant to improve the performance of the education system in general and scholastic achievements in particular. Not much has happened since the drafting of the

committee report, especially with respect to the implementation of a policy to enhance pupils' achievements meaningfully.

In order to enact policy measures that will bring about a change in the functioning of a large share of the pupil population, it seems necessary to focus on the root of the problem: why do so many feel that the education system is in crisis?

Any discussion of Israel's education system should credit it with the impressive achievement of successfully integrating millions of immigrants since the state was established. The system integrated the newcomers in the midst of long-term demographic growth the likes of which no other modern country has known. Access to the education system is universal and is set in the Compulsory Education Law and other statutes that have helped to regularize education services. By and large, there is no shortage of teachers. However, this background itself raises questions about how one can reconcile several facts. On the one hand, Israel's children do not fall short, and in many cases surpass, their counterparts in other countries in the extent and quality of the resources devoted to their education. Enrollment rates in post-secondary settings (academic and other) are among the world's highest. On the other hand, international achievement tests in recent years, as well as other indicators of the level and quality of education, consistently point to unsatisfactory achievements. Specifically, scholastic achievements are on a level similar to that of some of the developing countries, and Israeli students' levels of alienation from schools, their rates of truancy, absenteeism, and tardiness, are among the highest in the world.

The explanation, evidently, is that slightly over half of Israel's pupils achieve at a high level and, in some cases a very high level, such as one ordinarily finds in the most advanced Western countries. At the same time, a very large proportion of

Israeli pupils (about 40 percent) underachieve, often at a level typical of some developing countries.

The international indicators corroborate this by ranking Israel among the world's leaders in the inequality of achievements on international examinations. In other words, Israel is a leader among the world's countries in the achievement gap and scholastic polarization between its students.

There can be no doubt that this situation carries with it the seeds of social disunity and schism since success and failure in the educational system are not equally divided. That is, success typifies certain social groups and sectors and failure typifies others. This is a social problem that lies at the root of society's existence and constitutes a problem of the highest order. The groups that do not achieve satisfactorily in the education system certainly include a rather large share of boys and girls whose potential talents are not being realized. Thus, beyond the social injustice and the human damage that the situation causes, the nation at large is harmed due to loss of talent (human capital) and with it, perhaps, the perpetuation of poverty and scholastic failure.

Attending school is a primary condition for scholastic achievements, although it alone does not suffice. An essential condition for the functioning of any education system is for each class to have a teacher, and yet, this too is not enough. Most alumni of Israel's education system are literate, able to read the nation's map and newspaper headlines, and proficient enough in basic arithmetic to understand the receipt that the cash register in the shopping mall prints out. And yet, much higher intellectual gains are required for graduates of the system to stand up to international competition in the global market and for today's young people to be able to create for themselves and their offspring, a more progressive, tolerant, cultured, and educated society in the years to come.

So that today's youth may become aware and active citizens and successful parents who can stimulate the imagination and curiosity of the next generation, a strong proficiency in a foreign language, the basics of physics and biology to understand the reality in which they live and function, fluency in oral and written self-expression, and the basics of the humanities must be emphasized.

Thus, for rather large segments of Israel's population (immigrants and non-immigrants alike), the education system has done its share by imparting the language skills, basic skills, and basic knowledge with which these young people have integrated successfully into the higher education system and various service industries. For other segments of society, however, the initial success – the very act of participating in the education system itself – has not conferred the education and skills needed for successful functioning in a modern society. For these sectors, an additional step in advancement and development is needed. These are primarily three sectors: the Arab sector, the Jewish periphery in some of the urban neighborhoods and in the development towns, and the *haredim*.

The Arab sector is the largest of the three. Arabs account for 20 percent of school enrollment and 27.5 percent of first-graders. It is important to note that many young Arabs reach impressive achievements, in particular the Christian Arab minority whose average achievement surpass those of the Jewish youths. However, there is no escaping the fact that the average achievement level of Arab boys and girls, on both the aforementioned international tests and on national matriculation examinations, is lower than that of their counterparts in the Jewish sector.

There is no doubt that the participation of Israeli Arabs in the country's production processes, liberal professions, trade and business, higher education, and science is essential for Israel to raise its national income and reach a standard of living and level

of social services like those in the developed Western countries. Therefore, education in the Arab sector should be upgraded.

Another sector in which pupils do not seem to be maximizing their innate abilities is the Jewish periphery or, to be more precise, parts of it. The group at issue here is composed of many children living in development towns, a rather large share of children in impoverished urban neighborhoods, and some children of immigrants who arrived *en masse* over the past twenty years. Here, too, it stands to reason to address the scholastic performance of boys and girls in this sector in terms of justice and equity according to the basic premises of nation-building. However, even those who refuse to discuss the issue in terms of distributive justice must agree that this group is simply too large. In order to meet the modern challenges of security and competition with countries abroad (specifically those in the developed West) and to afford an approximation of Western social services, standard of living, and quality of life, full participation at a higher occupational level, based on education, is essential.

The third sector that is noteworthy for the change that is needed in its educational patterns is the *haredi* sector. Some *haredi* children do not achieve at the average level because they do not participate in the regular educational areas of study. In many cases, the curricula of their educational institutions offer nothing, or next to nothing, in foreign languages, mathematics, science, history, and civics. Obviously, the graduates of such schools underachieve relative to the national average on international exams, if they take them at all. Again, Israeli society cannot simply write off the potential contribution of *haredi* youngsters to the national structure, the economy, civic life, and the social services. It is important to emphasize that this population group accounts for about one-fourth of Jewish school enrollment.

In sum, a considerable proportion of pupils who function poorly and achieve unsatisfactorily are poor, Arab or *haredi*, or live in the older Jewish periphery localities. Therefore, unless Israel intends to write-off some 40 percent of its potential human resources, it and its governing institutions should make the necessary investment in these population groups so that they may reach a higher level of functioning. This would also create conditions under which these groups may break out of the cycle of poverty.

This discussion leads to several main conclusions about the desired education policy, which would require reorganization in terms of teachers, curricula, and budgets.

In regard to teachers: they should spend more hours actually teaching than they do today and be better paid for their work. This would be the most effective way of attracting higher quality personnel to teaching and elevating teachers' professional status.

In regard to curriculum: a core curriculum should be developed within the curriculum at large. It should be compulsory throughout the system and would include all subjects that are crucial to the continued sound development of graduates of the education system. Beyond the core, additional elective subjects and cultural, social, and sports activities should be offered in schools, as an integral part of the school day. The required budgetary and physical resources should be insured. Both elements – the core curriculum and the other activities – should be enforced, by a direct and immediate linkage between implementation of the curriculum and school budgeting, as is done in all countries that allow public and private education systems to coexist.

In regard to budgeting: sufficient financing should be assured to allow both of the aforementioned tasks to be implemented. Apart from being large enough to meet the needs,

the budget must be apportioned in an equitable, fair, and efficient manner.

a. Improving the Quality of Teaching Personnel

Teachers are undoubtedly the central and most important actors in the education system. Their quality, their commitment to the education system and its values, and their professionalism are prime and essential conditions for success. No meaningful change in the system can take place without their full cooperation.

In recent times, this lesson seems to have been learned well. The teachers' desires to improve their working conditions and wages should not be viewed negatively. These demands are natural and legitimate for any collective of workers and should be treated with consideration and respect. It is clear, however, that the most basic and essential demand that is proposed for teachers – to reduce their numbers and extend their work hours – clashes with what their unions demand. Accordingly, patience is needed as the correct path is plotted, in cooperation with the teachers, toward a full working school day in which teachers will spend 23–26 hours per week (depending on pupils' age) in the classroom and earn at least 30 percent more than they earn today (and even 50 percent more in the first working years). Compromises in this sensitive area are attainable if the ministries of Education and Finance and the teachers' unions show goodwill and understanding. The employers should accept the teachers' unions as parties, not enemies, and realize that consent and cooperation are preferable to "twisting arms." By the same token, the teachers' unions should accept the fact that the existing situation is untenable and that meaningful concessions on working hours and paths of professional advancement are needed.

With respect to teachers training the education system needs to be reorganized. Teachers who train for work at the primary

school level need major strengthening in subjects of instruction and broader general knowledge. For the most part, their pedagogical training seems adequate. Teachers who train for the secondary school level are knowledgeable and proficient in the subject matters they teach but need to strengthen their pedagogical tools. It is possible to make the necessary changes within the existing teacher-training system by offering the training institutions appropriate incentives (or by reducing enrollment in institutions that do not reorganize accordingly). Such measures may be more fruitful than revamping the entire teacher-training system.

In addition, the teacher-training process should adopt educational techniques that are recognized today as able to help in teaching pupils from peripheral social groups. The overriding concern is to facilitate the imparting of basic proficiency in language, mathematics, spatial skills, and oral and written self-expression.

b. Curriculum and Teaching Methods

The idea of a core curriculum has long been discussed. The difficulty lies not in acknowledging its importance but in building social consent regarding its contents and implementation. The level of the budget that a school receives should be conditional on implementation of the core curriculum (as stated in the Shoshani Committee Report and restated in the Dovrat Commission Report). As for the policy that should be adopted *vis-à-vis* the *haredi* school systems, what is needed is the political talent and courage to find the most appropriate formulas and arrangements that this sector may accept and that will obtain the desired results. If this is done, true progress toward the goal may be made.

The rise in the proportion of students eligible for matriculation certificates seems to be related to various educational strengthening techniques for peripheral population

groups – small study groups and even one-on-one study arrangements. A similar support system should be developed for children in preschools and early primary grades who exhibit difficulties in acquiring basic skills – Hebrew literacy, basic arithmetic, proficiency in the Latin alphabet, etc.

Every schoolchild, and especially those from a social background in which study was not a widespread norm, should be paired with a “significant adult” who can establish a personal relationship with the pupil and his family. Most schoolteachers may play the “significant adult” role, of course, but there are others within the school system who can do so as well (including some older school children *vis-à-vis* younger ones). The “significant adult” should meet with the group of pupils being counseled (no more than ten, if possible) for one hour every day, either for educational support and assistance in understanding subject matter or for discussion of questions that trouble a particular pupil. At the secondary school level, too, things should be organized so that all students, especially those from the sort of social background at issue here, will have a relationship with such an adult.

Schools that serve mainly children from peripheral population groups, must have a mechanism that allows them to communicate with pupils’ parents, for outreach in educational matters and as a way to help parents cope with their children’s learning difficulties. In such schools, the teacher’s position should include several weekly hours to maintain this form of interaction with parents.

Schools will also need tools and resources for suitable summer activities whether it be to help pupils complete required scholastic material or to anticipate and deal with problems that might arise in the coming school year. To prevent experiences of failure that may sow despair and undermine motivation, pupils should be offered activities to prepare them for the next level of study. An example is summer school for pupils advancing from

primary school to junior high schools (seventh grade). Such programs would combine sports and play with studies to bridge the gaps that often exist between the subject matter taught in primary school and the material that pupils need as a basis for junior high school studies.

c. Budgeting of Schools

The improvements discussed cannot be introduced without a significant increase in the education budget. Obviously, the education system, the second-largest public system in Israel, has quite a bit of waste and inefficiency. Nevertheless, the education system is probably no less efficient than any other public system. Thus, streamlining alone will not free up enough resources to pay for all the recommended changes.

There are two main goals with respect to the budget. First, an estimation of the required increase to raise the scholastic and educational achievements and to enhance equity and narrow disparities is needed. Second, the quality of life of students and teachers in schools has to be improved. This is not the place to discuss how large the budget increase needs to be, but the following are some indications of the steps necessary, above all with regard to changing the method of allocating the education budgets among the various sectors of the system.

First and foremost, it is important to implement in full the recommendations of the Dovrat Commission Report regarding differential budgeting. Emphasis should be focused on especially rapid implementation in sectors that have been neglected thus far – the Arab sector in general and the Bedouin in particular. Due to political and social pressures, it is probably not feasible to do this by taking all the funds from the existing budget in the Jewish sector, i.e., simply by transferring resources from the latter to the former. Other countries that have carried out budget reforms usually accompany them with “upward equalization.” Thus, the education budget should be

increased significantly and a differential calculation should be made, where schools that have been under funded until now should receive budget increases and a gradual and very limited reduction in funding should be carried out where necessary. It bears emphasis that such a policy can succeed only if a **special allocation** for this purpose is made. A massive shift of resources among social sectors, particularly between the Jewish sector and the Arab sector, would run into predictable opposition from parts of the Jewish public and may also impair the normative scholastic and educational achievements of some members of this sector.

In this context, it is important to stress that the notion of equalizing the budgeting of various sectors is not limited to teaching budgets. The Dovrat Commission also put together a “basket” of services for the student, and it, too, must be apportioned equitably. Furthermore, there is a very severe gap in physical infrastructure. For the Bedouin in the south alone, some 1,500 new classrooms will be needed in the next few years, at a cost of NIS 750 million, in order to make up for deficits and replace uninhabitable and rented premises. For the Arab sector at large, the sum at issue is at least twice as large.

It is also important to expand the domain of differential budgeting to preschools and special needs students (as explained at the beginning of the chapter). Differential budgeting for these two groups obviously requires different thinking. In preschools, for example, it may be implemented by reducing the number of children and adding support. As for special education students, it seems necessary to devise a totally new budgeting method, as proposed earlier in this chapter.

An important issue in education budgeting is the direct participation of households in financing schools (co-payments). Households in Israel bear about 20 percent of national education expenditure (slightly more than NIS 8 billion). Most of this sum is spent on preschool education, higher education, and

supplemental education (activity groups, private tutoring, etc.). At the primary and the post-primary levels, parent participation is estimated at NIS 1.5 billion–NIS 2.5 billion. Presumably, the affluent carry a disproportionate share of this expenditure (both for education services at large and for those at the primary and post-primary levels). Thus, government policy should insure the continuation of this important injection of supplementary resources at its current level but should also provide pupils from weak population groups with identical services, to the extent possible, in public schools.

A possibility that should be explored is differential school charges as determined by the socio-economic status of the school population, so that the maximum amount available to each school, from public and private sources alike, will be equal.⁷ The larger sums charged to parents would result in subtraction from the public allocation for these schools, so that the sums subtracted would serve to increase the allocation for schools that serve weaker population groups. To make such a mechanism work, credible enforcement mechanisms should be established in order to regulate public payments to schools in consideration of the parental co-payment arrangements. Importantly, for such a policy to succeed, the amount available to affluent schools should be large enough to allow them to continue providing high-level education.

The goals envisioned here will entail large expenditures and the education system budget will have to be increased in order

⁷ At first glance, this would seem to rule out affirmative action for weak population groups. Without such an arrangement, however, the situation would allow affluent parents to give their children a significant edge. It is also possible to set the maximum permissible charge to parents at a differentially lower rate than the maximum that students in the weakest schools receive. For example, if a pupil in the bottom decile at the primary level receives NIS 8,000 in public allocation and one in the top decile gets NIS 6,000, the maximum allowed charge to parents would be no greater than NIS 1,000.

to attain them. It is estimated, however, that in the long run, a great deal of money will be saved: the proportion of pupils referred to special education, a more expensive setting than the mainstream system, will fall significantly; the expenditures for pupil absences, truancy, and delinquency will decline; and so, too, will the steep expenses related to attempts to “re-educate” adolescents who have already had problems within the system.

Concluding remark: If much of the incongruity between Israel’s low achievements on international tests and the steady and very perceptible growth of higher education and post-primary systems traces to the fragmentation and polarization of the education system, then policy should be focused on this aspect. An attempt to bring about a “comprehensive social revolution” in education should be set aside for now, since in all probability such a revolution cannot be implemented quickly enough to continue the growth of Israel’s education system.

Sources

- Adler, C., Blass, N. (2003), “Inequality in Education in Israel,” in Kop, Y. (ed.), *Israel’s Social Services 2003*, Center for Social Policy Studies in Israel, Jerusalem, pp. 219-315 (Hebrew).
- Central Bureau of Statistics, *Statistical Abstract of Israel*, various years.
- and Ministry of Education (2002), *Teaching Staff Survey 1999/2000*, Special Publication 1193, November, Jerusalem.
- (2001), *Teaching Staff Survey in Primary and Post-Primary Education, 1997/1998*, Special Publication 1143.
- Ministry of Finance, *State Budget Proposal and Explanatory Notes*, various years (Hebrew).
- Ministry of Education and Culture, Economics and Budgets Administration, Economics and Statistics Division, *The Education System in Numbers*, Jerusalem, various years.

- Report of the Committee for Examination of the Budgeting Method in Primary Education in Israel (the Shoshani Committee Report), 2002, Jerusalem (Hebrew).
- Report of the National Task Force for the Advancement of Education in Israel (Dovrat Commission Report) (2005), National Education Program, January.
- Taub Center for Social Policy Studies in Israel, *Israel's Social Services*, Yaakov Kop (ed.), Jerusalem, various years.

Health Care Services

1. Introduction and Summary

From the standpoints of the public's health and satisfaction with the system, the achievements of the Israeli health care system are impressive. Israel remains one of the world's leaders in high life expectancy and, insofar as the matter may be compared, in public satisfaction with health care services. The credit for these achievements, as has been noted in the past, definitely belongs to the caliber and quality of the system's personnel and also to the public nature of the health care system.

At the same time, though, the rise in the share of private funding in health care and the system's growing susceptibility to conventional market failures have meant that the social and economic achievements of the system are being eroded and there are rising concerns that, ultimately, the public's health will suffer. The private funding of services is claiming a growing portion of the household budget, especially among the low-income quintiles, and is making medical services less accessible due to cost. The cost of services has been rising and the public's satisfaction with the system has been falling. In this chapter, the increase in private funding as a main health care system issue is examined. As in past years, there is also an assessment of several other issues that, if dealt with appropriately, may help the system to function better and to provide more continuity and better coordinated services.

Part 2 of the chapter presents a concise survey of the recent development of the health care system, as illustrated by various statistics. The survey relates to several main levels: a) the level and composition of health care expenditure and changes that

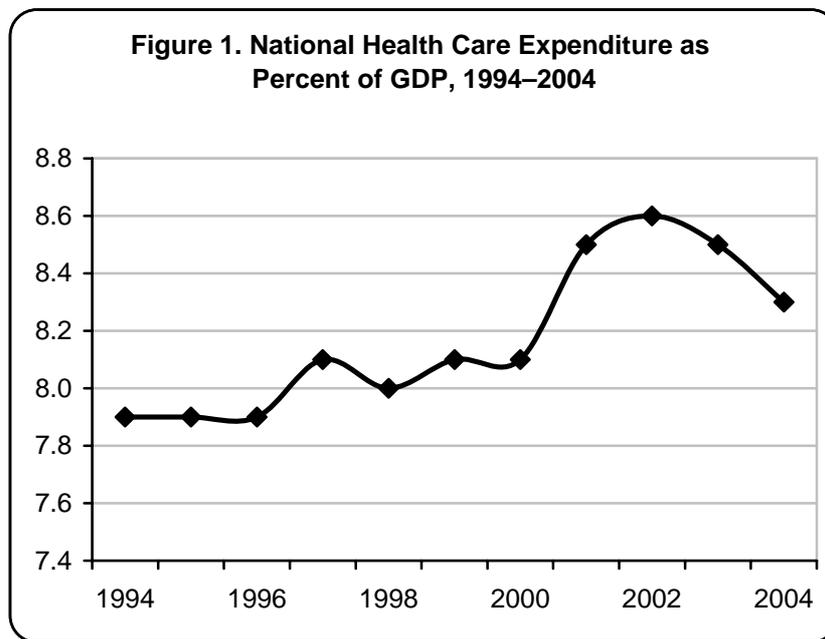
have occurred in this parameter, from the private and the public standpoints, in the economy at large and in the household budget; b) the health of the Israeli population, analyzed from several perspectives, including life expectancy, with emphasis on the unique difference in the situation of Israeli women; c) the effect of the changes in funding on equity in health care, as well as the trend in basic real inputs, e.g., changes in the number of physicians employed in the system and in inpatient beds. Part 2 concludes with a brief discussion of the public's satisfaction with the health care services that it receives.

Part 3 discusses several structural issues of the health care system. The first concerns medical personnel and the possibility that Israel is entering a new era in regard to the supply and demand for physicians. (The discussion is based on an article on the topic prepared for the Center by Professors Haim Doron and Dov Chernichovsky.) The second issue relates to the geographic distribution of emergency services, a matter that deserves public debate and policy decisions. The topic was expanded into a separate article by Dr. Koby Peleg and published as a monograph by the Taub Center. The third issue is controversial: the integration of the mother-and-child health services into the general medical services. A longer version of the discussion on this topic, by Professor Chava Palti, has also been published as a separate discussion paper. The subject is related to the broader issues of continuity of care and the ability to place preventive and curative aspects of medicine under a single service umbrella. Continuity of medical care is also linked to another important issue: the relationship between community care and inpatient care. This topic is discussed in a policy paper written by Dr. Yuval Weiss, Dr. Yair Birnbaum, and Professor Shlomo Mor-Yosef published by the Center. This is an important issue and the authors propose a reform in the deployment of Israel's health care services.

2. Trends in the Health Care System

a. National Health Care Expenditure

National health care expenditure, in current prices, was NIS 46 billion in 2004, 8.3 percent of that year's Gross Domestic Product (GDP). This reflects a decline from the proportion in 2003, which also dropped relative to the year 2002, when national spending peaked at 8.6 percent of GDP on health care. In preceding years, there had been an upward trend that became especially steep after 2000 (Figure 1).

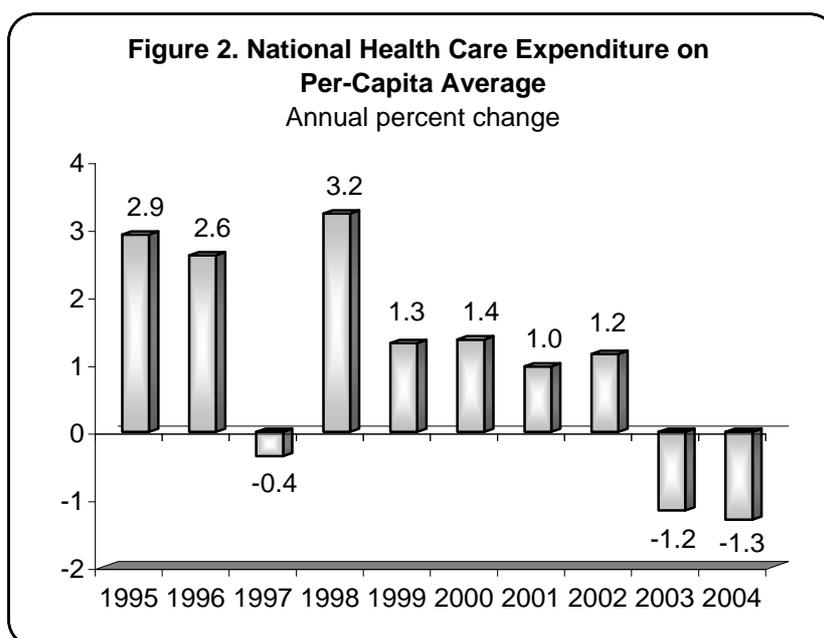


Source of data on national health care expenditure, here and throughout the chapter: Central Bureau of Statistics (2005), press release 173/2005 (August 8), and CBS, 2004, *National Expenditure on Health 1962–2003*, Special Publication 1236.

Since the share of national health care expenditure in GDP reflects a combination of changes in average per-capita health care expenditure and changes in per-capita GDP, it is proper to examine the change in expenditure relative to changes in GDP.

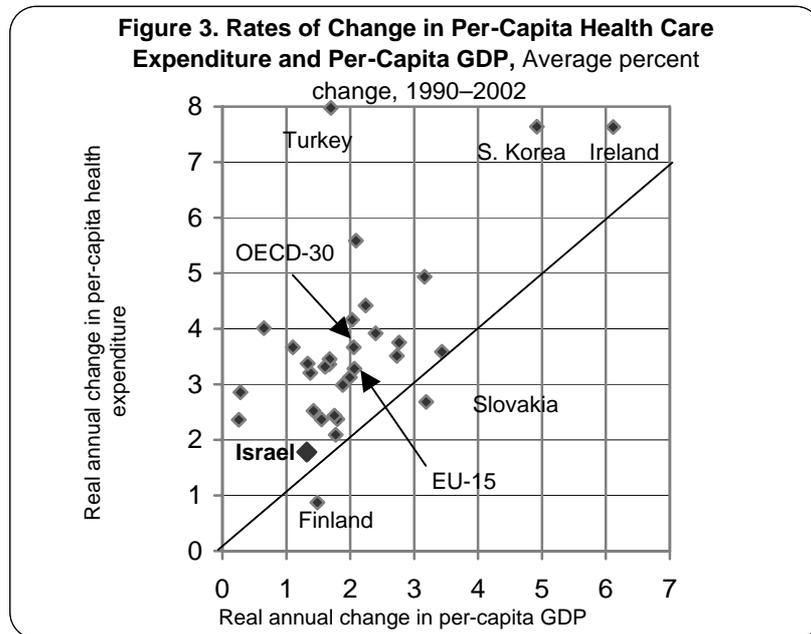
National health care expenditure in 2004 declined by one percent in real per-capita terms, following a similar decline in the preceding year (Figure 2). The decrease marked the continuation of a slowdown in the growth rate of real per-capita expenditure since 1995.

Notwithstanding these developments, the general trend in the percent of health care expenditure in GDP since 1995 has been upward. The decrease since 2002 is a “correction” on account of changes in GDP that may reflect the inelasticity of health care expenditure. Thus, national health care expenditure did not decline at the rate of the decrease in per-capita GDP during the non-growth years (2001 and 2002) and did not rise at the pace of the GDP increase that occurred after growth resumed (2003–2004).



By and large, Israel's real per-capita health care expenditure in 1990–2002 increased at a slightly higher rate than the increase in per-capita GDP (Figure 3). In the OECD and EU countries, the same general pattern occurred but the rate of increase was even higher. These data should be viewed above all in the context of the growth rate of per-capita GDP, which was lower in Israel than in the other countries. Since the income inelasticity of health care (the sensitivity of health care expenditure to change in income) is greater than one (that is, a given percent of change in national income leads to a larger percent increase in health care expenditure), these statistics come as no surprise even if one overlooks possible changes in the relative prices of medical services as against GDP in the various countries. One would expect per-capita health care expenditure as share of GDP to increase significantly due to rapid growth and the curbing of inflationary tendencies in the health care services. (Finland's ranking is interesting: although the growth rate of per-capita health care expenditure there is slower than that of GDP growth, Finland has one of the best health care systems in the world.)

Even if the existence of a long-term upward trend in the share of health care expenditure in GDP is assumed, the trend should be examined for its real significance. As is shown below, the prices of medical services have been rising more quickly than GDP prices. Thus, some of the increase in the share of GDP devoted to health care has been spent not on a real increase in medical services but on higher prices.

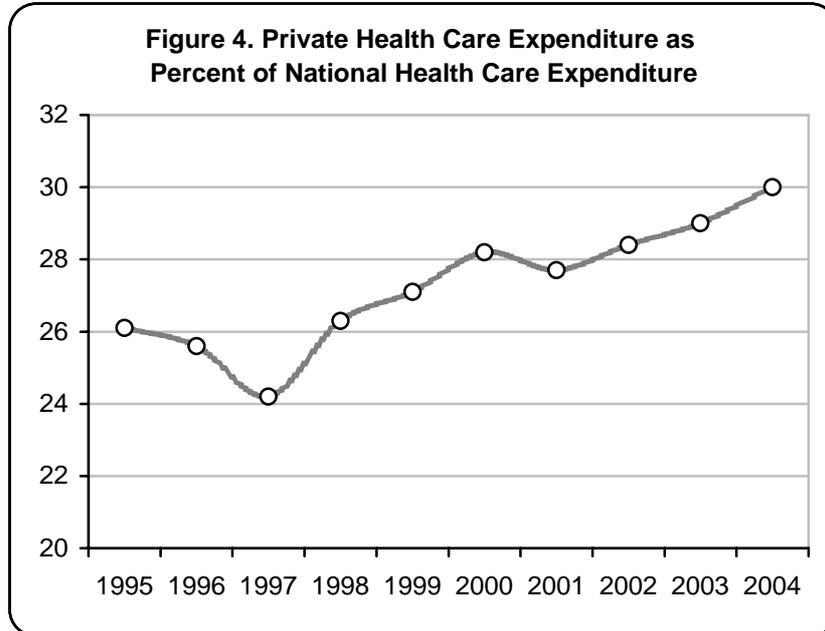


b. Sources of Funding

The share of public funding in the health care system continued to decline in 2004. Private funding covered 30 percent of total national health care expenditure that year (Figure 4), one of the highest proportions among developed countries that have legislated national health care services.

The increase in private funding of health care has left its mark on the household budget. The share of total household expenditure spent on medical services rose from 3.8 percent at the beginning of the decade to 5 percent in 2004. The increase in 2004 followed stability at 4.8 percent in 2001–2003, 4.6 percent in 2000, and 4 percent in 1998–1999. The percentage may double by 2007, marking a decade since the first Economic Arrangements Law opened the floodgates to the main items of

increase in private expenditure: supplemental and other voluntary insurance plans and co-payments.



c. Health of the Population

The life expectancy of Israelis is one of the highest in the Western world. Israel can continue to improve this by tackling two issues: infant mortality and women's health. Taub Center reports in recent years have consistently noted the discrepancy between the Jewish population and the Arab population in infant mortality. Due to this gap, Israel has a relatively high rate of infant mortality compared to other developed countries. Its rate of infant mortality – 4.9 per 1,000 births – lags behind Japan, Finland, Sweden, and Norway, where the level is around 3 per 1,000, and behind France, Spain, Belgium, Germany, and other countries that have mortality rates of around 4 per 1,000.

Nevertheless, Israel has a lower rate than Ireland, Great Britain, Canada, New Zealand, and the U.S.

Another international comparison shows that, relatively speaking, Israeli men rank higher in life expectancy than Israeli women. The life expectancy of Israeli men belongs in the “major league” of countries with the highest life expectancies; Israeli women are in the “minor league.” For the years 1999–2003, life expectancy upon birth was 76.9 years for men and 81.1 years for women.¹

The World Health Organization² calculated life expectancy in 2003 on the basis of estimates of mortality tables for each country. Israeli men fell into the group of countries that have the highest life expectancy – Japan, Australia, Sweden, Switzerland, Canada, and Italy – at 78 years. As for women, life expectancy for Israeli women is like that in Germany, Canada, Finland, and Norway (82 years) and falls below that of Japan (85), France and Italy (84), Spain, Australia, Sweden, and Switzerland (83).

Thus, improving the health of women, mothers, and children should be a basic goal in the advancement of health care in Israel. This also has implications for the structural changes that Israel's health care system needs. (See issues discussed in the second part of this section).

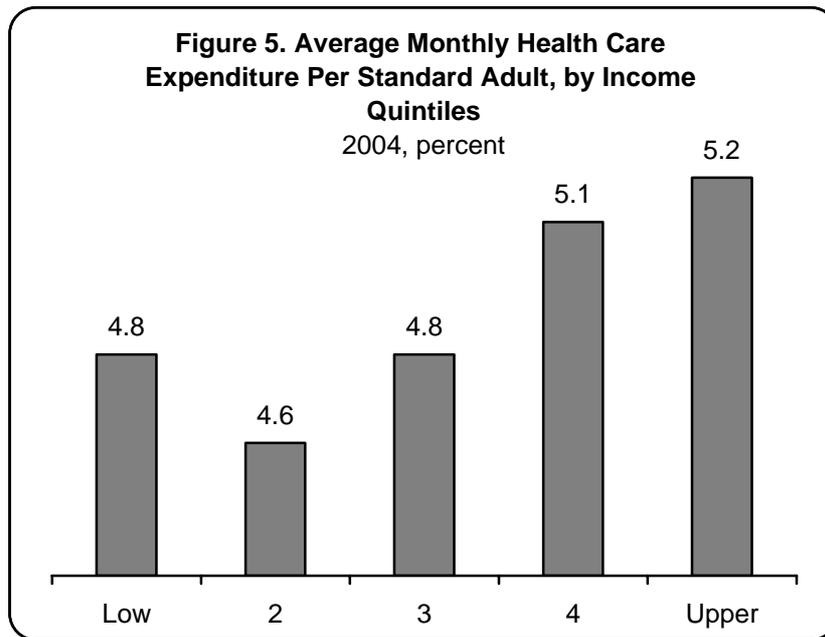
d. Equity

As noted, about 5 percent of total household consumption expenditure was devoted to health care in 2004. The breakdown of this expenditure by income quintiles is shown in Figure 5. The rising share of health care in total household expenditure reflects the higher than unitary income elasticity of health care expenditure, especially when the share of private funding in total health funding is relatively high. Thus, any widening of

¹ Central Bureau of Statistics, Complete Mortality Tables of Israel, 1999–2003.

² World Health Organization, 2005, *The World Health Report, 2005*.

income distribution will result in a wider distribution of health care expenditure. In absolute terms, the expenditure gaps between the uppermost quintile and the lowest quintile have been *narrowing* since 1977. This means that, in terms of health care expenditure, the lowest quintiles have been trying to “keep up” with the uppermost ones: the growth rates of expenditure were 90 percent in the lowest quintile as opposed to 68 percent in the uppermost quintile.



These data show the problematic nature of the increase in private funding of health care services. The narrowing expenditure ratios indicate that the gaps in the access of different income groups to services have been decreasing, meaning that *horizontal* equity has been improving. The same ratios, however, show that health care expenditure is consuming growing portions of income precisely among the weak groups,

meaning that *vertical* equality is worsening. Thus, the data point to an increase in regressive measures – less protection of the budgets of weak households than of those of strong households – in funding the system. This protection is one of the basic goals of a public health care system.

The question of private funding in the context of access to health care services can be examined by asking whether citizens forgo vital medical services due to the added personal cost. This year, for the third straight year, the Taub Center Social Survey asked this question.³ According to the responses, more than 20 percent of the population each year had to forgo an essential medical service at least once during the survey year. Furthermore, during the past three years the percent of affirmative responses has risen. High rates of “doing without” appeared among the elderly and among immigrants from the former Soviet Union, about one-third of whom had to do without some essential medical service once or more during the year.

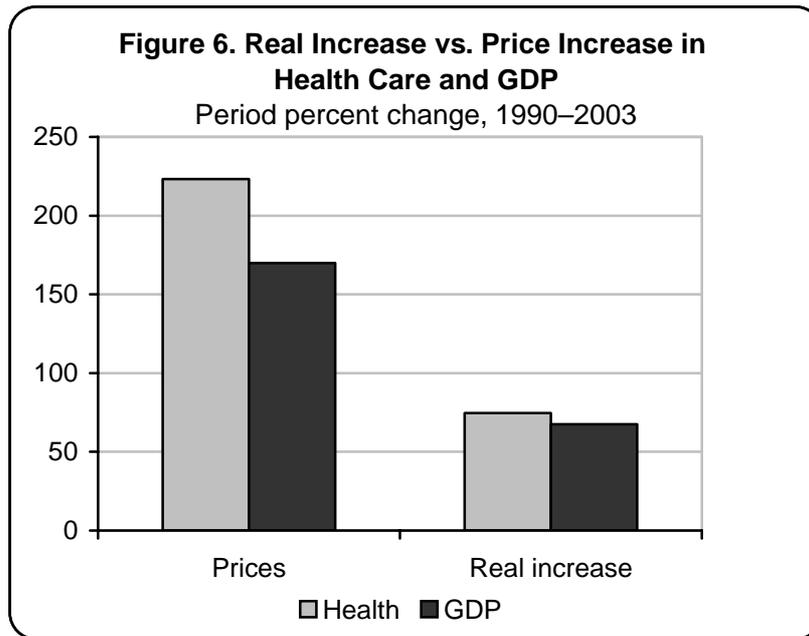
The survey findings draw a clear correlation between the level of income and education and the nature of health service use. Some 96 percent of members of the high-income group and 80 percent of those with an academic education never had to do without a necessary medical service. In contrast, 15 percent of the poorly educated and 10 percent of those of low income said that they had to do so “very often.”

The findings for 2005 do not point to a further deterioration relative to 2004 but correspond to the general findings in this field. An increase in co-payments, such as this trend in Israel, causes demand to contract temporarily until an adjustment takes place over time. The data on the relative increase in health care expenditure by low quintile households are consistent with such behavior.

³ See expanded discussion in the “2005 Social Survey” chapter of this book.

e. Cost Containment

Control of expenditure in the health care system refers to control of the real increase of health care expenditure relative to increase in GDP. In the main, it pertains to the prevention of inflation pressures due to market failures that are identified with private funding.



Source of data on household expenditure: CBS (2005), press release on household expenditure, August.

As noted, average per-capita health care expenditure has been decreasing during the past two or three years, although the general trend over the past decade has been upward (Figure 2). Furthermore, the increase in health care expenditure has approximated or surpassed the rate of GDP growth (Figure 3) although not as quickly as the norm in the OECD and EU

countries, which have experienced strong growth in their GDP. What makes the increase in Israel problematic is that it is evidently becoming less a matter of quantity of service and more a matter of inflation, as Figure 6 shows plainly. Data from the Central Bureau of Statistics on changes in household consumption in 2003–2004 point to price decreases in all consumption groups and the price index at large. Increases were observed in only three components of the index: food, housing, and health care. The increase in health care was second only to that in housing.

f. Public Satisfaction with Health Care Services

The table below presents the responses, in Israel (2000) and in several developed countries (1999), to a series of questions about the need for changes in the health care system. Public satisfaction with the system was higher in Israel than in any of the other countries listed. Israel had the highest percent of those responding that the system needs minimum changes and the lowest percent of those responding that the system has to be rebuilt.

Satisfaction with Health Care Services – International Comparison (Percent)

Changes needed	Australia	U.S.	U.K.	New Zealand	Canada	Israel
Minimal	19	17	25	9	20	37
Substantial	49	46	58	57	56	49
Rebuild	30	33	14	32	23	13

Sources:

Donelan, K., et al., Health Affairs, (1999).

Shmueli, A., Health Policy, (2003).

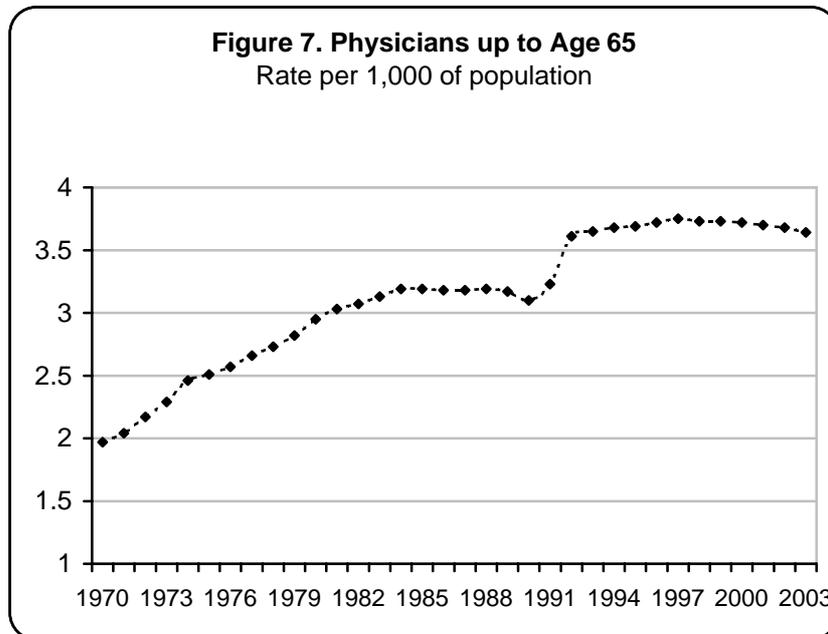
Since 1999, the Taub Center has been examining the question of public satisfaction with health care services in its annual

social surveys. (See expanded discussion in the Social Survey chapter of this volume).

3. Structural Issues in the Health Care System

a. *Supply of Physicians – A New Era?*⁴

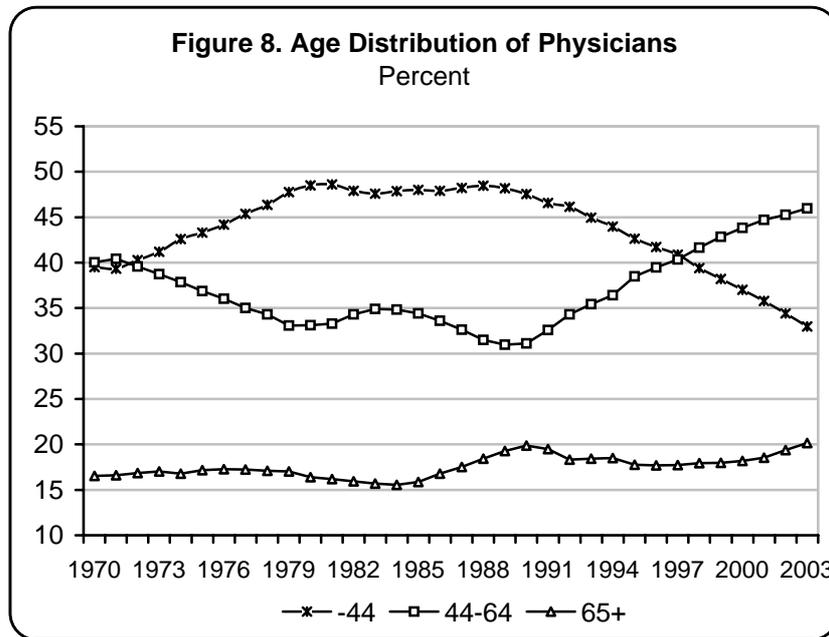
Since the 1970s, Israel has had the benefit of a rise in the number of physicians per-capita (Figure 7). The trend stopped in the late 1990s as the number of physicians per thousand population began to level off, and in recent years the number of physicians per-capita has been declining. The new trend may be long-term as the potential sources of immigrant physicians have been diminishing. Thus, a rethinking in the planning of this most basic resource of the Israeli health care system has become necessary.



⁴ Based on Doron, H., and Chernichovsky, D., 2005.

The number of medical licenses issued in Israel mirrors two large waves of immigration: that of the 1950s, after World War II and the establishment of the state, and that of the early 1990s, upon the disintegration of the Communist bloc and the break-up of the Soviet Union. Until 1987, Israel was the only Western country that licensed immigrant physicians without requiring certification tests. Since then, Israel has set minimum standards that every immigrant physician must meet. Today, physicians who studied and trained abroad – including Israeli physicians – must pass licensing examinations; only those who practiced in Canada, the U.S., or South Africa are exempt. The purpose of the licensing reform was to increase the regulation of the quality of physicians. Israel took pride in the large number of physicians among its recent immigrants. The influx allowed it to achieve the world's highest ratio of physicians to population – 4.61 per 1,000 (3.64 up to age 65, i.e. employed physicians). This reality, however, has had two less desirable results: the share of graduates of Israeli medical schools fell to one-third of the population of physicians; and, in a phenomenon stemming from the first, the population of physicians has been aging (Figure 8).

The rising number of physicians did not prevent the continuous need to deal with two basic issues: the geographic distribution of physicians in the population and improvement in their quality. It did, however, enable the system to address these problems under conditions of plentiful supply. Israel's physicians are unevenly distributed around the country. The three largest cities have plenty of physicians, relatively speaking, but areas in the periphery suffer from a shortage. The distribution of specialists is even more uneven. Furthermore, the inverse correlation between the geographic distribution of medical personnel and the mortality rates poses a challenge to the Israeli health care system, and to the country at large.



As far as quality is concerned and in as much as this aspect can be quantified, there is no doubt that Israel has undergone a revolution. In order to employ as many immigrant physicians as possible, it was suggested to many of them – especially those who elected not to obtain specialist certification – to move to primary medicine, traditionally a less coveted field than hospital practice. The data indicate that less than half of the recent immigrant physicians turned to specializations, unlike the majority of Israel-trained physicians. A decisive aspect of the reform process, however, was a change in medical curricula and training, in which many changes were instituted in support of a new philosophy of enhancing the quality of primary care.

The reforms included extra in-service training for primary physicians and, principally, recognition of family medicine as a specific field of specialization. In 1969, the scientific council of the Israel Medical Association approved a four-year

specialization program in family medicine. The program took time to implement because the medical schools and the sick funds responded to it hesitantly. The Amora Commission noted in its recommendations that further effort is still needed to establish this specialization as a pre-condition for physicians who wish to practice general medicine in community settings.

Family medicine has evolved into a respected specialization that has caught up with other specializations in Israeli medicine. Even as the number of specialists per population has leveled off, the number of residents in internal medicine and, especially, family medicine, has been rising.

The steady increase in the supply of medical personnel definitely helped Israel to cope with the problems of physician distribution and change in the quality of care, at least in respect to everything connected with manpower. The system is also changing in terms of health manpower supply and demand, and is embarking on a new era that will involve some rethinking. Supply is declining in two respects. One, the number of physicians is declining. Two, as the physician population ages, it becomes more difficult for them to adapt to new and changing needs. As for demand, the increase in scope and nature of private funding is fueling demand for specialists, mainly in urban centers.

Israel should make use of the fact that it still has a relatively high physician/population ratio in order to prepare for the new era in an organized manner.

b. Equity and Availability of Pre-Hospital Emergency Medical Services⁵

The system of medical evacuation and rapid and high quality pre-hospital care is one of the most important and influential

⁵ The issue is presented briefly here. For an expanded discussion, see Dr. Koby Peleg's monograph published by the Taub Center.

factors in saving lives and preventing disabilities in medical emergencies.

Most of the efforts and services of the pre-hospital emergency medical arrangement deal with four of the five main causes of death in the West: heart attacks, trauma, pulmonary illnesses, and vascular diseases. Many studies around the world indicate that rapid and high quality treatment and evacuation are the keys to saving lives in medical emergencies. Therefore, one of the main emphases in emergency medicine is on the deployment of ambulances, which are usually the first medical response. The quality and swiftness of the actions of the ambulance team do much to determine survival and disability rates.

Efficient and effective organization that fulfills the vast potential of the pre-hospital emergency system helps to save lives and reduce disabilities and loss of working days. At the level of the national economy, it helps to reduce payments for disability, sick leave, days in hospital, medical treatments, lengthy rehabilitation, direct (for the patient) and indirect (for the family members and others) loss of work days, and the departure of the disabled from the labor force. It also reduces lifetime cost significantly, of course. Now, more than ever, medical aspects are being examined from cost-benefit and cost-effectiveness perspectives increasing the importance of these concerns.

In the United States and other Western countries, the economic potential of improving the system of emergency medical services (EMS), as well as its potential in saving lives and maintaining quality of life, is understood. The United States spends more than \$100 billion per year on trauma casualties. Improvements and changes in the EMS system have reduced trauma mortality by 30–40 percent. In Israel, too, mortality rates among the severely injured fell by nearly 30 percent in the 1990s, when the recommendations of the Revah Committee

were implemented and a national trauma system was established. Taken together these two factors lead to the conclusion that the system needs to tackle this issue both to cut costs and to save more lives.

Until a few years ago, the countrywide distribution of ambulances was based on historical patterns with modifications and changes over the years, some based on professional considerations and some on political or other reasons. Today's arrangement of services is not necessarily a reflection of or an appropriate response to needs. In different parts of the country there are significant differences in initial response times, and duration and method of intervention (hospital transfer). *Magen David Adom* (MDA, the Israeli "Red Cross") has made major improvements in its deployment of ambulances over the past five years and has also dispersed the system that controls ambulance operation and availability. However, there remains much room for improvement to reach an optimum service distribution.

The main problem is that Israel lacks a clear and consistent policy that includes standards and criteria for the deployment of various types of ambulances countrywide. Furthermore, the method of funding and budgeting of MDA is complex, problematic, and somewhat vague. Although several organizations provide pre-hospital emergency medical services in Israel, MDA is the main one, referring some 85 percent of emergency cases. (Its services are supplemented by several private ambulance organizations, volunteer ambulance organizations such as *Hatzalah* and *Zaka*, and companies with memberships such as *Shahal* and *Natali*).

Due to the lack of clear policies, criteria, and standards for the deployment of ambulances, the situation today with regard to MDA ambulances is typified by basic inequity between localities and a total lack of availability in some localities. One of the most blatant examples is the deployment of ambulances in

the Arab sector. The country has ten Arab localities with populations of more than 20,000. None has an ALS ambulance⁶ and only three have a BLS ambulance.⁷ In contrast, among the forty-nine Jewish localities with populations of more than 20,000, twenty-seven have ALS and thirty-three have BLS.

Israel finds itself on the horns of a dilemma. If it legislates policy, criteria, and standards, it then must allocate resources for their implementation. As long as it does not establish criteria, it remains in a gray area. This method sometimes leads to problematic decisions: for several years, Israel has been debating an ambulance law. The bill being formulated is based on a method that will not apply to MDA because, it is claimed, MDA functions under a separate law. In practice, this is not the real reason. In fact, the state is not interested in holding MDA to standards that would require a budget increase. This will lead to the absurd situation where only the private ambulances that handle a fraction of emergency cases will be required to meet the criteria established in the law.

Airborne evacuation also presents problems. Today, air force helicopters and crews provide most air evacuation service. The main problem with this is that these services are positioned and tailored to the convenience and utility of the air force and not to the requirements of civilian evacuation. As a result, the difficulty of problematic rescues from *wadis*, flooded areas and so on, continuously arises. This sometimes results in a lengthy response time, with serious consequences. Thus if the costs were measured in terms of loss of life, or disability and its implications (suffering, pain, etc) rather than air force considerations, the scales would tip in a different direction.

The detailed analysis of the issue (see the full article) leads to several policy recommendations:

⁶ An ALS (Advanced Life Support) ambulance is one that is capable of delivering advanced treatments by EMS practitioners.

⁷ Basic Life Support ambulance.

- * The state should act to provide all inhabitants with service of similar quality, even if this requires differential treatment of subgroups in densely and sparsely populated regions, as is accepted in other countries. To carry this out, explicit policies and criteria for the functioning of the pre-hospital emergency medical system are needed.
- * Various ways of improving the method of MDA funding may be considered. Two possibilities are fees for MDA activities and earmarked budget transfers by the sources that finance MDA. It may be possible to arrange cross-funding or even tenders on a regional basis, with compulsory integration between more profitable and less profitable regions.
- * Regarding helicopter evacuation, a topic much debated in cost-benefit terms, the current method is not providing an appropriate response in the northern and southern parts of the country. If it is decided not to provide helicopter evacuation services (state-owned or other) in these areas, the inhabitants should be provided with some other reasonable solution.
- * In regard to the Arab sector, the Ministry of Health should perform a cost-benefit analysis with reference to the medical implications and expenses of perpetuating the current situation characterized by slow treatment or redundancy of services versus an ambulance service that would provide a quick response.
- * As for secondary patient transfer, it is recommended that the Ministry of Health consider establishing a different payment rate for secondary transfer requested by the patient/injured as opposed to that necessitated by medical considerations. (About 40 percent of such ambulance transfers are due to injuries that rate as minor on the ISS scale of severity, and, except for purposes of imaging or admission to a special inpatient ward, the need for the transfer is questionable.)
- * Another significant improvement in EMS deployment may be obtained by using optimization models of points of departure

to determine the placement of existing ambulances and by converting ALS ambulances into BLS units, which are about one-third less costly. This measure may significantly improve the quality and speed of the response at no added cost.

c. Preventive Medicine for Pregnant Women and Children⁸

Preventive medicine is the special branch of the medical profession that focuses on the health of specific population groups in order to safeguard and enhance their health and prevent illness, disabilities, and premature death. With respect to pregnant women, the goal is to reach a normal delivery and a healthy baby and to teach the basics of infant care. For the infant, the goal is to insure good health, prevent illnesses, and assure early detection of defects for the purpose of treatment.

Preventive medicine in pre-state Israel was introduced ninety years ago as a basis for the delivery of health care services to the poor population of Jerusalem. The service, established by the American *Hadassah* women's organization and available to the entire population, developed over the years into a network of well-baby centers that provided pregnant women, infants, and schoolchildren with preventive health care services. When the state was established, the service was transferred to the Ministry of Health, which determined the goals, policies, and allocation of resources. The ministry gathered epidemiological information and, practically speaking, provided preventive services to most of the population. Only in *kibbutzim* and *moshavim* (collective and cooperative settlements) were preventive services delivered by the *Histadrut* Sick Fund.

Following the Alma-Ata International Conference on Primary Health Care of the World Health Organization that recommended the integration of preventive medicine and

⁸ The issue is presented briefly here. For a full discussion, see Chava Palti's monograph published by the Taub Center.

primary care, various committees in Israel (including the Netanyahu Commission) also recommended the inclusion of preventive medicine in the array of primary health care services that the sick funds provide.

The State Health Insurance Law, enacted about a decade ago, incorporated the preventive medical services into the system of curative health care services. By so doing, it handed responsibility for their delivery to the sick funds. The funds are responsible for the delivery of preventive services that are included in the “basket” of insured services under the Third Addendum of the law. This organizational change was proposed for two reasons: to save on resources and to ensure continuity in care by having the same provider for preventive and curative care. An integrated organizational structure of preventive and curative medicine exists in several countries, including the U.K., Sweden, and Norway.

Since the State Health Insurance Law went into effect, various governmental, professional, and academic forums have discussed the reorganization of the preventive services. Each year, the Ministry of Finance proposes the transfer of the preventive services to the sick funds, i.e., doing away with the well-baby centers, known today as family health centers. The intention is to close down some 600 centers run by the Ministry of Health and sixty others run by the municipalities of Jerusalem and Tel Aviv, which together account for 55 percent of all family health centers and serve 80 percent of infants.

In these discussions, various rationales for and against the proposed change have surfaced.

Expected Advantages of the Integrated Service

- * Integration will lead to savings by eliminating redundancies in administration and infrastructure and, possibly, by downsizing the medical and nursing staff.

- * There would probably be less use of parallel services. Surveys showed that by the 1980s, pregnant women used several services and only about one-fourth of them made exclusive use of the family health centers for prenatal care. A study in 2000 showed that pregnant women used the services of several physicians and made more visits than were recommended. They preferred sick fund clinics to well-baby centers. The population today has been exposed to the medicalization of pregnancy and is aware of technological advances such as ultrasound, fetal scanning, and genetic tests that the well-baby centers do not offer. Furthermore, women who elect to use the service that provides these tests do not need a referral from the well-baby center or authorization from their sick funds. They regard follow-up at the sick funds as a service provided by the doctor, who is skilled in monitoring the pregnancy, and perceive of the well-baby center as a service that is provided mainly by nurses. It was found that well-educated women, in particular, prefer the services of a doctor.
- * Centralizing prenatal medical services at one clinic may reduce the number of visits and the number of care giving physicians and would provide pregnant women with more comprehensive, accessible, and efficient service.
- * The integration of the services would assure continuity of care. A regular doctor and nurse would meet all the needs of the infant (child), including monitoring of growth and development, inoculations, early detection of problems, and care in the event of illness. Accordingly, one would expect the large number of visits – twenty-six in the first year and a half of the baby's life – to decrease. Obviously medical problems can be detected during routine visits and growth and development can be monitored during visits related to illness.

- * Integration would prevent division of responsibilities and conflicting medical recommendations.
- * There would be only one set of medical records, facilitating more comprehensive evaluation of the state of health of the child and/or the mother during pregnancy.

Expected Disadvantages of the Integrated Service

- * The staff that is needed to treat both preventive and curative health care issues would not necessarily be as skilled as a staff whose tasks are limited to the special aspects of preventive medicine. The rapid accumulation of medical information has led to a tendency towards specific and narrow specialization, in the belief that no one can possibly amass information and skills in many disciplines. A study among nurses at the *Maccabi Sick Fund*, for example, found they lacked up-to-date information about nutritional counseling for nursing mothers.
- * The role of the nurse in preventive medicine includes guidance and training in activities of daily living, phases of development and growth, nursing, accident prevention, promotion of good health for the pregnant woman and the baby, and time and skill intensive support in the event of social problems. One topic that does not receive sufficient attention, for example, is smoking during pregnancy. The proportion of pregnant mothers who smoke has not changed in the past twenty-five years, even though the introduction of prevention programs has been recommended. Smoking during pregnancy is known to have negative implications for the mother's health and the development of the fetus. Babies born to mothers who smoke are born 250 grams lighter on average than babies born to non-smokers. These findings affect neonatal health, the mother's health, the duration of inpatient care needed after birth, and the cost of care. The integrated setting, which would allot eight minutes per visit,

would not provide enough time to administer pro-health programs such as an anti-smoking program.

- * There is concern that the prevention aspect, a non-emergency element, would be marginalized within the integrated medical framework. Curative care for infants is generally more urgent and requires immediate attention due to the nature of the illness and the mother's concern.
- * In the United States, pediatricians also provide preventive care but devote a minimum of time per visit to it – only an estimated 60–90 seconds.
- * Comparative studies of separate preventive care and integrated services found that mothers who use integrated services receive less instruction in matters such as the importance of iron supplements while nursing, laying the baby on his/her back, and other matters.
- * The four sick funds provide curative treatment services within the framework of National Health Insurance. It has been argued that the establishment of preventive care centers in one neighborhood or locality by all four funds would be detrimental to the community aspect of a specific geographical region due to the division of responsibilities. Furthermore, the delivery of preventive services by the four sick funds would be costlier than the option of a single service.
- * In small localities where the four sick funds did not open preventive services, accessibility to and availability of preventive services were impaired and pregnant women and infants had to travel to large nearby localities to obtain preventive service.
- * After the integration becomes a fact, the sick funds will become the providers of medical services at large. As such, they will be responsible for the apportionment of resources between curative and preventive services for the population and for their members. Due to economic constraints and

competition among the funds for potential members, different levels of service delivery may develop, reflected in differential apportionments of resources for prevention and wellness promotion, to the detriment of the preventive services and the standards of preventive care in those fields that are inadequately defined. The clinical guidelines of *Clalit Health Services* sum up the problems of integration in the following words: “*Many difficulties exist in providing preventive care in the primary care setting. Mutually exclusive recommendations, doubts about the necessity of tests, lack of knowledge, lack of encouragement by the employers (time, remuneration), lack of time, and overburdened practices influence the primary physician in the direction of dealing with acute illnesses at the expense of preventive medicine.*”

- * As for government, its inability to meet all the population's health care needs due to the cost of service delivery may result in impairment to preventive care, because the effects of prevention procedures such as inoculation against viral hepatitis, prevention of smoking, etc., on the state of the population's health usually take years to manifest. Politicians, whose perspective is time limited, tend to give budget priority to problems that can be solved immediately and with high visibility.

In view of the vast sensitivity of the topic and the broader national need to promote health, the Amoraï Commission, which was given the task of assessing public medicine and the physician's status, recommended a *modus operandi* that would preserve the budgetary and executive autonomy of the mother-and-child health care system. First, during the year after the publication of the panel's recommendations (2002), the Ministry of Health should consider the need to establish an independent body for the advancement of the health of mothers, children, and adolescents. This entity, if a decision to establish it is made,

should handle all aspects of this population's health care with respect to health education, promotion of wellness, preventive care (including dental health), and instruction in healthy living in a healthy environment. Second, this entity should operate services under its own auspices, through the sick funds, local authorities, and providers such as hospitals (where available) and self-employed physicians, or in some combination, based on considerations of the public's health, availability and accessibility of service, and economic efficiency.

This approach distinguishes between the executive responsibility for the use and finance of services, on the one hand, and the delivery of service, on the other.

In other words, the recommended authority, like the sick funds in general medicine, may acquire services as appropriate in view of considerations of efficiency and the public well-being. Thus, the Amoraï Commission recommendations neither rule out nor require the integration of service delivery (least of all in urban centers), instead, they assure that the providers, whoever they may be, receive a separate budget for this activity and be accountable for it.

The above findings lead to the following recommendations, in addition to those of the Amoraï Commission:

1. All organizational planning in preventive medicine, whether preventive services are integrated with curative care or delivered separately, should devote more resources and services to population groups at risk and should strive to narrow health disparities by offering wellness advancement programs at the individual and community levels, in coordination with other systems such as education and human services.
2. The efficiency and utility of routine activities in preventive care for pregnant women and infants should be examined in view of the most recent knowledge and new standards should be established.

3. Regarding preventive care for pregnant women and children the emphasis in the twenty-first century should be placed on the advancement of wellness and the improvement of quality of life and not only on the prevention of morbidity and mortality.

Sources

- Central Bureau of Statistics (CBS) (2004), *National Expenditure on Health 1962–2003*, Special Publication 1236.
- (2002), *National Expenditure on Health 1962–2001*, Special Publication 1191, Jerusalem.
 - (2005), press release, 173/2005 (August 8).
 - Complete Mortality Tables of Israel, 1999–2003.
- Chernichovsky, D., and Doron, H., (2005), “Community Medicine in Israel: Reform of Primary Care and Renaissance of Family Medicine,” in García, C., Muñoz, O., Durán, L., and Vázquez, F. (eds.), *Family Medicine at the Dawn of the 21st Century*, México City, México: Mexican Institute of Social Security, pp. 349–370.
- Donelan, K., et al., (1999), “The Cost of Health System Change: Public Discontent in Five Nations,” *Health Affairs*, Vol. 18, No. 3.
- Ministry of Health (2005), *Personnel in Health Care Occupations, 2003*, Jerusalem (Hebrew).
- (2001), *Personnel in Health Care Occupations, 1999*, Jerusalem.
 - (1999), *Personnel in Health Care Occupations, 1998*, Jerusalem.
 - (1998), *Physicians, Dentists and Pharmacists, 1970–1996*, Jerusalem.
- OECD Factbook, (2005), Health Data.
- Shmueli, A., (2003) “Israelis Evaluate Their Health Care System Before and After the Introduction of the National Health Insurance Law,” *Health Policy*, Vol. 63.
- State of Israel (2002), Report of the Investigative Commission on Public Medicine and the Status of the Physician Therein, (the Amorai Commission) Tel Aviv (Hebrew).
- World Health Organization, 2005, *The World Health Report (2005): Make Every Mother and Child Count*, Geneva.

Personal Social Services

1. Introduction and Summary

This chapter discusses the problems and difficulties that the personal social services, one of the mainstays of the social welfare system, are facing. These services play a central and crucial role in helping needy population groups by responding to the needs and treating the problems of individuals, households, groups, and communities. The challenge these services face is complex. The proportion of households, children, and elderly under the poverty line has been rising in recent years and the monthly unemployment reports show many localities with unemployment rates between 10 and 20 percent.

The personal social services have a critical role to play at the present time. They should, above all, reflect the state's ability to assure the welfare of needy inhabitants by supplementing the universal social services. Many population groups, it turns out are unable or find it difficult to cope and their distress severely impairs their functioning, quality of life and impedes their social integration. The main groups at issue are the elderly, children at risk, teens in distress, battered wives, single-parent families (usually single-parent mothers), families in crisis, persons with disabilities, the mentally retarded, recent immigrants who have not achieved occupational and social integration, ex-convicts, drug addicts, and "street people."

The challenges that the personal social services have been facing in recent years have affected their functioning and their ability to do what they must, i.e., to respond appropriately to needy population groups. One of the prominent criticisms of the services's performance is that they manage to reach only a

portion of those in need. Accordingly, groups and individuals continue to be in distress, without aid from the state. Alternative solutions sometimes come into being in some communities as a result of local and national initiatives like donations of money and goods, assistance from volunteers, the establishment of soup kitchens, gathering and delivery of parcels of basic goods, young people who mobilize to help. This, however, is not sufficient to meet the needs of all the needy countrywide. It cannot substitute for the professional assistance of welfare professionals, usually social workers, who bring a broader perspective to their work.

This chapter begins with a general survey of the personal social services by main areas of activity, including the quantitative dimension of expenditures. Part 2 focuses on main issues in the structure and functioning of the services and their ability to fulfill their tasks. In Part 3 the discussion is expanded and several important policy recommendations are offered.

2. Main Components of the Personal Social Services

The personal social services are delivered by welfare departments and other entities of the local authorities. The highly complex system that provides these services delivers a wide variety of types and forms of assistance to diverse population groups in the community and in institutions.

The total government expenditure for the personal social services was NIS 5.3 billion annually in the past two years (in constant 2004 prices). The steady increase in expenditure that was typical of this field from the early 1990s to its peak in 2002 (at almost NIS 5.5 billion) has not continued.

Expenditure is divided into two main components. The first is long-term care benefits for the elderly: at 42–44 percent of total expenditure in recent years this is an important source of assistance for seniors in the community. The second is

earmarked for all other services for the main target population groups that use personal social services (surveyed below): the elderly (aged 65 and over), children, persons with disabilities, the mentally retarded, families and individuals in distress, youth in distress, juvenile delinquents and disengaged youth, and, in certain localities, community work in the inclusive sense of the term.

a. Services for the Elderly

An important proportion of government expenditure for social services is allocated to services for the elderly. Some 42 percent of total expenditure goes for long-term care benefits and 8 percent of the remainder (net of benefits) is earmarked for other services for the elderly. This translates to NIS 2.2 billion for benefits and NIS 220 million for other services (in constant 2004 prices).

The services are intended for the entire 65 and over population in Israel, and especially those with disabilities, those who find independent daily life difficult and those in need of constant assistance. There are special services for members of this age group who suffer from physical abuse and psychological and physical neglect, as well as those who, due to their economic situation, have housing problems, difficulty in acquiring essential appliances, paying to heat their homes in the winter, and receiving medical aid (e.g., dental care and transport to medical facilities). The personal social services try to help the elderly to stay in their homes and communities but also help those who, for various reasons such as state of health and lack of a supportive family network, prefer to move to an institutional setting.

The community-based services are meant to allow the elderly to continue living in their homes and maintaining an adequate quality of life. Long-term care, provided by law, is the

predominant service for this population group but not the only one. The main types of service follow:

Long-term care services assist seniors who encounter difficulty in carrying out various activities of daily living such as dressing, bathing, doing miscellaneous errands, buying medicines, and shopping. These services are legislated in the Long-Term Care Insurance Law. Although the National Insurance Institute is responsible for implementation, special committees in every local authority establish a basket of services to which the individual is entitled and decide which organization will deliver them. Long-term care services are provided by nongovernmental organizations as part of the government's partial privatization policy. (The topic of privatization of service delivery is discussed at greater length below.) Local welfare departments are in charge of providing home-based long-term care services for elderly who are not recognized as eligible for this service under the Long-Term Care Insurance Law.

In early 2005, about 115,000 seniors were receiving assistance under the law. When the law was enacted in 1988, only 21,000 utilized this service and the expenditure on their account was 8 percent of total expenditure. The sizable increase that has occurred since then was partially forecast but has surpassed the predictions by far. Although service use has definitely been rising, the growth rate in the numbers of recipients has been slowing in recent years.

Day centers and clubs operate in most localities and rural areas countrywide. They provide the elderly with a wide spectrum of services including, but not limited to, counseling and training in various matters, social and cultural activities, hot meals, physical activities, and occupational therapy. Most participants in day center activities are elderly with disabilities. In 2004, about 16,000 people visited some 180 day centers and social clubs.

Social clubs for the elderly operate in all urban and most rural localities. In the main, they offer their members social and cultural activities. Most of their users are seniors who visit regularly with no transportation provided by the club. In 2004, about 840 clubs operated countrywide and about 76,000 elderly took part in their activities.

Supportive communities provide support services for seniors who continue to live at home, e.g., medical emergency services, alarm buzzers, home repairs, information and counseling, and assistance by volunteers. The number of supportive communities is growing rapidly – from only seventeen in 1997 to 151 in the middle of 2005. They serve some 18,000 households.

Additional community services help the elderly who live in the community: activity clubs, respite care centers, meals-on-wheels, heating subsidy during the winter, transport to clinics or hospitals, assistance in types of medical care that are not covered by national health insurance (e.g., dental care and eyeglasses), assistance in adapting homes to the needs of the elderly, and the installation of home security devices.

Services outside the community (institutional services). The social services also help seniors who, for various reasons, move to an institutional setting. In recent years, the Ministry of Social Affairs has reserved about NIS 130 million for this purpose, using it for counseling and referral and partial or full participation (depending on economic situation) in covering the costs of life in a sheltered housing or institutional setting.

The annual average government expenditure for this form of service has been smaller in absolute terms in the past three years (2003–2005) than in the entire preceding decade – NIS 130 million as against NIS 140 million in 2000–2002 and NIS 155 million (on average) in 1995–1999.

In Israel today, some 30,000 elderly live in about 400 institutions and some 20,000 seniors live in approximately

eighty sheltered housing projects. Organizations in various localities, such as local associations for the planning and development of services for the elderly, have established community-based institutions for elderly residents of the locality.

b. Services for Children

Services for children and youth are reserved mainly for children of families in distress and those who are at risk, i.e., subject to abuse or to physical and emotional neglect. Such children are in a family environment that interferes with their sound development, education, and social adjustment. The total annual expenditure for these services is close to NIS 650 million (in 2004 prices), about one-fifth of total expenditure for social services excluding long-term care benefits. Several main components are included:

Special programs for at-risk children, including emergency centers for children removed from their homes due to exposure to physical violence and psychological neglect. In 2004, eighteen centers operated in several localities around the country and received children who were referred from other localities as well. Some children who cannot be left with their families are referred to residential facilities or foster homes. Responsibility for the care of children at risk is entrusted to social workers, some of whom serve as welfare officers who are authorized to enforce various laws for the protection of these children.

Most localities offer **programs for children in families in distress** in order to help the children and contribute to their sound development. These programs pair children with caregivers; run day care settings that operate before and after school hours; multipurpose day centers where preschoolers stay until evening; day and afternoon care centers where children stay after school; family-style care centers where preschoolers

spend the whole day; and play centers. The establishment of a psychiatric counseling service has been proposed. In 2004, these programs served some 60,000 children in the community at an expenditure of approximately NIS 200 million. Slightly more, in real terms, was spent on these services in 2005.

Services outside the community (institutional services). There are situations in which children are subject to severe abuse and physical and emotional neglect and should not continue to live at home. The local welfare services refer these children to settings outside the home, including residential facilities and foster homes. The expenditure for these services accounts for 65 percent of total expenditure for services for children, less than the 70 percent level of previous years. The government allocates annually more than NIS 400 million for the institutional care of children, with a noticeable downward trend since 2000.

Importantly, there is a clear trend toward community services. An attempt has been made, especially in the past two years, to minimize the number of children referred to institutions. Concurrently, efforts are being made to return children who have been staying in institutions to the community and to strengthen relations between children in institutions and their families. In recent years, several localities have even established community-based residential facilities, to which children whose families live in the same community are placed. Although these children have been removed from their homes, they continue to live near their families and remain in touch. The intention is to expand the number of these residential facilities in the next few years. In 2004, some 11,000 children were in institutions and about 1,500 were living in foster homes.

c. Services for the Mentally Retarded

NIS 764 million (in 2004 prices) was earmarked for services for the retarded in 2005. The expenditure for this population group

has been rising consistently over the years. The services, directed towards people who have been recognized as mentally retarded, respond with community-based and institutional solutions, depending on their clients' needs and abilities. Some 86 percent of expenditure goes for institutional care and 14 percent to community-based programs. The share of expenditure reserved for the community is higher than ever, reflecting a steady long-term upward trend in favor of funding for community-based programs and care giving. Community-based services for the retarded represented 9 percent of total expenditure in the early 1990s, 11 percent in 1995–1999, 12 percent in 2000–2004, and, as stated, 14 percent in 2005. In absolute terms, annual expenditure climbed from only NIS 75 million in the early 2000s to more than NIS 100 million in 2005 (in constant 2004 prices).

The **community-based services**, meant for mentally retarded who live with their families, include diagnostic centers, therapeutic day centers, nursing and rehabilitative hostels, and care centers for preschoolers (to age 3), in some of which the toddlers stay until the evening. Services for the retarded and their families include social clubs, respite care centers, employment rehabilitation centers, and caregiver services. These services reached 14,500 people in 2004, up from 13,000 in 2000.

Institutional (away-from-home) services include care centers, foster homes, and hostels in the community. In 2004, about 8,500 mentally retarded lived in these facilities, as against 7,500 in 2000. The government expenditure for the residents of these institutions has climbed over the years, from NIS 530 million in 2000 to NIS 650 million in 2005 (in constant 2004 prices).

d. Services for Persons with Disabilities

Responsibility for care of and assistance to persons with disabilities in Israel rests mainly with two authorities: local welfare departments and the National Insurance Institute. The welfare departments care for those whose disability is related to physical illnesses, deafness, blindness, and organic disorders such as brain damage and learning disabilities. National Insurance takes care of casualties of traffic accidents and enemy action. The Ministry of Defense is also involved, caring for disabled veterans and the families of those killed while serving in the military.

The Ministry of Social Affairs spends about NIS 400 million per year for care of persons with disabilities. Most of the disabled are treated in the community and most of the expenditure (about 70 percent of total expenditure for persons with disabilities) is for them. Other disabled, however, live in institutions (residential facilities). While most expenditure is directed to the community, it is noteworthy that the share of the community in expenditure for the disabled was actually higher in previous years. Thus, in recent years allocations for the institutionalized disabled have increased more quickly than those for services in the community. Since 1995, the share of allocations for institutions has risen considerably and the absolute level of expenditure for the institutionalized disabled has also been increasing.

Community-based services for children with disabilities include diagnostic centers, day and family-style care centers, special camps at vacation time, and personal escorts. Adults with disabilities have diagnostic centers; social clubs; centers for training, supplemental schooling, occupational rehabilitation, and employment counseling and placement; and supported and sheltered workshops. Persons with specific disabilities, such as the blind and the deaf, receive special services. In 2004, some

10,000 persons obtained vocational and occupational rehabilitation services.

Services outside the community include residential centers, foster homes, hostels, and sheltered housing, which together served about 2,300 persons in 2004. The government expenditure for the care of the institutionalized disabled was NIS 116 million in 2005, slightly less than in 2004 but larger in real terms than in all earlier years. Spending for these services has been rising gradually since 1990, especially in regard to the financing of nongovernmental institutions.¹

e. Services for Families and Individuals

These services are for parents who lack the skills or ability to raise their children, single-parent families in economic distress, families and individuals who have difficulty accessing entitlements without assistance, households in various states of crisis due to violence, loss, illness, unemployment, imprisonment, disability, or addiction, families and individuals who lack basic housing (“street people”), and lone elderly.

The services include counseling and training in family life, assistance with family-affairs courts, special centers for the treatment of domestic violence issues – including special hostels for behavioral interventions with abusive men and shelters and halfway houses for battered wives and their children – paraprofessionals who enter the homes of families in distress and train them in child rearing and pedagogic techniques, a family violence hotline, household budget management workshops, and training programs to strengthen parenting skills and couples counseling. Special centers help single-parent households and provide direct assistance in matters such as convalescence and respite after illness, purchase of basic

¹ See discussion below on the privatization of service delivery.

household appliances, and money for various medical necessities that are not covered by national health insurance.

In recent years, new programs focusing on multiple problem families in severe distress have been developed in several localities. There are no data about the extent of these services and the number of families served, but some evidence suggests that the services are reaching only a few of the families in need. For example, the *Yachdav* program, which aims to improve and strengthen mothering skills, has established sixty groups of women in only forty localities. The *Dror* program, designed to strengthen multiple problem young families at the beginning of their careers, is active in ten localities and cares for only 150 families.

f. Corrective Services for Youth and Young Adults

Corrective services include treatment, social supervision, rehabilitation, and preventive services for juvenile delinquents and treatment and preventive services for teens and young adults in distress, and for those at risk for deviant and criminal behavior.

The main target population is composed of teenagers who neither attend school nor hold jobs, those who do one or both but on an irregular basis, and teens who frequent non-normative social settings and exhibit asocial behavior. Many members of this population group come from families characterized by violence, acute unemployment, poor health (mainly among parents), and hardships related to immigration. Some have already had problems with the law. Others suffer from homelessness, drug abuse, psychological problems, and/or learning disabilities. Many have been released from prisons or halfway hostels and have been rejected by the Israel Defense Forces.

The ministry earmarks NIS 225 million (in 2004 prices) for these services. This level of expenditure has been steady in the

past four years (since 2002) but is 12.5 percent higher than the 2000 level and twice as large, in absolute terms, as in 1995. The services are divided between community-based services (60 percent of total expenditure in 2005) and institutional services, for which the Youth Protection Service is responsible.

Most of the increase in spending in recent years has been addressed to community-based treatment, prevention, services for girls in distress, and youth probation services.

The Youth Probation Service, a national governmental service, cares for teens and young adults who have violated the law. The expenditure for this service, nearly NIS 70 million (in 2004 prices) accounts for 30 percent of the total expenditure for corrective services in 1999–2005.

Other teens in this population group are served by local welfare and education departments. These offices run social clubs, provide personal counseling and treatment, help clients enroll in programs of study, vocational training, and employment, refer clients to treatment, provide legal aid and material support, and develop training programs such as workshops in employment seeking, daily living skills and preparation for military induction. They also train sports instructors, sponsor community theater groups, and operate counseling centers for matters such as sexual relations and personal problems. The service includes special cafés for teens and shelters for homeless youth.

Girls in distress may avail themselves of special community services that provide individualized and group counseling and treatment, halfway houses for girls in need of intensive assistance, and shelters for the homeless. The expenditure for these services, which stand out in particular among the expenditure items for corrective services, has been rising in recent years: from only NIS 15 million in 1995 to NIS 21 million in 1998, NIS 33 million in 2003, and NIS 40 million in 2005. However, the data on the number of teens who receive

these services are incomplete, and various sources, such as reports of the State Comptroller, indicate that only a small proportion of those in need are reached.

g. Services for Other Population Groups

Additional services include treatment for drug and alcohol abusers – diagnosis, withdrawal programs in the community and elsewhere, continuing care, and monitoring after the withdrawal phase so that those undergoing withdrawal can “stay clean” and fit into the community, and services for the homeless, mainly in Tel Aviv-Yafo. The last-mentioned service provides temporary accommodations, food, personal care, counseling, information and assistance in obtaining permanent accommodation, and special services for ex-convicts, recent immigrants, and foreign workers (mainly in Tel Aviv-Yafo), including counseling and information.

h. Community Work

Community work, employed in almost all localities in Israel, is meant to make the community better able to cope successfully with its social and economic problems. It focuses largely on detecting needs of various population groups, forwarding information about them to the relevant social services, planning and development of services meant to respond appropriately to various needs, encouraging community-based service organizations to change in order to perform better and respond more effectively to the population's needs, enhancing families' and individuals' awareness of rights and available services, promoting the establishment of local volunteer organizations for service delivery and advocacy activity to warn about the existence of unmet needs, and demanding that the service systems deal with them suitably.

Community work acts to empower inhabitants of the community and enhance their participation in policymaking and

planning of the social services that are meant for them, to strengthen cooperation among community organizations, and to reinforce community solidarity and inhabitants' willingness to contribute to their community.

All social service players in the community – local welfare departments, volunteer organizations, and the private businesses that deliver much of the social services – are involved.

3. Main Issues in the Social Services

This survey of the personal social services points to several principal issues that demand attention. These issues are described briefly below and several are examined later at greater length.

- a. **Personal social services are involved in a wide range of needs and problems of the client population groups.** They assist many population groups that constitute society's weakest and most vulnerable links. They face the continual challenge of distinguishing among diverse needs, some of which are highly urgent and in need of immediate response, and establishing priorities in service allocation. The critical question in this context is whether Israel has a policy that establishes priorities and, if so, how is it determined?
- b. **Resources do not suffice.** The population groups that need help from the social services are growing steadily. This increase is linked to demographic changes, the economic decline of many households, immigration, and rising public awareness. The level of resources available for these services does not reflect this increase. Central government has reduced its expenditure for some types of service and most local authorities have also cut their welfare spending. This makes it difficult for the service system to respond adequately to its customers, especially poor families, children, and youth.

- c. Many national and local organizations are involved in service delivery.** The entities that play a role in providing personal social services include several government ministries and their various divisions, local authorities, and a profusion of volunteer organizations and businesses. Informal support systems such as self-help groups are also involved. The privatization of the delivery of many state and local social services is causing the proliferation of organizations. This has various implications – some favorable, such as an increase in the supply of services and in possibilities of consumer choice, and some negative, such as the emergence of fierce competition and lack of coordination among organizations. Thus far, insufficient attention has been devoted to the implications of the phenomenon and ways of coping with it. (The phenomenon and its repercussions are discussed at length in the Taub Center’s 2004 Annual Report)².
- d. Relations between the Ministry of Social Affairs and the welfare departments.** The main characteristic of these extremely complex interrelations is vagueness about the division of labor and powers. The situation affects the complexion and functioning of the local social services. (See Part 3 for a broader discussion of the issue.)
- e. Privatization of the delivery of social services.** Rapid privatization of social services has taken place in recent years, with responsibility for the delivery of many governmental and local services entrusted to nongovernmental organizations. The process raises many questions about how various aspects of the social services are being affected – interrelations among organizations, quality, professionalism, equality, continuity of delivery, etc. Even as the central and local authorities continue to encourage and

² Kop, Y. (ed.), 2004, *Israel’s Social Services 2004*, The Taub Center for Social Policy Studies in Israel, Jerusalem, November.

implement this process, no systematic assessment of its effect on the personal social services has been performed thus far.

- f. Legal infrastructure of the social services.** There are differences among social services in the nature of their legislation. Some are anchored in enabling laws, others in protective laws, and yet others in no law at all. This has major implications for the extent and quality of the services that different population groups receive.
- g. Inequality among localities in the extent and quality of social services.** Inequality among localities in the extent and quality of services traces to various factors: uneven participation of central and local authorities in local welfare budgets, differences in the number and activities of volunteer organizations in different localities, and different local attitudes toward the development of the social services. The inequality is especially obvious between Jewish and Arab localities but is also evident among localities within the Jewish sector. This situation is inconsistent with the principle of equitable service for individuals and families that have crucial needs, irrespective of their place of residence or ethnic group.
- h. Involvement of the social services in the war on poverty.** Israel's high poverty rates are a major social problem. Although some of the many problems of concern to the local welfare services are the result of poverty, the services are, for the most part, not involved in developing and implementing programs that focus on the causes of poverty. In recent years, for example, few welfare departments have developed projects that help the unemployed find and hold jobs. It is appropriate to ask how the welfare departments can play a more central and meaningful role not only in treating poverty but also in extricating individuals and families from the cycle of poverty.

i. Disparities among services in scope and development.

Over the years, discrepancies have developed in the scope and growth of different types of social services. When services for different population groups are compared, several indices illustrate the gaps: size of budget, size of staff, extent of service, and rate of service development. These disparities are not linked to differences in the importance and urgency of the needs of various population groups but to other factors. For this reason, the fact that they have developed requires examination.

j. In-kind and in-cash services. The patterns of government expenditure for various social concerns reveal a large disparity between expenditure for benefits (in-cash services) and expenditure for direct (in-kind) services. This phenomenon is encountered in services for the elderly, children, and persons with disabilities. For example, expenditure for children in 2005 was NIS 4.5 billion on account of child allowances (an in-cash service) and NIS 640 million for in-kind services. The question is whether it would not be desirable to change the ratio and invest more in the latter.

k. Community-based services vs. institutional services. The Ministry of Social Affairs long ago adopted a policy of favoring the community-based services. The implementation of the policy is firmly reflected in the decision to limit children's stay in institutions and to the use of the resources saved (i.e., not transferred to the institutions) for the development of services in the community. The challenges to this decision, expressed by professionals and others, point to the need for further debate on this issue as a basis for establishing a clear policy in this field.

l. Activity in a change-intensive environment. The social services operate in an environment characterized by economic, cultural, value, and political changes that affect

the resources available to them and their ability to do their job adequately. In view of these changes, the deployment of the services requires continual changes in structure and *modus operandi*.

m. Scanty consumer involvement. Although the system of social services is overflowing with organizations, few of them represent consumers and express their needs. Thus, the influence of consumers themselves on the social services is limited.

Below is a brief discussion of three of these issues.

a. Division of Labor and Powers between Central and Local Government

The main providers of social services are welfare departments that operate within local authorities as required by law. Nonprofit organizations and private businesses are also involved in the direct delivery of services. Most of the funding comes from central government, via the Ministry of Social Affairs' earmarked participation in local welfare budgets.

Government participation is supposed to cover 75 percent of the local welfare budgets; the rest is funded by the local authorities from their own sources and grants that most of them receive from the Ministry of the Interior. The Ministry of Social Affairs claims that it bases its allocations to local authorities on standard criteria that take account of the local population's economic, social, and demographic characteristics.

The welfare budget of each local authority includes a detailed breakdown by main items and sub items. The authority must act on the basis of the budget items and may not transfer money from one item to another. An authority that overruns its budget under a given item has to make up the difference from its own sources. Government participation in local budgets is provided on a graduated monthly basis. The authorities' financial activities are monitored by supervisors who work at the four

district bureaus of the Ministry of Social Affairs and at the head office.

This method of budgeting and monitoring gives the government a great deal of control over the local authorities' welfare activities. Local authorities are, however, allowed to pledge additional funds – from their own sources and other sources – to the social services. Indeed, many authorities augment their welfare budgets by more than 25 percent from their own sources. The rates of local participation in welfare budgets vary among localities and from year to year.

The government influences the activities of local welfare departments not only by its funding role but also by its responsibility for the implementation and fulfillment of social legislation. The laws dictate the welfare departments' activities in fields such as the protection of children at risk and prevention of domestic violence, to give only two examples. Although the local authorities carry out the services set forth in these laws, it is the central government that appoints and supervises the workers who implement the laws (the welfare officers).

The directives in the Social Workers' Regulations provide central government with another way of guiding the local welfare bureaus' activities. The directives, sent periodically to all welfare bureaus by the Director General of the Ministry of Social Affairs, reflect the Ministry's policies, guidelines, and requirements as to the structure, functioning, and services of the local bureaus and their staff. The regulations underlie many professional and administrative decisions that are made and implemented at the local level.

This division of labor between central and local government has several effects:

- 1) Local authorities are responsible for a wide variety of services but lack full control over the design of the services and most of the resources needed to implement them. Central government, in contrast, is responsible for most resource

allocation for these services and determines much of the local welfare bureaus' ways of operating; however, it is not responsible for delivery. The result is a great deal of ambiguity and, at times, friction in relations between the sides.

- 2) Central government officials insist that they distribute local welfare budgets on the basis of standard criteria that aim to assure fair and equitable allocations among localities. Evidently, however, other factors are involved: political and professional relations between local and central government, local initiatives that receive central government subsidies, local pressure on the central government, and allocation patterns that have become set over the years. For these reasons, disparities in the level of central government participation, some of them large, have come about.
- 3) Differences in levels of local participation in funding the budgets are causing gaps among localities to widen. Several factors explain the variance in local participation, including local leaders' welfare policies; the economic strength of the local authority and its ability to raise money from private sources; and the status, influence, and entrepreneurial proficiency of local welfare bureaus and other local players.

Thus, the current division of labor between central and local government in handling the personal social services is burdened with problems that affect the functioning of the local welfare departments. One of the main issues, for example, is whether local authorities should be given autonomy in the management of social services, liberating them from their dependency on central government. There are arguments for and against. (See Table 1 below.)

The debate about the division of labor and powers between central and local government in the welfare field is intricate; it touches on questions of principle and practice that lie at the heart of today's debates over the image of the Israeli welfare

state and the role that the local social services should play. This issue has been discussed in the past and should be made central in discussions over the shaping of a system of local social services that will be able to cope better with the many challenges that it faces.

Main Recommendations

- 1) Give autonomy to local welfare departments in which the political and professional leadership is willing to accept autonomy at a high professional level, enjoys sizable local participation in its budget, and has a well developed network of local social-service organizations.
- 2) Expedite the introduction of a standard package of social services, legislated and paid for by the state. This will standardize the level of basic social services in all localities and allow local authorities to develop services beyond the basic package. (See below for broader discussion.)

Table 1. Local Autonomy in Social Services – Pros and Cons

Pro	Con
<ul style="list-style-type: none"> • Autonomy reflects the community approach by positing that the local community knows the inhabitants' needs best and, therefore, can develop services and set priorities and operating programs that will meet these needs appropriately. • Most local welfare departments have developed local leadership (sometimes originating in public organizations) and experienced staffs that are interested in, and capable of, assuming responsibility for the shaping and stewardship of services. • Local autonomy helps to encourage local entrepreneurship, reflected in the development of new services and the raising of resources to pay for them. • Reducing local authorities' dependence on central government may encourage the authorities to assume more responsibility and use their resources more efficiently. • Local autonomy may further the development of relations between community organizations and encourage 	<ul style="list-style-type: none"> • Meaningful central government involvement in the management of local services makes it easier to craft and apply national standards that allow for greater equity in social services particularly those that are important to needy population groups that live in different localities. It also prevents large disparities among localities that are in part the result of differently sized allocations of local resources and differences in the attitudes of local leaders toward social service issues. Thus, local autonomy may be especially harmful to weak localities that lack an adequate economic and organizational infrastructure. • Local autonomy may impair the state's responsibility for social affairs and encourage the adoption of a socioeconomic policy that favors cutting central government social spending. • Central government involvement in local social services may strengthen the local welfare departments <i>vis-a-vis</i> other local players that wish to reduce local welfare expenditure. • Central government influence may make it easier for some localities to develop joint services at a regional level.

greater consumer
involvement.

b. Crafting and Legislating a Standard Basket of Social Services

Local social services are anchored in a large number of laws. The legislative infrastructure includes the Welfare Services Law (1958); the Youth Care and Supervision Law (1960); the Prevention of Family Violence Law (1961); the Legal Fitness and Guardianship Law (1962); the Protection of Wards Law (1966); and the Long-Term Care Insurance Law (1996).

These and other statutes address themselves to a wide variety of fields, such as home-based care for seniors with disabilities, care for children at risk, aid for battered wives, care for the mentally retarded and persons with disabilities, protection of hostel tenants, and care for youth at risk. Despite the broad scale of needs and problems that these laws address, many areas of social services still lack a legislative infrastructure. Principal among them are home-based care services for elderly persons whose eligibility is not recognized by the Long-Term Care Insurance Law, assistance of various kinds for the needy (transport to medical care, provision of basic appliances, home renovations, etc.), and alcohol and drug addiction treatment services.

Many needs that are overlooked by legislation seem to be no less critical than those to which the laws respond. Most of the laws at issue are protective, i.e., they require the provision of assistance to a population group in need (at-risk children, battered wives, etc.) but rarely specify exactly what services are to be provided.

The expansion of legislation to additional areas of need and the clear demarcation of the resulting standard basket of services are central issues on the agenda of various government and professional entities. Some of these players favor the expansion

of social legislation and the establishment of a generous basket of social services that would meet a wide range of needs. Others frown on this course of action, believing that the passage and implementation of new laws should be avoided and that an effort should be made to narrow the extent of existing statutes.

The main advantages and disadvantages are presented in Table 2 below. They encapsulate many debates that have been held on the topic.

Table 2. Advantages and Disadvantages of an Inclusive Legislated Basket of Social Services

Advantages	Disadvantages
<ul style="list-style-type: none"> • It expresses the state's commitment to meeting the population's vital needs adequately. • It delivers services to those in need on an equal and standard basis, regardless of place of residence and religious / social / cultural affiliation. • It broadens coverage for the populations in need. • It makes citizens more aware that the availability of services attuned to their needs is a basic entitlement. 	<ul style="list-style-type: none"> • It introduces rigidity in an area that requires flexibility (a wide variety of population groups and needs). • It changes the <i>modus operandi</i> of social workers, making them into implementers of various laws and procedures and detracting from their ability to make decisions based on professional discretion. • It makes citizens more dependent on state and local services. • It may cause welfare departments to center their activities on these services and be less active in services that are not included in the basket.

Thus, the expansion of legislation and the crafting of an inclusive basket of social services may address several of the main problems that the social services face, e.g., inability to reach many population groups in need, including children and youth at risk, and under-participation of needy individuals and families in programs of proven effectiveness (such as *Dror* and *Yahdav*, which serve families at risk).

In contrast, the basket of home-based nursing and care providing services that are delivered by law covers practically all elderly persons who are eligible for them. These services and the way they have developed, however, seem to support several arguments raised by the opponents of broader legislation, specifically those pertaining to a large increase in government spending and the diversion of resources to the issues that the legislation addresses. Thus, 40 percent of total social service expenditure goes to long-term care services. If additional social services are legislated, total expenditure for personal social services will definitely have to increase. This means that the full implementation of a basket of social services would be slowed due to the extent of resources that would be required.

Recommendations: In order to promote appropriate services within the limitations of the budget earmarked for social services, the goal should be the gradual implementation of a basket of services for additional population groups, such as children, using some of the resources that become available through the reductions in child allowances. As the legally mandated basket of services is being implemented gradually, care should be taken not to harm vital services not yet protected through legislation.

c. Privatization of Personal Social Service Delivery

In recent years, the privatization of social service delivery has been gaining momentum at both the central and the local levels. Nongovernmental organizations, including public nonprofit

institutions and private businesses, are becoming central in the delivery of services. With respect to the elderly, NGOs provide most institutional and community services, including home-based nursing care, day centers, supportive communities, and social clubs.

A similar picture emerges in services for children, youth, persons with disabilities, and the mentally retarded. Almost all institutional services for these population groups are owned by nonprofit organizations and private businesses. NGOs also provide community services, family-based daycare facilities, afternoon preschools and fostering services, emergency centers for care of children at risk, parent-child communication centers, and clubs and hostels for the mentally retarded and persons with disabilities.

The strength and significance of this process is also reflected in the fact that most of the government budget for personal social services is used to pay the NGOs that serve, practically speaking, as the government's agents in delivering the services. However, central and local government still perform the functions of supervision and regulation of the services due to their funding role and their involvement in shaping program content, determining eligibility, and monitoring the organizations' performance.

The central role of the privatization process in the delivery of personal social services calls for exploration of the key issue: should the process be expedited, expanded, and applied to additional social services that are still being delivered by central and local government, or should it be halted or downscaled and general government be made more involved in delivery? Table 3 explains the reasoning of the exponents of both approaches.

Table 3. Advantages and Disadvantages of Privatization of Service Delivery

Advantages	Disadvantages
<ul style="list-style-type: none"> • It promises fewer failures of the sort that are typical of governmental organizations (politicization, bureaucratization, inefficiency, etc.). • It gives consumers the possibility of choice. • It promises higher-quality service due to competition among providers. • It promises more efficient delivery of services. • It offers less expensive service delivery, allowing the government to reduce its expenditures. • It offers citizens a wider scale of service, as additional organizations enter the scene. • It allows the community to fulfill its latent social potential (volunteers and volunteer organization). • It lets government organizations concentrate on policymaking, control, and coordination and absolves them of the burden of service delivery. • It augments the resources available (money and volunteers). 	<ul style="list-style-type: none"> • It sets the government down the path of becoming uninvolved in social services. • It carries the threats of limited competition or fierce competition among service providers. • It limits the possibilities of consumer choice. • The proliferation of organizations results in a complex and factionalized system, typified by service redundancy and difficulties in coordination and control. • It results in poor wages and working conditions for service providers' staff (one of the main explanations for the decrease in service cost). • It may result in an increase in service cost due to an increase in staff at the government offices that deal with regulation and coordination, and due to pressure from service providers that charge more for their services. • Unwillingness of NGOs to deliver governmental and local services. • Service delivery by NGOs may not be stable and continuous. • The unique features of volunteer organizations and private businesses may erode. • Government ministries and local authorities may not be fully able to apply regulation and control in an area that is so cluttered with organizations. • The professional role of welfare department staff will change in

material ways that will impair their job satisfaction.

The arguments for and against the privatization of services elicit several questions that deserve attention:

- How able are the NGOs to deliver central and local services on a broad scale and to maintain service over time?
- How successful are the NGOs in delivering services to those eligible for them?
- How equitably are the services allocated in terms of center vs. periphery?
- How is privatization affecting consumer choice?
- What quality of services are the NGOs providing?
- Is privatization really enhancing competition among the organizations? If it is, what kind of competition is it stimulating?
- Are the services delivered by the NGOs cheaper than those provided by central or local government?
- How is privatization affecting the supply and diversity of services?
- How is privatization affecting the role and strength of the organizations involved in it – government ministries, local authorities, volunteer organizations, and private businesses? Is it changing the accepted patterns of operation?
- How is privatization affecting the staff of the welfare departments and its roles?
- How is proliferation of service providers affecting the social service system?

Studies that examined the results of privatization of community and institutional nursing services for the elderly and institutional services for the mentally retarded provide a partial answer to these questions. While the picture they present reinforces many of the arguments in favor of privatization, various reports also point to several risks that arise when such a policy is implemented.

Recommendation: Since privatization is so central an element in the development of the personal social services, it requires systematic examination that will make it possible to establish a clear and consistent policy in this field.

Transfer Payments – The National Insurance Benefits

1. Benefits and Social Policy

Transfer payments from the National Insurance Institute are a mainstay in government intervention to reduce economic inequality and poverty. They are administered largely in the form of financial support that recipients may use in accordance with their needs and preferences. Some benefits (old-age benefits and child allowances) are given universally; others (e.g., income maintenance and unemployment compensation) are only for those who meet set criteria and eligibility tests. In recent years, benefits have been eroding as the government strove to cut its budget generally and its social budget specifically. The most significant cutbacks have been in benefits for the working age population: child allowances, income maintenance, and unemployment compensation. During the review period, long-term care benefits, alimony payments, maternity grants, and workers' injury compensation were partly reduced, whereas disability benefits were hardly affected.

Above and beyond legislative changes, two factors have affected the trend in social transfer payments in recent decades: changes in demography and in the labor market.

The main **demographic developments** were immigration waves and the increase in life expectancy, which has lowered the proportion of children in the population and raised that of the elderly. Rising rates of divorce and single-parent households have led to larger outlays for benefits for these groups (alimony payments and income maintenance). Mass immigration, the relative high rate of elderly and single-parent households and

the relative low number of children among the immigrants, difficulties in social and occupational integration, and the failure of members of these groups to accumulate employer pension rights have all contributed to rapid growth of the population of recipients of unemployment compensation, income-maintenance, and old-age and survivors' benefits.

The **labor market developments** relate to the slowdown in economic activity (from the mid-1990s onward), the global economic downturn, and the *intifada* in Israel, which together dropped the domestic labor market into a slump. The falling labor participation rates and the rising unemployment rates were partly attributable to processes related to the shrinking of traditional industries due to import liberalization and the admission of large numbers of foreign workers, which caused the proportion of non-Israeli workers in the business sector to rise steeply. These developments were most harmful to the relatively poorly educated and poorly skilled, who by claiming unemployment and income-maintenance benefits widened the circle of benefit recipients.

The benefit eligibility rules, including employment tests for recipients of unemployment and income-maintenance benefits and the criteria for disability and long-term care benefits, had been eased in previous years – especially in the first half of the 1990s – which contributed to the growth of the recipient population. The welfare policy reform in 2002–2004 stanching the rise, and limited it to the rate of natural increase, and changed the distribution of benefit payments.

The toughening of eligibility rules and the cutbacks in National Insurance benefits have made transfer payments less effective in reducing poverty. Thus, only 40 percent of the poor were raised above the poverty line by transfer payments by 2004¹ as against 43 percent in 2003 and 47 percent in 2002. The

¹ National Insurance Institute, August 2005.

impact of the changes will be reflected more fully in the data for 2005 and subsequent years.

2. Benefits – Recipients and Outlays

An estimated 2.5 million Israelis receive at least one form of benefit from National Insurance; some receive more than one. The growth rate of the recipient population continued to slow in 2004. This slowdown was not uniform and was very high among recipients of unemployment compensation and income-maintenance (in which the absolute number of recipients decreased). The rate of increase in recipients of long-term care and disability benefits declined somewhat. In contrast, the population of recipients of old-age and survivors' benefits grew at a faster rate than previously and the growth rate of child allowance recipients rose and returned to that of 2002.

Estimates for 2005 suggest that the rising trend in the number of disability benefits recipients has resumed, the growth rate in child allowances and income-maintenance has leveled off at its current (low) level, the growth in old-age, survivors, and long-term care benefits has slowed, and the population of unemployment compensation recipients has stopped shrinking.

Total National Insurance benefit payments were NIS 41.8 billion in 2004 and are expected to come to NIS 42.4 billion in 2005, a nominal increase of 1.4 percent. Comparing total programmed transfer payments in 2005 with those in previous years, there is a 4.9 percent decrease relative to 2001 and an 8.4 percent decline relative to 2002. Notably, however, the real level of total benefits, controlling for population increase, was higher in 2005 than in the first half of the 1990s, even though most benefits have failed to keep up with the average standard of living since 2001. (See the chapter on Government Expenditure for Social Services).

**Table 1. Recipients of Main National Insurance Benefits,
1990–2000*** (Monthly average, thousands)

Year	Child allow- ances**	Old-age/ survivor	Long- term care	Dis- ability	Income main- tenance	Unem- ploy- ment
1990	532.5	450.8	27.7	73.5	31.8	50.6
1995	814.7	553.8	59.0	94.0	75.3	61.5
2000	912.5	657.1	95.8	135.3	128.4	92.6
2001	928.2	677.0	105.4	142.4	142.0	104.7
2002	935.0	692.9	112.3	150.5	151.2	96.9
2003	939.1	709.3	113.0	157.3	155.5	70.8
2004	945.6	722.3	113.4	162.4	145.3	58.7
2005	953.2	720.2	114.5	171.5	144.5	54.0
2001	1.7	3.0	10.0	5.2	10.6	13.1
2002	0.7	3.1	6.5	5.7	6.5	-7.4
2003	0.4	3.2	0.5	4.5	2.8	-27.0
2004	0.7	3.5	0.4	3.2	-6.6	-17.1
2005*	0.8	-0.3	1.0	5.6	-0.5	-8.0

Source: National Insurance Institute, 2005.

* The data for the first half of 2005 were calculated as an average for January–June 2005 and are based on the Statistical Quarterly of the National Insurance Institute, Research and Planning Administration, July 2005.

** Recipient households.

**Table 2. Benefit Payments, By Main Types of Benefits,
1990-2005 (NIS millions, current prices)**

Year	Child allow- ances	Old-age/ survivors	Long- term- care	Dis- ability	Income main- tenance	Unem- ploy- ment	Total pay- ments
1990	1,650	3,323	225	840	247	544	8,813
1995	4,249	7,565	745	2,165	1,104	1,242	20,868
2000	6,942	13,483	1,790	4,962	2,874	2,958	38,912
2001	7,575	15,197	2,142	5,901	3,494	3,512	44,571
2002	6,720	15,450	2,504	6,805	3,699	3,533	46,291
2003	6,088	15,551	2,463	7,063	3,242	2,428	43,875
2004	4,794	15,780	2,472	7,107	2,928	2,118	41,794
2005	4,508	16,300	2,515	7,478	2,820	1,992	42,368
Annual percentage change							
2001	17.0	34.1	4.8	13.2	7.8	7.9	
2002	14.5	33.4	5.4	14.7	8.0	7.6	
2003	13.9	35.4	5.6	16.1	7.4	5.5	
2004	11.5	37.8	5.9	17.0	7.0	5.1	
2005	10.6	38.5	5.9	17.6	6.6	4.7	

Source: National Insurance Institute, 2005.

* The total does not add up to 100 percent because the table shows data only for selected benefits each year.

The three main types of benefits – old-age and survivors, child allowances, and general disability – account for about two-thirds of total benefits today as against 70 percent a decade ago (1995). The decrease originates in a marked decline in the share of child allowances, from one-fifth of total payments in 1995 to about one-tenth in 2005, whereas there was a steady and prominent rise in the proportion of disability and old-age benefits during the decade. The share of unemployment compensation also fell significantly, that of income-maintenance

benefits shrank somewhat, and that of long-term care benefits rose moderately. From a different perspective, one can point to a striking reduction in benefits to the working-age population between 2002 and 2005: unemployment compensation outlays fell by 44 percent, income maintenance by 24 percent, and child allowances by 33 percent.

The analysis that follows examines the developments in the four main benefit categories: those for the elderly, including old-age, survivors, and long-term care; those for persons with disabilities, including disability and rehabilitation benefits; those that attempt to assure the basic needs of populations who lack other sources of income – income-maintenance and unemployment compensation – and those related to children's welfare, i.e., child allowances and alimony payments.

3. Benefits for the Elderly

a. Old-Age and Survivors' Benefits

All elderly persons (men from age 70, women from age 65) and their survivors are eligible for basic old-age benefits. For those who retire from work the benefits begin five years earlier. Furthermore, the low-income elderly receive a higher pension. In all, 720,000 people receive old-age and survivors' benefits each month (average). Most of them (89 percent) receive old-age pensions; the rest are survivors of old-age benefit recipients. Some 13 percent of beneficiaries (mostly immigrants who settled in Israel after age 60) did not accumulate benefits under the National Insurance Law; the government covers their benefits. Outlays for old-age and survivors' benefits increased by 1.9 percent in 2004 (in constant prices), mainly due to the increase in the recipient population, and accounted for 38.5 percent of total NII benefit payments.

The annual rate of increase in the number of beneficiaries has been slowing, mainly because the retirement age was raised in

2004 and the number of recipients of special pensions – mostly immigrants, whose numbers are diminishing as immigration has slowed in recent years – has been falling. The old-age pension was cut by 4 percent in June 2004 (although the cutback was not applied to recipients of old-age *and* low-income supplementary benefits and/or to their survivors). Furthermore, since the indexation of benefits was changed from the national average wage to the Consumer Price Index, the value of the pensions has decreased by 8.4 percent in average real terms since 2001. The latest legislative changes, made in July 2004 – the raising of retirement age, which led to the raising of the age of eligibility for old-age benefits – coupled with the earlier cutbacks and changes, led to continued erosion in the benefits and in the level of income of the elderly, especially among those whose incomes are the lowest.

The purpose of old-age benefits is to assure the elderly population an adequate standard of living. This goal has become difficult to attain; about one-fourth of Israel's elderly were under the poverty line in 2004, up from 22 percent in 2003. To analyze the situation, it is important to examine two main frameworks that strive to ensure the well-being of the elderly in their later years: National Insurance old-age benefits and employer pensions.

A typical pension system is a three-tiered mechanism:

Basic tier – social insurance (in Israel, the Old-Age and Survivors' Division of the National Insurance Institute). Since this tier is legislated, it encompasses most of the target population. (The issue of benefit claimants is discussed below.)

Second tier – employment-based pensions (secured in labor accords). In Israel, only some of the elderly have this coverage: only about one-third of retirees and about half of those who reach retirement age today.

Third tier – private pension plans. Since very few Israelis are insured at this level, quite a few of the elderly need to

augment the standard old-age benefits with an income supplement allowance (which is given to all persons eligible for old-age benefits whose other incomes fall short of a certain threshold). Until the early 1990s, the proportion of old-age benefit recipients who were entitled to income supplement had been declining gradually due to the growing number of elderly who retired from places of employment that had made pension arrangements. The arrival of many new pension age immigrants who had not accumulated pension rights from their jobs, however, brought the trend to a halt. For the same reason, the share of elderly who receive a supplemental benefit for having deferred their retirement has been falling.

For many in Israel, retiring under current conditions lowers their standard of living and increases the burden on the state's resources. Most countries that contend with this issue have attempted to resolve it in four ways simultaneously: reducing retirement benefits, raising the retirement benefit contribution, raising social insurance contributions, and raising the retirement age. The preferred policy stresses incentives to defer retirement and strengthen the tier of employment-related pension by making contributions compulsory under law.

Israel has taken several measures to lighten the economic burden of pensions. As part of its socio-economic policy in 2002–2003, the government introduced a reform that addressed itself to two tiers of the pension system – National Insurance benefits and employment pension – and included a pension fund reform and raising of the retirement age. These measures may encourage the lengthening of working life and increase the potential accumulation of employment pension seniority, thereby lessening the burden on the state budget. However, the reform was not complemented by another measure that could have widened the second tier, the passage of a compulsory pension insurance law. Furthermore, the pension fund reform

reduced the pensions of persons insured with existing pension funds.

Table 3. Percent of Recipients of Income-Maintenance, Supplemental Benefit for Deferred Retirement, and Beneficiaries of Employment Pension among Total Recipients of Old-Age Benefits, 1970–2004 (selected years, percent)

Year	Income supplement recipients	Recipients of deferred retirement supplement	Employment-related pension recipients
1970	44.9	19.7	
1980	45.3	22.2	
1985	36.8	21.1	30.8
1990	31.8	18.3	
1995	33.5	16.4	
1997	32.6	15.6	33.8
2000	30.8	14.5	
2001	30.3	14.0	35.3
2002	29.5	13.8	36.6
2003	28.4	13.7	
2004	27.5	13.7	

Sources: 1. National Insurance Institute, *Annual Reports*, various years.
2. Mashav – Brookdale Institute and Eshel, 2004.

Against this background, it is very important to maintain the value of the basic tier, i.e., the National Insurance old-age benefit. This has to be done for several reasons: the incompleteness of coverage for the elderly at the other tiers, the absence of legislation that secures these tiers, and the unique mix of Israel's elderly population, which in the next few years will continue to include immigrants who cannot accumulate enough pension seniority to assure themselves an adequate

standard of living.² Many elderly rely on these benefits for their well-being and will continue to do so at least until the labor force participation rate of seniors rises to a level that will allow them to live in dignity (after accruing enough pension seniority years to become eligible for a full employment pension). Otherwise, the income level of the elderly will erode steadily after retirement.³

Apart from maintaining the level of the benefit, the introduction of compulsory pension by law – with all workers going over to an accumulation based pension – should be considered in view of the severe inequality among the elderly and the gap between the income of seniors who receive a pension and those who do not. Since Israel's population is aging at a slower rate than other countries in the West, the country has a window of opportunity to institute compulsory saving for an accumulated pension. By the time the aging of Israel's population catches up with the rates observed in many other countries, enough pension money will have accumulated for payments to the elderly without increasing the tax burden on the working population. This will also help to increase the equality among the elderly.⁴ The recent pension industry reform, originally meant to reduce the actuarial deficits of the old pension funds, dealt a blow to the members of all funds, including the new ones. This illustrates the immediate need to pass a compulsory pension law that would establish the rights of pension fund members. As matters stand now, members' rights

² Due to their immigration and their relatively advanced age when they began to accumulate pension rights, a large proportion of the immigrants (from the former Soviet Union and from Ethiopia) are expected to accumulate only a few years of seniority, entitling them to a low level of employment pension, or no seniority at all, since many were too old upon immigration to work in Israel.

³ Y. Kop, R. Barzuri, 2005

⁴ Yosef, R., and Spivak, A., 2005.

are only set in regulations, which by their very nature may be amended as the regulator wishes.

Another aspect of old-age benefits is the take-up of benefit rights.⁵ National Insurance entitlement claims are an issue mainly among elderly persons who have difficulty in claiming their rights due to lack of information, availability, and access, i.e., elderly immigrants who are not proficient in Hebrew, non-working adults who are disconnected from social systems, and elderly with mobility difficulties – common among members of this population group. Although the National Insurance Institute tries to provide all the information necessary to help people claim their rights, additional ways to disseminate this information among the elderly is evidently needed. It is especially necessary to be more flexible toward those who do not fully exercise their rights because they fail to apply on time. (The law allows those eligible to establish their benefit entitlements retroactively for no more than twelve months preceding the month in which the claim is presented. This may serve to increase the number of persons who fail to claim their benefit entitlements). The branches of the National Insurance Institute offer advisory services for the elderly. The thousands of volunteers who staff these services help the elderly by providing information about their rights and offering counseling and instruction in regard to services for the elderly. They also conduct home visits in order to identify elderly persons who need help.

⁵ State Comptroller, 2005, pp. 903–966. In the Comptroller’s estimation, NIS 24 million in entitlements to old-age and survivors’ benefits were not taken up in 2004 – about 5 percent of the total outlay for old-age and survivors’ benefits that year. Notably, however, the State Comptroller has also warned about the unlawful *overpayment* of benefits.

b. Long-Term Care

To qualify for long-term care benefits, the elderly must suffer from limitations in carrying out activities of daily living, live in the community, and pass a means test (client and spouse). Recently, the possibility of awarding long-term care benefits to seniors aged 85 and over even if they do not meet these criteria has been examined. The monthly average number of those eligible in 2005 was 114,000. The coverage rate of long-term care insurance rose until 2002 but has been declining recently. The increased stringency in approval of claims seems to have lessened the number of new claimants. Even though the proportion of approved claims rose in 2004, the rate of increase remained lower than in previous years, when it rose mainly due to the massive enrollment of elderly immigrants who had been recognized as eligible for this benefit. Three-fourths of beneficiaries are women, nearly 60 percent are aged 80 and over (a proportion that has been rising steadily over the years), and about one-fourth are new immigrants, who are over-represented relative to their share in the population.

Unlike most National Insurance benefits, the long-term care allowance is not given directly to those eligible but is paid to long-term care service providers as set forth in law. The program includes a "basket" of assistance services: personal care at home (used by 97 percent of beneficiaries), home help, transport and care at day centers, meals, laundry services, and miscellaneous services (e.g., emergency alarm services).

The benefit is given at two levels: a low level, set at 93 percent of the full disability benefit, and a high level of 150 percent of the same. The average benefit was NIS 1,826 per month in 2004 and NIS 1,849 in 2005. Relative to the national average wage, the average benefit declined in 2001–2004. Some 27 percent of beneficiaries receive the high benefit; their share has been rising over time and, in turn, that of recipients of the lower benefit has been falling. A 7 percent cutback in the low

benefit, in effect since 2003, has harmed the latter group and served to lower the average benefit.

The National Insurance Institute has designed an experiment, to be performed over a two-year period, to find out whether it would be more efficient to change the way the long-term care benefit is given. Instead of funding service to the elderly by paying long-term care service providers, those eligible would receive direct payments in cash and would be allowed to purchase long-term care services as they see fit. Opponents of such a change argue that even though elderly people in general can assume responsibility for arranging their care, those who are mentally frail cannot. Another concern is that families of the elderly may take the money and keep it out of the elderly patient's reach, thus defeating the purpose of the benefit. If the payment system were to change, however, the sums of money that the personnel companies make as profits today (they charge NIS 35 per hour and pay the caregiver only NIS 17) would be saved. Only after evaluating the results of a controlled experiment of this kind will the National Insurance Institute decide on the method that it will use to distribute long-term care benefits in the future. The revision of the funding method may have critical implications for the continued existence of services that do much to enhance the welfare of the elderly (i.e., day centers and similar services that are paid for from the long-term care budget).

4. Disability and Rehabilitation Benefits

The Disability Insurance Law and the benefits derived from it include the following: (a) disability benefits, meant to guarantee the disabled a basic minimum income; (b) special services benefits, to help the disabled who function in their households; (c) disabled child benefits, to help families caring for a disabled child at home, and (d) mobility allowances, to help the disabled with mobility issues when they are away from home. The law

also establishes eligibility for rehabilitation for disabled persons who have rehabilitation potential so they may integrate into the job market and also, since 1994, for a disability benefit paid out under the Compensation for Radiation Victims (Ringworm Treatment) Law.

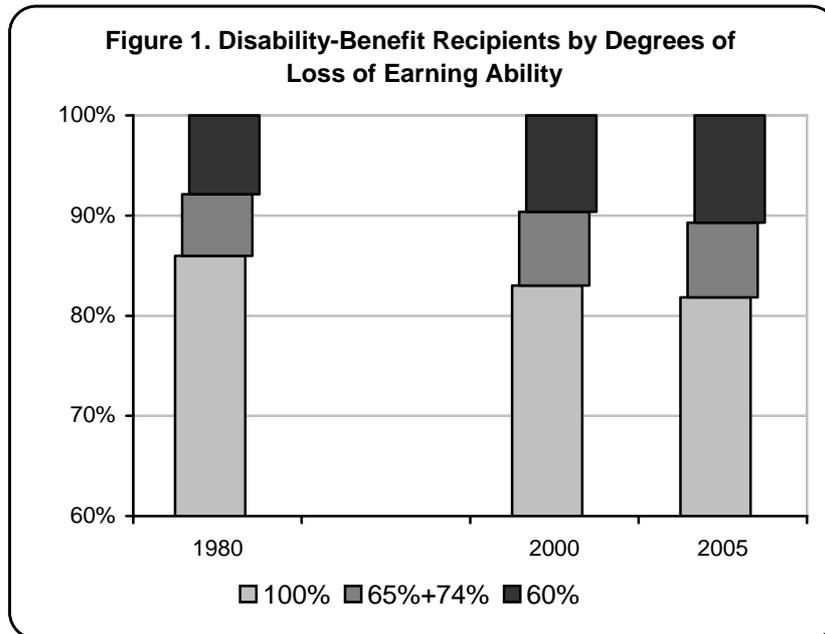
In 2004, an average of 162,000 persons per month received disability benefits, and the projected figure in 2005 is 172,000. The recipients of these benefits comprise 4 percent of the population, the third largest group of National Insurance beneficiaries, after recipients of child allowances and old-age and survivors' pensions. The growth rate of this beneficiary group after having slowed down in comparison to the 2000-2002 period, again accelerated in 2005 and is outpacing the growth rate of its relevant peer group (men aged 18-65 and women up to age 60) and the population of recipients of other benefits.

Various hypotheses have been proposed for why the number of disability benefit recipients has been growing so rapidly. They include growing awareness of the existence of disabilities, improvement in the ability to locate and identify them in early phases of life, a decrease in the stigma attached to the disclosure of disability (reflecting, among other things, greater disclosure of disabilities and defects among the Ultra-Orthodox), and flexibility in applying the definitions of the law to various disabilities. Although the terms of eligibility have not been formally revised, flexibility has been employed in recognizing certain kinds of eligibility. The rapid increase in recipients in 2005 can be linked to the change in retirement age.

In 2005, the heightened awareness of disabilities led to the passage of the Access of the Disabled to Public Places Law, which augments various agreements that had been concluded with organizations for the disabled (after lengthy strikes). The new statute went into effect immediately in regard to most public buildings. In a related development, the government resolved to endorse the conclusions of the Laron Committee

(June 2005) on the advancement and integration of persons with disabilities on the job and in the community. The resolution is to be followed by the preparation of legislative amendments to encourage the disabled to join the labor force. The reform at issue concerns how disability benefits are paid. Thus, payments will no longer be terminated at once when a disabled person accepts a job; benefits will decrease commensurate with the increase in income from employment. (Today, persons with disabilities who accept jobs are “penalized.”) Furthermore, a mechanism will be established to assure that persons with disabilities who do not succeed in integrating into the labor force will be able to reinstate their benefits, since under current conditions and without such arrangements the disabled fear the loss of their benefits if they do not succeed at work. The reform also includes an incentive for employers who hire persons with severe disabilities. (A NIS 25 million allocation for employer subsidies was promised.) The underlying assumption is that there is no reason for the disabled not to play an active role in the country’s social and economic systems.

To date, no programs for improving the occupational integration of this population group have been made public (beyond the recommendations of the Laron Committee) and persons who receive disability benefits today are not included in the welfare-to-work program, which focuses on recipients of income-maintenance. It is time to explore new methods and to adapt programs so that recipients of disability benefits will be better positioned to obtain training and jobs. Business sector organizations that take part in community level social programs as part of their “social responsibility” offer some programs for hiring the disabled, but there are only a few programs of this type, only a few businesses offer them, and they reach only a minority of persons with disabilities.



Studying the distribution of disability benefit recipients by types of benefits, the overall growth rate has slowed but the number of recipients of child disability benefits, transportation allowances, and special service benefits has increased relative to the population of general disability benefit recipients. Men outnumber women (57:43) and more than half of male recipients, as against 32 percent of women beneficiaries, are married. About one-fifth of women who receive the benefit are housewives, whose eligibility is conditioned on their being married, although the proportion of income earning women who receive a benefit has been rising over time.

The profile of the beneficiaries by types and severity of disability shows that one-third suffer from psychological disorders, the predominant group of disorders among recipients. Most of the disabled, 82 percent, are at the highest level of disability (100 percent loss of earning ability), 11 percent are

rated at 60 percent, and 7 percent are graded lower. The preponderance of psychological disorders in the high disability group is significant in terms of the likelihood of rehabilitation for members of this group and deserves further examination. The disabled are eligible for full or partial benefits in accordance with the extent of their loss of earning ability.

Disability benefits have been less affected than other National Insurance benefits by the recent changes, but even here the regular adjustment mechanisms have been suspended since 2003. Payments on account of general disability and other benefits that fall into the disability insurance category were NIS 7.1 billion in 2004. The outlay that year represented a significant and noteworthy slowdown in spending after the steep increase that occurred earlier due to supplements that had been awarded to the disabled in 2000–2002. During those years, a large share of the increase in payments of National Insurance benefits was due to the rise in benefit payments to persons with disabilities. Growth has resumed since then; outlays in 2005 are projected at NIS 7.5 billion. The rapid increase in the number of disability benefit recipients and in the share of those defined as permanently disabled may be a spillover effect from income-maintenance to disability benefits – a phenomenon that deserves further thorough examination.

Rehabilitation benefits also fall under the general heading of benefits for the disabled. The National Insurance Law entitles persons with disabilities to professional rehabilitation, a therapeutic process in which clients are trained for employment commensurate with their capabilities and qualifications. Some are also eligible for the reimbursement of auxiliary expenses related to the rehabilitation process. The National Insurance rehabilitation services include vocational evaluation, referral, counseling, training, studies, and assistance in covering basic expenses related to the training process.

Some 9,400 persons applied for rehabilitation in 2004 and their numbers have been rising over the years. About three-fourths of the applicants suffer from general disability; the others suffered from work related accidents, enemy action, and loss of a spouse. In 2004, men accounted for 59 percent of rehabilitation applicants and 88 percent of work related accident applicants. The latter figure is due to the higher labor force participation rate of men than of women and the riskier nature of their occupations. In 2004 on average, about one-third of rehabilitation patients found work in the labor market at the end of treatment as against hiring rates of 36.5 percent, 41.0 percent, and 48.2 percent for casualties of enemy action, workplace accidents, and loss of a spouse, respectively. Payments for rehabilitative care were NIS 187 million in 2004 (little change is expected in 2005), including tuition fees, rehabilitation expenses, travel, instruments, housing, and other expenses.

In this context, thought should be given to the implications of rehabilitating an individual towards independent living with earning capacity as well as to the potential savings in public expenditure when rehabilitation is successful. Those considerations are reflected in the relatively high share of expenditures for tuition, vocational training, and rehabilitation allowances (to cover living expenses during the rehabilitation period) in total rehabilitation outlays and in the attempts to include persons with disabilities in current back-to-work programs (specifically the *Mehalev* program). The American Jewish Joint Distribution Committee recently raised a proposal for an employment project along these lines.

5. Income Maintenance and Unemployment Compensation

a. Income Maintenance

An income-maintenance benefit is paid to working age households in which the recipients do not work, provided that the total household income falls short of the threshold established in law. The benefit was very generous by Western standards when it was introduced in 1982, and the share of households that received it climbed steeply, for reasons including the large wave of immigrants in the early 1990s many of whom had no source of income. Therefore, it evolved into a major portion of National Insurance outlays. The welfare-to-work approach that aims to return income-maintenance beneficiaries to the labor force, coupled with the need to reduce total transfer payments, led in 2002–2003 to a series of comprehensive legislative amendments that cut the allowance and its related benefits, reduced the number of recipients, and changed the composition of the recipient population.

Income-maintenance expenditure was NIS 3 billion in 2004 and is projected to be slightly lower in 2005. The average monthly benefit fell from NIS 1,737 in 2003 to NIS 1,630 in 2005. The share of benefits as a percent of the average wage declined from 29 percent in 2002 to 23 percent in 2005.

The number of beneficiaries decreased from 156,000 in 2003 to 145,000 in 2004 and to 144,500 in 2005. The decline occurred because more beneficiaries were excluded or dropped out of the program, the influx of newly eligible individuals slowed, and the number of immigrant recipients has been declining at a rate that is much steeper than among non-immigrants. Another change in the composition of the beneficiary population is a decrease in the number of single-parent households and couples with children as against a rise in the number of single recipients.

Table 4. Income-Maintenance Recipients: Non-immigrants, Immigrants, Singles, and Non-Singles, 2000–2005
(total and percent)

Year	Total recipients (thous.)	Non-immigrants (thous.)	Immigrants (thous.)	Change, non-immigrants	Change, immigrants	Singles, of total	Non-singles, of total
	N			Percent			
2000	128.4	80.5	47.9	14.9	8.5		
2001	141.8	91.2	50.6	13.4	5.6		
2002	151.6	96.0	55.6	5.2	9.9	35.2	64.8
2003	155.2	100.0	55.2	4.1	-0.7	37.0	63.0
2004	145.3	94.8	50.7	-5.1	-8.1	41.3	58.7
2005	145.5	..	..	..	..	42.3	57.7

* Data for the first half of 2005.

One of the most striking restrictive measures was the elimination of the exemption from an employment test for persons defined as unsuitable for employment. This change, coupled with lowering the age of a child at which a single parent is excused from the employment test (from seven to two), reduced the number of low-income single-parent households and couples with children who qualified for the income-maintenance benefit. Those affected the most by these changes were weak population groups, foremost among them immigrant single-parent households. The legislative changes also lowered the incidence of income-maintenance recipients among working people – households headed by breadwinners generally and those with children particularly.

The income-maintenance benefit is divided into levels: regular, higher, and a different rate for single parents. There is also a distinction between a full benefit, paid to those whose income falls below the minimum established in law and those who have no other source of income whatsoever, and a partial benefit, paid to those whose income exceeds the minimum but is

low enough to entitle them to the benefit. Until 2002, most income- maintenance recipients fell into two groups: those receiving the full benefit at the higher rate and single parents who received a partial benefit (Table 5). The eligibility reform changed the distribution of beneficiaries, raising the proportion of recipients at the regular rate by more than 50 percent. Thus, in 2002–2004 there were notable decreases in the proportions of those receiving the benefit at the higher rate (partial and full) and of those receiving single-parent benefits (partial and full). In turn, the number of beneficiaries at the regular rate has been rising and, within this group, the share of those receiving a partial benefit has risen markedly. The real erosion of the income- maintenance benefit (up to age 55) in 2003–2004 came to 10–25 percent (depending on the composition of the household).

Table 5. Income-Maintenance Recipients, by Rate and Level of Benefit, 2001–2004 (Percent)

Year	Total	Regular rate		Higher rate		Single-parent rate	
		Partial	Full	Partial	Full	Partial	Full
2001	100.0	4.3	17.8	13.0	30.4	21.3	13.2
2002	100.0	4.5	18.0	13.5	30.4	20.8	12.9
2003	100.0	6.0	22.9	12.4	28.0	18.9	11.8
2004	100.0	7.6	26.6	11.3	26.5	17.7	10.3

The change in eligibility rules made the higher benefit more difficult to obtain and the value of the benefit continues to erode as the entitlement rules continue to be toughened. This is also connected to the change that has occurred in the likelihood of a person's ability to rise out of poverty through employment. Unlike in the past, when regular work increased the likelihood of making a decent living, today the labor market generates severe inequality (mainly due to demand for well educated workers) that stems from the evolving terms of employment in

the “new world of work”: employment in low-wage, temporary part-time jobs via personnel companies with less protection by trade unions. Consequently, the stratum of the “working poor” is widening⁶ and low-wage workers need income-maintenance and supplementary benefits.

The measures that have been taken to reduce the benefit level and the population of those eligible for it has only served to worsen the distress of these weak population groups. Actions must be taken to increase the labor force participation of those capable of working by providing vocational training for income maintenance recipients whose eligibility has been revoked or downscaled. Such training should be given through professional courses and programs, combined with steps that encourage labor force participation, such as subsidized wages for single parents. Thus far, such programs have reached only a relatively small group of recipients of income-maintenance.⁷ The blow dealt to this group was severe and sweeping, affecting even those who cannot possibly join in the labor force. The law concerning the integration of income-maintenance recipients in work and the implementation of the *Mehalev* program⁸ may help to differentiate between those with different earning capabilities and make it possible to continue supporting those who cannot

⁶ The share of families headed by salaried employees climbed from 33.5 percent of all poor households in 1990 to 43.1 percent in 2003. See Ahdut, L., and Sussman, Z., 2005.

⁷ Ministry of Industry, Trade, and Employment, *Report of the Research and Planning Administration*, May 2005.

⁸ A welfare-to-work program was adopted in the Integration of Income Maintenance Recipients Law, which was enacted as part of the 2004 Economic Arrangements Law and addresses itself to job-seeking recipients of income-maintenance benefits and low-income workers. The *Mehalev* program, a Hebrew acronym for “from welfare to work” – the “Israeli Wisconsin Plan” – began in August 2005.

work. This plan, too, however, has many limitations⁹ and its success can be examined only after it is run on a pilot basis.

It is true that the idea of introducing a negative income tax, included in the 2006 budget proposal, may meet the need to assure the income of the working poor (those whose income falls below the minimum level established in law) and replace the income-maintenance benefits that this population group receives today. The negative income tax, however, cannot promise those who cannot work an adequate standard of living.

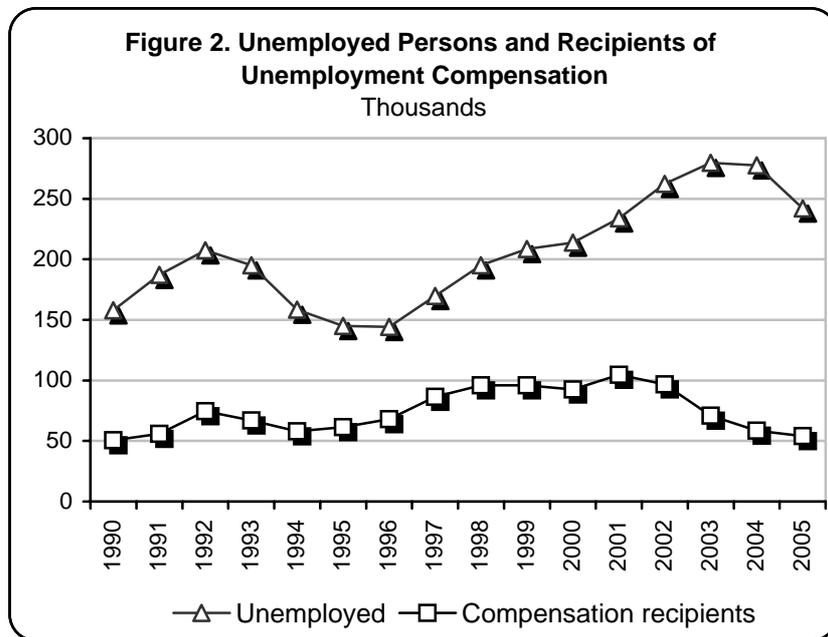
b. Unemployment Compensation

Unemployment compensation is meant to replace, for a limited period of time, the wages of those involuntarily unemployed while they search for appropriate work. The unemployment rate, after peaking at 11.6 percent in the third quarter of 2003, fell to less than 9 percent by the first half of 2005. The rate of recorded unemployment declined not only due to stronger economic growth and fewer foreign workers but also due to legislative changes and a toughening of the rules of eligibility for unemployment compensation, a process that began back in 2002. Some 59,000 people received unemployment compensation in 2004 (on monthly average) and this level was largely unchanged in the first half of 2005. (According to draft budget estimates, however, a smaller number was expected; therefore, NIS 2 billion was allocated for this purpose in 2005 as against NIS 2.1 billion in 2004.) The average daily

⁹ What is meant here, as explained in the 2004 Taub Center report and in the previous discussion of unemployment compensation, is that the program is experimental and partial, implemented belatedly relative to the sweeping cutbacks that were already made, and focused on reducing budget expenditure. The practical effect of this focus is immediate job placement, in contrast to setting a target of placing clients in appropriate employment that pays decent wages and offers suitable part- or full-time employment terms.

unemployment benefit rested at about half the national average wage in 2004 and is expected to have declined slightly in 2005.

The external and internal developments mentioned above – economic growth and the toughening of eligibility terms, respectively – caused the unemployment rate to fall appreciably and led to a decline of more than one-third (36 percent) in the proportion of the unemployed who received unemployment compensation: from about half of the registered unemployed in 1998 (before the rules were changed) to around one-fifth in 2004.



The falling share of unemployment compensation recipients is paradoxical in several ways. The first paradox is quantitative: precisely as the number of unemployed increased, the proportion

of them who received compensation declined. The second paradox has to do with a change in the characteristics of the recipient population: in the first five years of the current decade, the proportion of compensation recipients who had thirteen or more years of schooling increased (from 31.3 percent in 2000 to 37.2 percent in 2004) and that of poorly educated recipients fell. (Only 9.6 percent of recipients in 2004, as against 12.1 percent in 2000, had up to eight years of schooling.)¹⁰ These workers, who had held part-time, low-wage jobs, evidently failed to accumulate rights and meet the terms of eligibility for unemployment compensation due to their inferior “starting position”. Here, then, is another paradox, a more substantive one, of the withholding of insurance benefits from weak social groups.

As matters stand today, unemployment insurance largely misses its targets. It has become a partial solution, providing only some of those in need with the safety net that it was originally intended to spread. It has also become an exclusive insurance program that protects “stronger” population groups. Another study¹¹ reaches a similar conclusion, claiming that the overemphasis on encouraging the unemployed to return to the labor market has severely impaired the ability of the program to assure their social security. Under the law as currently phrased, insurance coverage of weak unemployed groups will remain partial, since 70 percent of unemployed people who have recently found work located only temporary, part-time, and poorly paying jobs. By having done so, they will remain unable to meet the qualifying requirements and accumulate rights that would entitle them to unemployment compensation. Since the main reason for the rise in the unemployment rate was a decrease in demand for labor, it is clearly unjust to penalize and disentitle the unemployed (even though the level of the benefit

¹⁰ Central Bureau of Statistics, *2004 Labor Force Survey*.

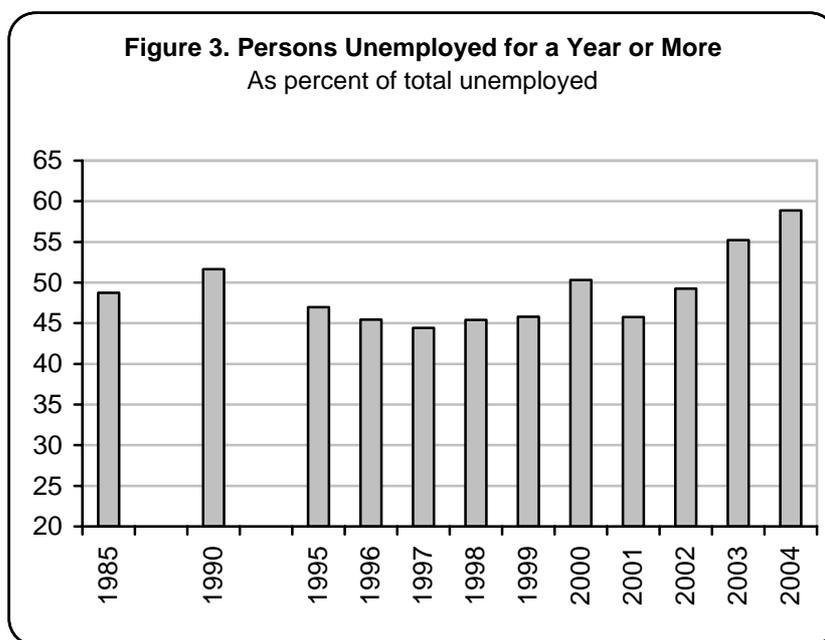
¹¹ Gal, J., 2004.

may have helped to prolong their unemployment and, in some cases contributed to the willful abuse of employment tests). What is necessary, in contrast, is concurrently to increase the supply of jobs and allow the unemployed to be more patient about seeking work. It is worth reconsidering the relaxation of the qualification terms for compensation eligibility and to extend the term of compensation in a way that will allow the unemployed to seek and find appropriate jobs, coupled with strict application of the employment tests and prevention of abuse.

The escalating unemployment rate was one of the factors that sped up the transfer payment reform that began in 2002. Although the toughening of eligibility terms did help to lower the unemployment rate, as stated, the increase in the number of "hard-core" unemployed, those who were unemployed for more than a year, must not be ignored, since this aspect actually suggests that the scope of unemployment has worsened.

These developments inspired the Ministry of Finance to take another programmatic initiative, pursuant to *Mehalev* (the welfare-to-work program), to encourage the unemployed to return to work. Although the new scheme corrects some of the limitations of earlier programs, it is not meant to respond to the erosion in the terms of eligibility for unemployment compensation. These terms, as stated, should be corrected so that the benefits will reach the intended target population and meet the original goals of the law.¹²

¹² The program is expected to give NIS 2,200 in tax relief to unemployed persons who return to work, and those who do so will receive an incentive in the form of one tax-credit point, worth NIS 2,000, in their first year back at work.



Another noteworthy point is that 9 percent of unemployment compensation recipients in 2004 (on monthly average) were recently discharged soldiers. This seems to be a high proportion, especially since most people in this group are young and were found sufficiently able-bodied for military service. The budget proposal for 2006 attempts to correct this by toughening the terms of unemployment compensation eligibility for discharged soldiers, limiting the benefit to those who have been unemployed for half a year after army service.

Persons newly eligible for compensation will receive only the new benefit, which is at a lower level than paid previously and lower than unemployment compensation in most Western developed countries. However, the size of the eligible population is expected to increase somewhat in the near future as coverage is extended to unemployed kibbutz members. It

would also seem proper to reconsider the extension of unemployment insurance to self-employed persons who are not working and are in distress. Although unemployment among members of this group is difficult to measure, and despite the current internal debate among various groups of the self-employed about the appropriate qualifying period and their willingness to pay larger National Insurance contributions (in order to include an unemployment compensation component), it seems sensible and just for a well functioning welfare state to expand the base of those paying into and qualifying for unemployment compensation.

6. Child Benefits

a. Child Allowances

The population of child allowance recipients increased by 0.7 percent in 2004 and 0.9 percent in 2005, after increases of 0.4 percent in 2003 and 0.7 percent in 2002, and stood at 945,600 households in 2004 and 953,000 households in the first half of 2005.

The number of children for whom allowances were paid grew in 2001–2005 by about one percent a year and came to 2,226,000 in 2004 and 2,255,000 in 2005. Among all benefits that were affected by the recent changes, child allowances were affected the most. Both the size of the allowance and the criteria for its receipt were revised to the recipients' detriment (including standardizing the size of the allowance so as to eliminate the effect of the number of children in the family and their order of birth). In comparison with pre-cutback level (2001), the cumulative real decrease has added up to 41 percent.

The continuation of this policy in future years (by 2009) will result in a further total decrease that is estimated at 17 percent for the first and second children and 58 percent for the third

child, relative to the allowances paid out in 2002 (which had already been dented).¹³

Total outlays for child allowances decreased by 22 percent in 2004 relative to 2003. Most of the decline is due to a reduction in allowances starting in February 2004 for families with up to two children and a change in the method of payment for newborn children. The decrease in child allowance outlays was reflected in a reduction of about one-third in the share of child allowances in total NII benefits, from 16 percent in previous years to 11 percent in 2004 and 2005. Since July 2004, families with three or more children that receive income-maintenance or alimony payments benefits from National Insurance have been compensated somewhat by means of a “family allowance,” which is paid for third and fourth children in order to compensate such families for the double reduction (to child allowances and income-maintenance).

The immediate and across-the-board implementation of the child allowance cutbacks since 2003, under the Emergency Economic Plan, led to an increase in poverty among children and among households that in many cases are not headed by breadwinners. Before the cutbacks were made, the implications of increasing the burden on such families that already have children, as against the alternative of introducing the changes over time, should have been considered. This policy reflects inconsistency in the approaches toward child allowances over the years, indicates that this area of social service is susceptible to outside influences (related to governing coalitions, etc.) and brings into greater focus the need for thorough debate before the basis of the method of allocating transfer payments is revised.

In response to the cutbacks in child allowances and government social spending, National Insurance took an initiative to reduce poverty among children by raising NIS 200

¹³ National Insurance Institute, *Annual Report*, 2004.

million in new sources from foundations and the private business sector. This multi-phased program, soon to be implemented, will include detection of the population at risk, profiling of its problems, and testing of innovative methods of intervention. The question of transferring responsibility for children's welfare to nongovernmental organizations should be dealt with as part of a broad based debate over the limits of the Israeli government's responsibility for the welfare of its citizens in future years.

b. Alimony Payments

Alimony payments (or spousal maintenance benefits) are discussed in this section of the report because they play a role in assuring children's standard of living. The Alimony Payments Law guarantees the payment of spousal support in cases where ex-husbands fail to pay despite a court ruling. Women may, in such cases, apply for collection via National Insurance or the Bailiff's Service. The sum of unpaid alimony was NIS 2.5 million in 2004 and a similar amount in 2005. Since only 10 percent of those liable pay regularly and two-thirds do not pay at all, National Insurance collected 41 percent in 2004 and 45 percent of total alimony in 2005 and forwarded payments to 25,000 low-income women (the target population of this benefit) on monthly average. About 72 percent of recipients are divorcees (the others are separated or common-law wives) and most of them – 82 percent – have one or two children. The size of this group has been stable over time. The average benefit was NIS 1,300 per month in 2004 – 19 percent of the national average wage – as against 20.1 percent in 2002 and roughly the same in 2005.

Since the Alimony Payments Law as such does not guarantee women a minimum income, some alimony recipients – about one-third in the past two years – also qualify for income-maintenance. The legislative changes that were applied to this

benefit, however, have reduced the number of alimony payments beneficiaries generally and recipients of both benefits – the most needy group of recipients – particularly, to two-thirds of its size in 2002: from 45 percent of recipients in 2002 to 32 percent in 2004 and 2005.

Table 7. Percent of Alimony Payment Recipients Who Also Receive Income-Maintenance

	Alimony payment recipients (thousand)	Alimony payment and income- maintenance recipients (thousand)	Alimony payment recipients who also receive income- maintenance (percent)
2002	27.9	12.2	45
2003	25.8	8.8	34
2004	24.6	7.9	32

Source: National Insurance Institute, *Annual Report 2004*.

The 2005 data throughout this survey are based on the NII operating budget, published in May 2005.

The responsibility that the National Insurance Institute has assumed for women and children whose husbands and fathers have evaded their responsibility for supporting them reflects the progressive principles of the welfare state. There does, however, appear to be an immediate need to make the collection of this benefit more efficient (perhaps by privatizing collection) in order to ensure that the National Insurance is reimbursed. Such a process would increase fathers' participation in raising their children and may help educate them to assume responsibility in the future. In contrast, reducing alimony payments for those in need punishes children (and their mothers) and absolves the fathers of their responsibilities.

Sources*

- Bank of Israel (2005), *Annual Report 2004*, Part D: Social Policy (in English).
- Central Bureau of Statistics, *Statistical Abstract of Israel*, various years (in English).
- *Personnel Survey 2004*.
- Gal, J. (2004), "Riding a Pendulum: Unemployment Insurance in Israel 1972–2003," *Social Security*, December, no. 67.
- Kop, Y. (ed.), *Israel's Social Services*, Taub Center for Social Policy Studies in Israel, various years, Jerusalem (in English).
- Kop, Y., and Barzuri, R. (2005), "Labor Force Participation of the Elderly – Main Trends," *Gerontology* (in press).
- Ministry of Industry, Trade, and Employment, Planning, Research, and Economics Administration (2005), *Report of the Program for Integration of Single Parents into the Labor Market – Placement, Payments of Benefits and Grants, Vocational Training, Daycare and Afternoon Care Centers and Empowerment*, updated to April–May.
- National Insurance Institute (2005), *Magnitude of Poverty and Income Disparities 2004, Main Findings*, Ahdut, L.; Cohen, R.; Endweld, M., August.
- (2005), *Operating Budget for 2005*, notes, Research and Planning Administration, May.
- (2005), *Statistical Quarterly*, July.
- (2005), Ahdut, L.; Endweld, M.; Sussman, Z.; Cohen, R., "Social Aspects of the State Budget 2002–2005 (in press).
- , *Annual Report 2004*.
- (2004), *Magnitude of Poverty and Inequality in Income Distribution, 2003*, main findings, November.
- (2003), Gordon, D., *Rehabilitation and Willingness to Work among Disability-Benefit Recipients in Israel* (abstract
- State Comptroller (2005), *Annual Report 55b*, chapter on social services.

* in Hebrew unless otherwise noted

Yosef, R.; Spivak, A. (2005), “Changes in the Pension Industry and Their Implications for Compulsory Pension in Israel,” *Gerontology* (in press).

The 2005 Social Survey

1. Introduction

For the past six years, the Taub Center has been conducting an annual social survey¹ – a public opinion poll that sheds light on the sense of well-being and social confidence of the Israeli public. The survey presents the public's responses to questions about their standard of living, employment situation, personal security, and the quality of education and health services. Survey questions also examine social policy issues and reflect the public's value preferences in regard to several matters on the public agenda. For example, the survey addresses social disparities, a recurrent issue on the social and economic agenda, in two dimensions: what the public thinks about the nature of changes taking place; and, its judgment about how government policy in various spheres has helped to ease or exacerbate the disparities. This issue cuts across many of the topics in the survey and it appears that the public's feelings about the intensity and widening of social gaps correspond to findings in various other studies conducted in Israel.

The survey also attempted to ascertain the public's evaluation of the effects of economic developments, with questions relating to the assessment of the respondent's personal situation, including expectations of improvement. The twenty-six survey items were coupled with nine background questions about the

¹ The survey is conducted annually by Hanoach and Rafi Smith Research and Consulting, Ltd. This year's survey took place in July 2005 and the sampling error was 3.1 percent. The survey addressed a representative sample of the adult population in Israel (Jews and Arabs aged 18+): 1,003 men and women.

respondents' age, gender, education, income, date of immigration, level of religious observance, and so on.

Importantly, the survey is a tool that complements the Center's analysis of social service allocations presented every year in its Annual Report. The survey illuminates the views of consumers of social services – the public at large – and, within the limitations that are typical of tools of this kind, is a reliable indicator of public attitudes.

This year, as in past years, questions were added in some areas and withdrawn from others. Several questions were repeated without changing the wording from previous years in order to examine trends in attitudes.

The results of the survey, combined with those of previous surveys and other socioeconomic analyses at the macro level – some of which are reflected elsewhere in this report – give a relatively firm basis for the characterization of several key developments:

1. The prevailing sense among respondents is that the economic polarization is widening and social and economic disparities are growing. The trend toward economic improvement in the past two years has not helped to change the public's feeling about the intensity of the disparities. In fact, the survey indicates that society's strong groups have become stronger and its weaker groups weaker.
2. The public believes that the government's socio-economic policy in its various spheres is only serving to exacerbate the disparities.
3. Several social groups – mainly immigrants from the former Soviet Union (FSU), Arabs, and *haredim* (the “ultra-Orthodox”) – differ noticeably from the rest of the population in their responses to quite a few survey questions.

Many of the questions relate to various aspects that are basic elements of the respondents' sense of social confidence. This year, an effort was made to develop an indicator that gives a

more comprehensive picture of social confidence. The “Taub Index” was developed as a simple method to quantify long-term changes in the public’s sense of social confidence. It also enables comparisons of different population groups through calculation of an index score for those subgroups.

The trends that the Taub Index brings to light and the variance of the index among groups of survey participants are shown below in Section 2. After these findings, the survey results are presented in item clusters. The next section focuses on the respondents’ standard of living and the changes reported during the past year (Section 3). Subsequent sections present clusters of items on employment (Section 4), personal security (Section 5), the level of health services (Section 6) and education services (Section 7). The last two sections explore the participants’ views about socioeconomic policy (Section 8) and their value attitudes (Section 9).

2. The Taub Index of Social Confidence

The Taub Index weights the survey responses to a group of questions that relate directly to the most basic elements of the sense of personal social confidence – chiefly changes in standard of living, the sense of being vulnerable to violence, basic economic security, and fear of unemployment. The responses are converted into weighted values to derive a single index on a scale of 0 (extreme lack of social confidence) to 100 (maximum social confidence).

In 2005, the Taub Index, computed for the entire survey population, was 54.5 points. Over the past five years, the following picture is obtained: in 2001 (the first year the index was calculated), it stood at 57.9 points (out of 100). In 2002 and 2003, the index fell to 47.9. The decline reflected the undermining of the public’s social confidence amidst deepening recession, escalating unemployment, and the most intensive

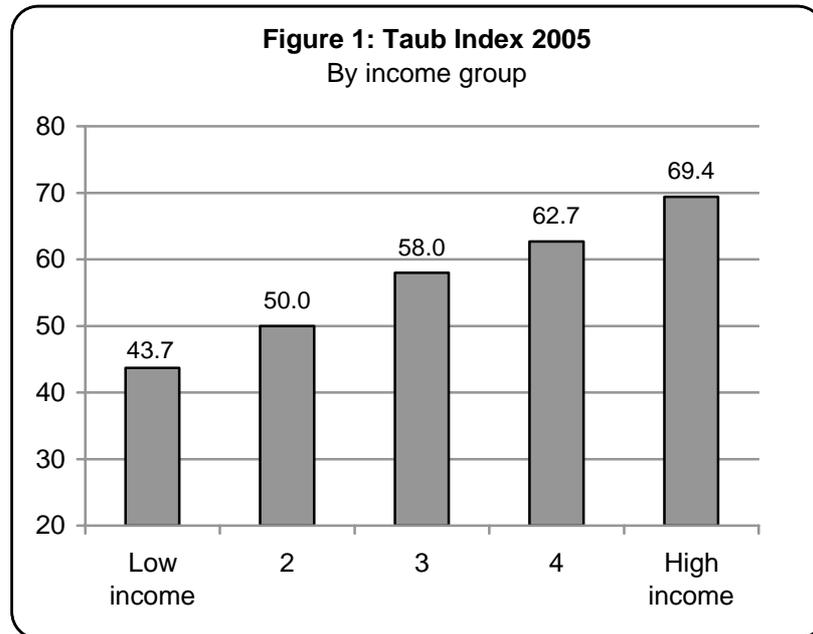
phase of the cutbacks in social service budgets, especially income maintenance.

The public's sense of confidence turned around in 2004, as the index rose to 53.1. The trend continued in 2005, although much less vigorously. The value calculated from this survey (2005), 54.5, remains below the 2001 level.

These data relate to the entire survey population and conceal significant differences in the sense of social confidence between different population groups. The index for the population group that report a "far above average" income level was almost 70 points in 2005; the figure for the group reporting a "far below average" income level came to only 44. The result for those with a "slightly below average" level of income also fell short of 50.

It is not only the relatively large absolute differences among the population groups that are troubling; the different directions in which the index for these groups is moving should also sound an alarm for socioeconomic policymakers. Until 2004, the indices for the different income groups moved in similar directions: down in 2002–2003 and up in 2004. The 2005 index, in contrast, points to an increase in polarization and widening of disparities in the sense of social confidence of different population groups. Thus, the Taub Index for the well-off population *rose* by around 6 index points relative to the previous year while the index for weak population groups *dropped* by about 2 points.

In sum, the Taub Index for 2005 points to a gentle upward trend and a turning point in the public's sense of socio-economic confidence after the deterioration that occurred in previous years. The improvement, however, has been confined to the affluent strata of the population and has not affected those with below-average incomes.



3. Standard of Living

The impression of the public's situation in the past year, based on the responses to several survey items, combines to provide a general picture of widening polarization. First, respondents were asked directly about their level of well-being compared with the previous two or three years.

The question was: *If you compare your standard of living and that of your family today with that of two or three years ago, do you think there has been:* (Considerable improvement, Some improvement, No change, Some decline, Considerable decline)?



Each survey in the past five years has repeated this question. The responses definitely acquire greater validity when examined relative to previous years. Thus, in the past two years, the answers reflect a sense of improvement in the situation relative to the 2002 and 2003 surveys, although the sense of improvement that the participants reported in 2001 has not recurred. The rate of those reporting an improvement in their standard of living rose from a low 8 percent in 2003 to 13 percent in 2004 and 19 percent in 2005. Concurrently, the rate of those reporting a decline in their standard of living has fallen gradually in the past two years. However, three times as many respondents reported a *severe* decline than a *considerable* improvement.

This picture masks separate trends among different social groups. The 25–29 age cohort reported a significant improvement in its situation; respondents with far-above-

average income did the same. Other groups, however – people with only a primary or partial-secondary education, Arabs, and people with far-below-average income – reported a greater than average decline in their standard of living. Thus, the strong seem to have become stronger and the weak still weaker.

The next question about the public's standard of living was: *To what extent does your income allow you and your family to meet basic needs?* The responses (percent) follow.

	1999	2000	2001	2002	2003	2004	2005
Without any difficulty	19	19	12	11	10	12	11
Without too much difficulty	..	..	15	9	12	11	11
Reasonably	52	50	45	46	46	43	42
With difficulty	25	26	25	29	27	27	29
Absolutely impossible	4	5	3	5	4	6	7

The responses to this question, which was asked in almost identical wording in previous years, show a clear trend. The share of respondents whose income allows them to meet basic needs with no difficulty or without too much difficulty has been stable for the past four years at 22–23 percent. The share of respondents whose income affords them only a reasonable standard of living fell to 42 percent this year, and the proportion of respondents who reported that it is “hard to get by” with their current level of income climbed to 36 percent.

By adding up the responses, we find a trend of increased polarization: a shrinking group in the middle and growing groups on either end. It may be that when the average standard of living rises and the definition of goods and services perceived as basic changes gradually (since the assessment of basic needs is subjective), the percentage of people who cannot or find it hard to afford the goods and services that society now considers

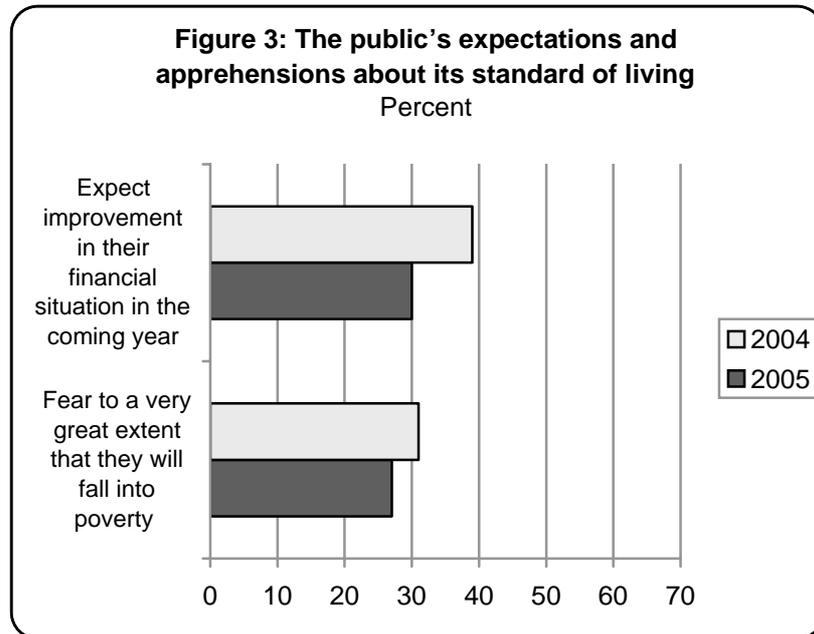
basic also increases. This, however, should not diminish the significance of the findings. Almost half the respondents in the main working-age cohort (30–49) replied that they can not manage or manage with difficulty. The proportion is higher among *haredim*, FSU immigrants, Arabs, the unemployed, the poorly educated (primary or partial-secondary), and those who have far-below-average income.

Not surprisingly, a correlation was found between responses and income: Only 2 percent of those with far-below-average incomes replied that they could manage without difficulty, as against 46 percent of those with far-above-average incomes. There was also a correspondence with the respondent's occupational status: self-employed respondents were more likely than salaried employees to state that they could manage on their income without difficulty.

Two questions in this cluster concerned the public's expectations and apprehensions about its standard of living. The combined results appear in Figure 3.

The first question was: *How do you expect your economic situation and that of your family to change in the coming year?* The responses (percent) follow.

	2004	2005
Considerable improvement	6	5
Some improvement	33	25
No change	47	55
Some decline	11	13
Considerable decline	2	3



Even though the objective economic situation has changed for the better, optimism is waning. Most of the public believes that its situation will not change. Fewer than 30 percent of this year's respondents, as against almost 40 percent last year, expect their personal situation to improve. To complement these findings at the other extreme, it should be noted that the share of the public that expects its economic situation to deteriorate rose from 13 percent last year to almost 16 percent this year. It is possible that last year, when the overall economic situation was worse, people had greater expectations of improvement than in 2005, when the situation began to improve and their personal situation became clearer. Thus, it would be precisely then that expectations of further improvement would wane. It may also be that much of the public has lost faith in the government's promises of improvement.

The latter explanation is somewhat reinforced by the fact that the groups that feared deterioration the most – those with far-below-average incomes, Arabs, the unemployed, and FSU immigrants – stood out clearly from the public at large. However, among the relatively optimistic population groups there were also young people, *haredim*, and Arabs. It seems somewhat incongruous for groups of equally weak social status to express conflicting attitudes. This, however, may be partly explained by divisions *within* the groups.

This is particularly marked among the Arab population, in which the in-between group, which expects no change, is relatively small compared with the two relatively large groups at either end, i.e., those that expect a change for the better or for the worse. It is also possible that population groups of particularly low income entertain greater expectations of improvement but, in the absence of economic security, maintain a higher sense of vulnerability and apprehension.

In the response to this item, too, differences between salaried employees and the self-employed were found: the self-employed were more optimistic. There were also differences in optimism between men and women with women being more “conservative” in their assessment of the likelihood of deterioration or improvement.

The question in regard to expectations was: *Are you concerned about the possibility that you or your family may fall into a situation of poverty or economic distress?* The responses (percent) follow.

	2004	2005
Very greatly concerned	17	13
Greatly concerned	14	14
Somewhat concerned	29	27
Hardly concerned	15	16
Unconcerned	25	30

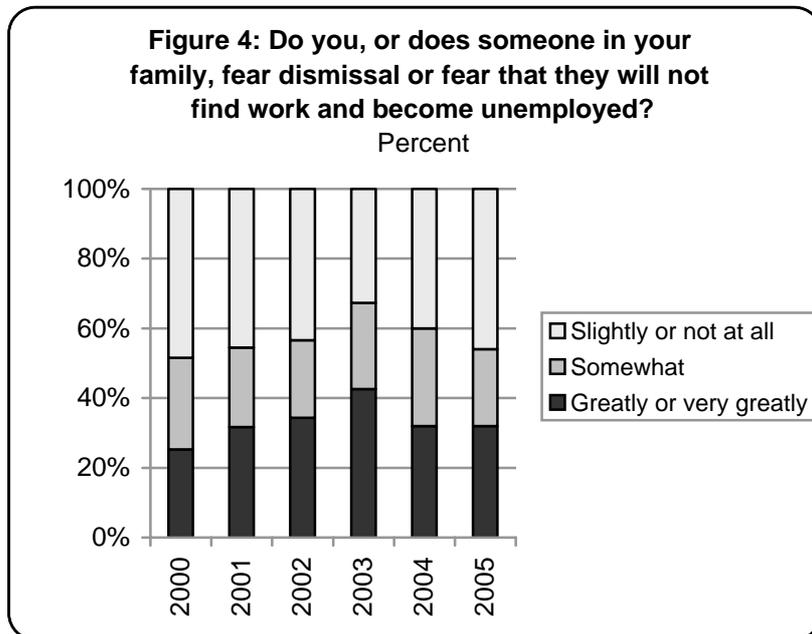
In response to this question, there were slight indications of an improvement in the mood – a small decrease in the extent of fear of falling into economic distress or poverty relative to last year. As with other questions in this cluster, the weak groups were more apprehensive than the strong ones. The extent of concern also increased with age.

4. Employment, Income, and Working Conditions

Work is one of the most significant elements in individuals' lives and is usually the source of economic and social security for themselves and their families. It allows people to provide for themselves and their families, does much to determine their social status, and has a decisive effect on their quality of life and self-esteem. This year the scope of inquiry was slightly expanded by including several items that went beyond the aspects addressed in previous surveys.

Employment is the first area affected by the onset of an economic crisis. However, it improves rather slowly even when the state of the economy begins to improve. This year, as in previous years, the question was asked, *Do you, or does someone in your family, fear dismissal or fear that they will not find work and become unemployed?*

The trend of improvement first discerned last year, after a rather long period of very great fear of unemployment, continued this year. The share of respondents who replied that neither they nor anyone in their family feared unemployment at all or feared it only slightly rose from 40 percent last year to 46 percent, as against 30 percent in 2003. At the other extreme, the number of respondents who very greatly feared unemployment dropped slightly in the past year. The decrease in fear of unemployment may reflect the objective situation, in which an improvement in various economic indicators has lessened the risk of unemployment.



Fear of losing one's job was greater among women than among men; only one-third of women, as against 43 percent of men, did not fear dismissal. The clearest and most significant connection concerns the differences among respondents by levels of income. Only 3 percent of those with far-above-average incomes reported fear of dismissal or unemployment, as against 28 percent of those with far-below-average incomes. Concurrently, 63 percent of high-income respondents did not fear dismissal at all, as against only 24 percent of those with far-below-average incomes. A similar correlation was found with respondents' education level.

The self-employed expressed a much higher sense of security. Thus, the proportion of self-employed who did not fear that a family member would be dismissed (or would not find work) was much higher than the proportion of salaried

employees who felt this way (55 percent vs. 34 percent). Arabs constituted another group of survey participants who expressed strong fear of becoming unemployed.

The next two questions in this cluster concerned the participants' income and working conditions. The first, related to income, was: *Have there been changes in your level of income in the past year?* The results (percent) follow.

Considerable improvement	17
Slight improvement	11
No change at all	50
Slight decline	17
Considerable decline	5

It is interesting that despite indications of an economic upturn, a higher proportion of the public reported a decline in income than an improvement – 26 percent vs. 17 percent. The picture on average for the survey population as a whole may not be so bleak, but the findings mask the differences experienced by distinct population groups.

Only 7 percent of the far-above-average income group reported a decline and almost none reported a considerable decline, as against 40 percent among the low-income group who reported a decline or a considerable decline in their income. The education factor showed a similar picture: 18 percent of the poorly educated (primary and partial-secondary education) reported a decline in income as against only 5 percent among those who had an academic education.

Presumably people with higher incomes and higher education work in places that are better protected by labor agreements and feel better protected against loss of income. By the same token, a significant share of the population among weak groups is employed by personnel agencies or in unprotected positions,

where employers exploit the economic crisis and the threat of dismissal to worsen their employees' working conditions.

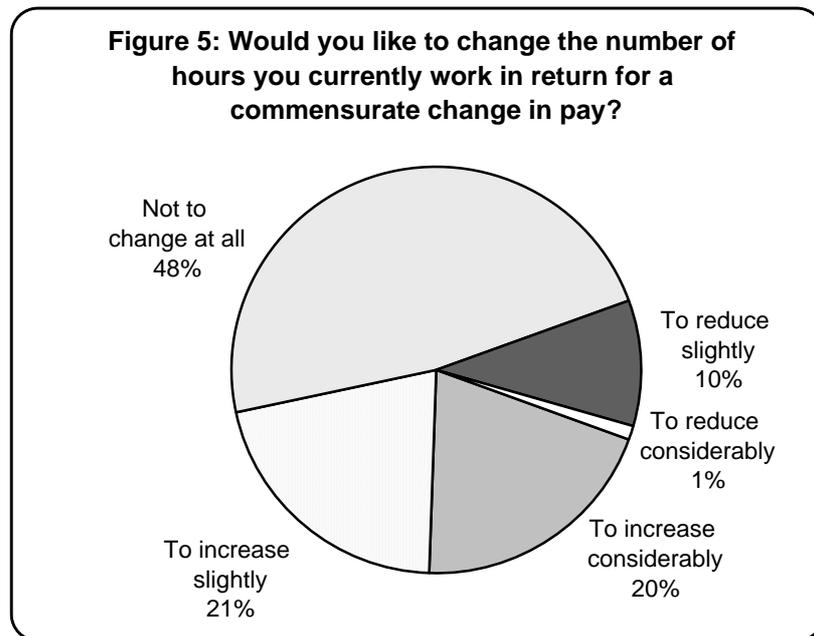
The second question concerned changes in working conditions other than income. The distribution of responses resembled that for the previous question (percent):

Considerable + slight improvement	12
No change whatsoever	66
Slight + considerable decline	21

It is evident that with regard to changes in working conditions, those with high incomes experienced less of a change for the worse than those with low incomes, and the poorly educated were harmed more than the well educated. Employees were harmed slightly more than the self-employed; women were somewhat worse off than men.

Another question in the employment cluster was designed to determine whether the public is content or merely "makes do" with the conditions of its employment: ***Would you like to change (increase or decrease) the number of hours you currently work in return for a commensurate change in pay?***

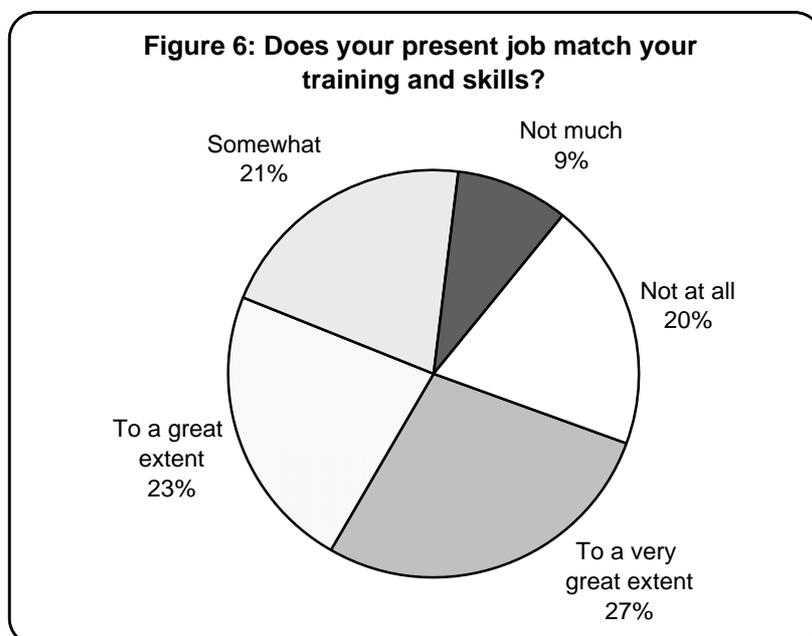
The responses are shown in Figure 5. They are consistent with the views expressed by the respondents that their current wage level is too low to meet living needs. A rather high proportion of survey participants – over 40 percent – would like to increase their number of work hours and their income, as against only 10 percent who would like to work fewer hours. The high proportion of respondents wishing to increase their hours may say something about an aspect of unemployment that is not reflected in the official unemployment figures. Instead, it is expressed in a sense of underemployment, i.e., unwilling employment in part-time jobs.



Which groups would like to work many more hours? Men more than women (24 percent vs. 18 percent), young people more than older people, the well educated more than the poorly educated (22 percent of university graduates vs. 15 percent of those with only primary schooling), the self-employed more than salaried employees (26 percent vs. 19 percent), low-income earners more than high-income earners (35 percent vs. 15 percent), and immigrants more than non-immigrants.

Who wants to work fewer hours? Arabs and those with far-above-average incomes were considerably more inclined than others to wish to reduce their work hours. Interestingly, women were less interested in increasing their number of hours than were men, a finding that corresponds with the preponderance of women in part-time positions.

The last question about working conditions concerned the respondents' sense of match between their place of work or type of occupation and their skills. The results are shown in Figure 6.



It transpires that almost 30 percent of the respondents believed that their work does not match their training and skills. This proportion seems very high; it may reflect a temporary situation, i.e., many people took jobs that did not correspond to their skills and expect the situation to change. This explanation would be satisfactory if the proportion of young people who gave this response were much higher than the rate of older people. Although there is an age correlation, it does not explain the findings. Thus, 37 percent of people aged 25–29 reported that their job does not match their skills, 24 percent in the 30–49 age cohort did so, and 29 percent of those aged 50–64 did the same.

Which groups stood out? The most significant group of dissatisfied respondents in this respect were the immigrants, 53 percent of whom reported that their job did not correspond to their skills. These feelings undoubtedly reveal the price of immigration and the situation of immigrants, who often have to compromise by accepting jobs that do not necessarily match their skills and training. There was also a high lack of correspondence among half of the pensioners. Presumably a large proportion of pensioners who wish or have to continue working and earning a wage must accept casual, temporary, or part-time jobs in order to supplement their pension income, and these jobs entail skills and experience that fall far short of those that they possess.

As a rule, it is possible to find a clear correspondence in the responses between the way the participants judged the match between their work and skills and abilities and their level of education and income. The higher the income and level of education, the higher the match reported.

An interesting finding shows that here, too, there is a difference between salaried employees and the self-employed. Most of the self-employed (67 percent) believed that their work matches their skills, as against 50 percent of employees. Similarly, only 19 percent of the self-employed, as against 29 percent of employees, believed that their work does not match their skills.

5. Personal Security and Vulnerability to Violence

Manifestations of violence in society are bound to social and cultural definitions and mean different things in different societies and at different times. Some would define shoving and an attempt to jump the queue as violence; others would regard this as normal behavior. Some regard crude language and profanity as acts of violence; others view them as nothing more

than coarseness. The survey questions concerned criminal violence and criminal offenses. Since the term violence was not precisely defined in the survey, the responses should be treated with caution and the reader should assume that the survey participants view violence in different ways. There is no doubt, however, that the Israeli public has a rather broad consensus about many manifestations of violence, their classification, and their gravity, particularly in respect to criminal violence. There is also a consensus about the contribution of this element to an individual's sense of well-being.

Respondents were asked three questions about exposure to crime and violence. The questions examined the issue at three levels, first concerning the sense of vulnerability to violent crime. This question has been asked in all surveys since 2000 and reflects the public's changing sense of the matter over those years. The second question asks whether the respondents and members of their families had actually been victims of personal crime. In the third question, respondents were asked if they had changed their habits in view of their sense of being increasingly vulnerable to violence.

The first question was: *To what extent do you and members of your family feel vulnerable to violent crime and criminal acts?* The results (percent) follow.

	2000	2001	2002	2003	2004	2005
To a very great extent	6	5	8	8	8	9
To a great extent	11	12	11	11	11	12
To some extent	23	24	22	21	27	23
Slightly	29	29	23	23	20	21
Not at all	31	29	36	37	34	35

The most significant finding from the questions in this cluster is that the public lacks a sense of personal security. Only 35 percent of participants stated that they were not exposed to violence at all, more than a fifth (21 percent) reported a strong

or very strong sense of vulnerability, about a quarter felt somewhat exposed to criminal violence, and 21 percent felt only slightly exposed. These results take on a graver complexion when compared with those of previous years because they show an increase in the extent of the violence felt by the public. Thus, a higher proportion responded that they are severely or very severely exposed to violence, as against a minor decrease in reporting of slight exposure (particularly compared with 2000 and 2001). In contrast, the proportion of respondents who do not feel exposed to violence at all rose slightly, from around 30 percent in 2000 to 35 percent, as stated, in 2005.

Weak social groups were found to have a higher sense of being exposed to criminal acts and violence. Thus, whereas 20 percent of the population at large felt severely or very severely exposed, 25–27 percent of respondents among the 50+ age cohort, FSU immigrants, those with primary or partial-secondary education, pensioners, and those with far-below-average incomes felt this way.

A very large increase in the sense of vulnerability took place in the 65 and over age cohort. In 2003, only 4 percent of respondents in this age group reported that they felt very exposed to personal crime; in 2005, the percentage rose to 12. Furthermore, the share of seniors who felt wholly unexposed fell from more than 50 percent in 2003 to only 36 percent in 2005. There was also a very large increase in the sense of vulnerability in the 25–29 age cohort, from 15 percent in 2003 to 22 percent in 2005.

Interestingly, there was almost no difference between men and women in the findings about the vulnerability to crime. FSU immigrants felt more exposed to criminal activity than non-immigrants, and the more religious the population, the less exposed it felt to violent crime. In regard to the *haredim*, this may be explained by their living in separate neighborhoods that pursue a unique way of life characterized by insularity.

The second question, not asked in previous surveys, related not to the sense of vulnerability but to actual attack: *Have you or anyone in your family recently been the victim of violence that was directed at you?* The results (percent) follow:

Very often	0.5
Often	1
Several times	5
Once or twice	8
Never	86

Some 86 percent of the public responded that they had never been victims of personal crime. However, 15 percent responded that they had experienced and been exposed to violence and criminality. The 25–29 age cohort was often exposed to criminality and violence. The groups that spoke of fewer attacks included those aged 65 and over, those with primary or partial-secondary education, the *haredim*, and the religious (among whom more than 90 percent had not been attacked even once).

The third question, also asked for the first time in 2005, was: *Have you or anyone in your family changed your behavior or habits to avoid being exposed to manifestations of violence?*

The responses are shown in Figure 7.

The responses to this question are particularly interesting. Although 85 percent of the interviewees had not experienced crime or been exposed to violence, only 65 percent reported that they had not changed their behavior and habits to prevent such exposure. This response corresponds with the first question, indicating that the sense of exposure to violence is greater than the rate of actual incidents. The 25–49 age cohort was conspicuous among those who responded that they had changed their behavior patterns.



6. Health Care

Israel's health care system has undergone many changes in recent years. For over a decade, the State Health Insurance Law has established a "basket" of services to which the public is entitled. All persons with resident status are entitled to services from the sick fund of their choice and are entitled to change sick funds. What is more, the level of health care in Israel is considered rather high by international standards. Over the years, however, the burden of patient co-payments – for visits to specialists, essential treatments, the use of x-ray and imaging services and other medical apparatus or equipment, and, of course, medicines – has been rising. The chapter on health care in this Annual Report shows that the share of private funding rose again in the past year, to 30 percent of total national health expenditure.

The public's satisfaction with the health services has been examined since the first Taub Center Survey in 1999. This year, the public was again asked what it feels about the health care services that it receives. Since this is one of the areas in which the public's feelings have been monitored continuously² this year's findings are further validated by the continuity of the survey results. After asking about the level of health care services, respondents were asked whether they had forgone essential services due to difficulty in affording the co-payments.

The first question was: *Compared with the situation a year or two ago, do you think there has been any change in the level of health services that you and your family receive?* The results (percent) follow:

	1999	2000	2001	2002	2003	2004	2005
Significant improvement	7	14	10	12	3	5	4
Some improvement	29	35	28	30	13	18	14
No improvement	44	41	50	35	53	40	55
Some deterioration	14	9	10	15	21	23	18
Significant deterioration	6	1	2	8	9	14	9

The findings point to a change in the level of the public's satisfaction with the services that it receives, particularly since 2003. The decline began in 2000 and has intensified. The proportion of the public that reported a sense of improvement was high in the early years (particularly those who reported **some** improvement) but has been declining steeply since 2003.

² Although the question about health care services has appeared in the survey every year, the wording varied slightly. From 1999 to 2002 and again in 2004, it related to the health care services in a general manner while in 2003 and 2005 respondents were asked in a personal way about the services that they and their families received.

Interestingly, the respondent's level of education and income did not significantly affect the responses. Age, however, did play a part; the older the participants were, the greater their tendency to respond that the level of their health services had declined. This means that the "heavy" users of health care services, for whom the services should be more accessible, are less satisfied than the public at large.

It is also interesting that the *haredim* and the Arabs report an improvement in health care services – a trend that was also observed in the past. External data about the geographic distribution of health services and improved accessibility to services in these sectors may help explain the survey findings.

The next question that was asked elicited one of the most serious findings of the survey in regard to health care and corroborates similar findings from other public opinion polls: *In the past year, have you or has anyone in your family refrained from obtaining an essential medical service, such as an appointment with a doctor, the purchase of medication or medical equipment, etc., because of the price that you have been asked to pay for the service?* The results (percent) follow:

	2003	2004	2005
Very often	1.5	2	2
Often	3	4	3
A few times	7	9	10
Once or twice	7	7	7
Never	80	78	78

This question was asked for the third consecutive year and the picture that emerges from the responses is troubling. Some 20 percent of respondents had to forgo an essential medical service at least once during the past year and the share of responses in all categories (except for "never") has been climbing. The most troubling finding is the high rates of elderly

and FSU immigrant respondents who had to forgo an essential medical service at least once – approximately one-third.

The correspondence between income and education and use of services is particularly significant: 96 percent of high-income participants and approximately 80 percent of those with academic education did not have to forgo an essential medical service even once, in contrast to 15 percent of the poorly educated and 10 percent of low-income participants who responded that they had had to forgo an essential medical service very often.

7. Education

Education has been prominent in the public debate during the past year. The press and electronic media, as well as many public and professional forums, have devoted time and space to discussing the recommendations of the new reform proposed by the Dovrat Commission. The discussion has revolved around issues related to the teacher training, dismissal, classroom hours, and total teacher workloads, and the possibility of moving to a five-day school week. The discussion also related to questions of curriculum, such as the decision to make all school systems adopt a compulsory core curriculum.

Each year the Taub Center Survey examines the public's attitude toward the quality of the education system, its contribution to narrowing social disparities, identification of the system's main problems, and the measures required to solve them. Given the public's great concern about education issues, this year's Social Survey examined the topic in greater depth and devoted more questions to it. Some of the questions had been asked in previous surveys; others appeared in 2005 for the first time.

In a new question the survey looked into the extent of resources available to the education system. Respondents were asked: *What is your opinion of the extent of resources*

currently allocated to the education system? The response was unequivocal: a sizeable majority (84 percent) believed that the system deserves more than it is getting. Most respondents, however, also believed that the increase should be implemented mainly by revising the budget priorities and not by charging parents more or earmarking a tax increase for education.

The Arabs stood out in the high proportion of responses, relative to those of the population at large, in favor of augmenting the budgets by means of parental payments. This may derive from the fact that, generally speaking, the level of parental payments in this sector is much lower than the accepted level in the Jewish sector.³

The results (percent) follow.

Resources should be increased, mainly by increasing parental payments	5
Resources should be increased, mainly at the taxpayer's expense	19
Resources should be increased, mainly by cuts elsewhere	58
The current level of resources is adequate	12
The level of resources should be reduced	4

Interestingly, although the proportion of respondents who favored increased parental payments as the way to increase the education budget was low overall, it was twice as high among the poorly educated than among the well educated and slightly higher among those of low income than among those of high income. This unexpected finding may be a result of the relatively large sums that the well educated and the well off are already spending for their children's education; consequently, they may be unwilling to pay more. Those with lower education and income, in turn, are paying less; their attitude may be based on the assumption that the burden of further parental funding

³ There are also differences within the Arab sector. For example, parental payments for children at private church-run schools are rather high.

would not fall on them. Alternatively, since they pay relatively little at the present time, they may be willing to increase their funding of education due to their awareness of its immense importance.

The question *Where should the emphasis be placed in order to improve the education system?* has been asked in almost all previous surveys (excluding 2003), although the response options have varied slightly over the years. The responses in the first three surveys showed significantly that the measures most strongly preferred by the public to improve the education system were to reduce class size and improve the level of teaching. In the past two years, 2004–2005, when different options were offered, the responses were divided: about a quarter preferred smaller classes (26 percent), roughly a quarter chose altering the curriculum (23 percent), slightly under a quarter (21 percent) opted for reducing school violence, and a similar proportion (20 percent) favored improving teachers' pay. Only 10 percent opted for extending the school day.

The differences in preferences become visible when the subgroups of respondents were examined separately. Women favored smaller classes more than men did – 30 percent vs. 21 percent, respectively. Reducing class size was also preferred by over 30 percent of the 50–64 age cohort, those with an academic education, non-religious Jews, and people with above average incomes. Those with primary and partial-secondary schooling had different priorities: 38 percent of them considered reducing violence paramount, followed by improving teachers' pay; a smaller proportion – 12 percent – favored smaller classes. This may be an appropriate set of responses for schools that serve weaker population groups, where improving school infrastructure and extending the school day (or adding hours of study) are not the highest priorities.

	1999	2000	2001	2002	2004	2005
Improve teachers' pay	..	..	..	31	21	20
Make classes smaller	35	31	30	25	14	26
Extend the school day (or add hours of study)	17	15	18	17	10	10
Revise the curriculum	..	..	..	20	23	23
Reduce school violence	..	..	..	..	31	21
Improve the level of teaching	32	42	42	..	..	..
Improve school infrastructure	10	12	12	6	..	..

.. option not offered that year

As for raising teachers' salaries as opposed to dealing with other issues in the education system, it turned out that only 20 percent of the public made this their top priority. In view of the intense public debate over teachers' pay, an explicit question about this issue was included for the first time this year: *The average teacher earns about NIS 7,000 per month, similar to the national average wage. In your opinion, what should the target for teachers' salaries be?* The results (percent) follow:

Much higher than the national average wage	23
Slightly higher than the national average wage	35
No change	37
Slightly lower than the national average wage	4
Much lower than the national average wage	1

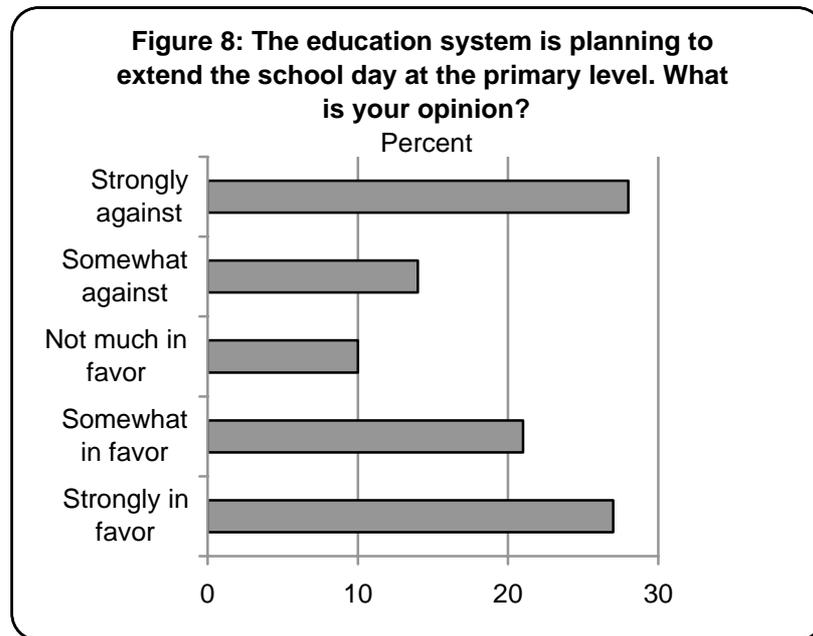
The public believes that the teachers deserve a raise (23 percent believe they should receive a large one and 35 percent a small one). Another 37 percent of respondents think that teachers' pay should be left as it is and only 5 percent believe that it should be reduced.

There was a clear correspondence between education level and income and the opinion that teachers' pay should be increased. The higher the respondents' income and education,

the stronger their attitude about the need for an increase in teachers' salaries. Respondents in the weaker groups (low income, poor education, and FSU immigrants) tended less often to recommend pay increases for teachers than those belonging to more affluent social strata. The self-employed also favored a pay increase for teachers more than salaried employees did.

The next question pertained directly to a key recommendation in the Dovrat Commission Report about extending the school day. The education system has concerned itself with this question for years; the Knesset passed the Long School Day Law in 1997 and the government drafted a plan for its implementation. Nevertheless, implementation has been postponed every year except for a few selected parts of the system. The Dovrat Commission Report included this element in its recommended reform of the education system. The question was: ***The education system is planning to extend the school day at the primary level to 4:00 p.m. and to eliminate classes on Fridays. What is your opinion?*** (Strongly in favor, Somewhat in favor, Not very much in favor, Somewhat against, and Strongly against). The results appear in Figure 8.

About half of the respondents (48 percent) somewhat favored or strongly favored extending the school day and eliminating school on Fridays. Another tenth of the public was not highly in favor of this proposal. Less than half the respondents, 42 percent, opposed the long school day.



It is interesting to examine which groups favored the reform more and which less. Socio-economically weaker groups viewed the long school day more favorably than economically stronger groups did. The Arabs and the *haredim* were exceptions to this pattern; they expressed opposition to the proposed option. The *haredim* may have felt this way because the option is linked to eliminating classes on Fridays and since their schools already offer a long school day. They may also have been expressing fear of losing resources, directly or indirectly, if the long school day were introduced throughout the system, because this would deprive them of an advantage that their schools offer the public (a unique feature of the *haredi* sector).

8. Government Socio-Economic Policy

In this section several questions asked the respondent to rate directly the government's socio-economic policy. First, respondents were asked about the economic policy in general; then they were asked about the effect of the government's policy on social disparities and the success of the policy in reducing unemployment and expanding employment.

The first question tapped the public's attitude toward government policy in broad general terms. Since the question was also asked in the previous survey, it was of interest to ask it again in view of indicators of an economic upturn during the past year.

The question was: *To what extent are you in favor of/against the government's economic policy?* The results (percent) follow:

	2004	2005
Strongly in favor	12	10
Somewhat in favor	21	25
Not much in favor	18	20
Somewhat against	18	17
Strongly against	32	27

The responses indicate that the level of support for the government's economic policy has hardly changed; most of the public (65 percent vs. 67 percent last year) continues not to support it. This does show, however, that the extreme reactions to the government's economic policy were slightly less extreme. Thus, the distance between those strongly opposed and those strongly in favor narrowed a bit, from 20 percentage points in 2004 to 17 percentage points in 2005.

Like last year, when respondents are divided by gender the replies show that the proportion of women who supported the plan was lower than that of men (31 percent vs. 41 percent).

This finding stands out even though the proportion of women supporting the plan increased this year while the percentage of men hardly changed. Age did not affect the level of support, apart from slightly above-average support in the 25–29 age cohort – 41 percent vs. the general average of 35 percent.

Supporters and opponents of the policy were differentiated by income group, though. Last year, 22 percent of the far-below-average income group favored the policy, as against almost 60 percent of the high-income group. The rate of support among the low income group did not change but support in the high income group fell to 47 percent. This is an unexpected change, since the economic policy has allowed those with high incomes to move ahead. The changes at the other end (the opponents) also point to similar development in the public's attitude. Last year, 63 percent of low income respondents opposed the policy strongly or somewhat while only 26 percent of those with far-above-average incomes felt this way. The results from the latest survey were 58 percent and 32 percent, respectively. Thus, low income respondents toned down their opposition but the proportion of opponents among the high income group rose.

This finding is contrary to expectations, and it may suggest that the main beneficiaries of the current economic policy – the high income group – are increasingly aware of its negative social aspects. Similar attitudes toward the policy were expressed when respondents were divided by education level. Notably, however, both the poorly educated and the highly educated favored the policy this year at a rate 5 percentage points higher than last year, while the rate of opposition remained the same.

Several groups stood out from the rest of the population in their response patterns. Particularly significant was the strong and growing opposition of the *haredim* to the economic policy: their rate of opposition rose from 72 percent to 82 percent between 2004 and 2005. Noteworthy in contrast was the strong

support of FSU immigrants for the economic policy, which rose from 34 percent in 2004 to 48 percent this year. In both years, the FSU immigrants expressed different opinions from those of the public at large on quite a few issues, particularly in comparison to the non-religious.⁴

Thus, the general public opposes the economic policy despite reports of its success. Importantly, the opposition was less strong in 2005 than in 2004, steady among the weaker strata, and lower among the well educated and affluent groups.

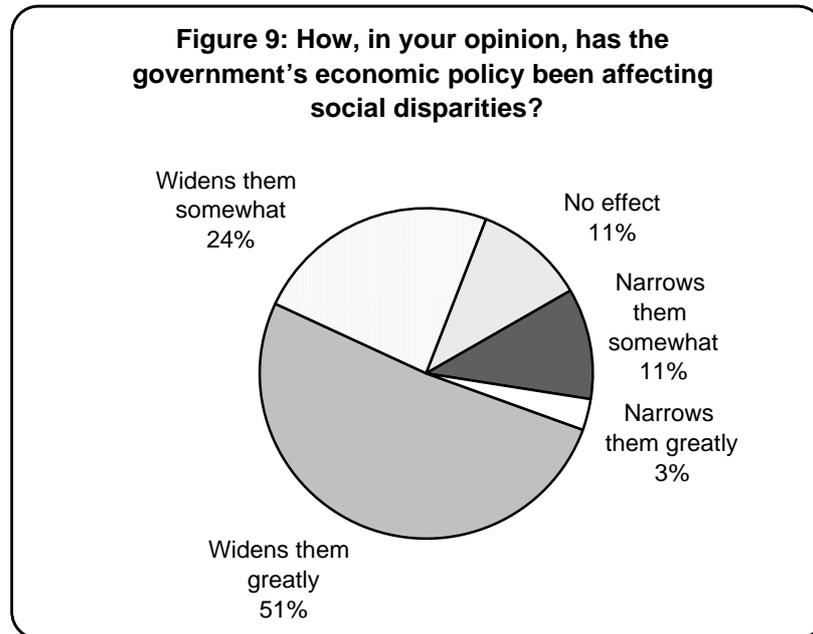
The feelings elicited by the previous question and the differences that were found among different population groups are related to the issue of social disparities. The disparities issue was included in this cluster of questions in order to examine the public's opinion about what the government policy has done to narrow or widen them.

The question was: *How, in your opinion, does the government's economic policy affect social disparities?* (Widens them greatly, Widens them somewhat, Does not affect them, Narrows them somewhat, Narrows them greatly) The results appear in Figure 9 below.

Assuming that one purpose of any social policy is to narrow social disparities, the public's response to this question represents a pointed condemnation of government policy. More than half the public believes that the government's policy is widening the disparities greatly and another quarter believes that it is doing so to some extent.

The public does not seem to believe that the government policy aims at narrowing the disparities; its high rates of response in this matter exhibit no large differences among subgroups. Nevertheless, the better educated respondents were, the more critical they were of the government policy. The *haredim* stood out for their critical attitude.

⁴ One should bear in mind that since much of the FSU immigrant group belongs to non-religious public, the differences are actually even greater.



Reducing unemployment is also supposed to be one of the government's main goals, alongside the aspiration to reduce social disparities. Unemployment has been a central issue on Israel's social agenda for years; the government has undertaken to make perceptible efforts to find employment solutions, on the one hand, and to protect the unemployed, on the other. This survey asked the public what it thinks about the government's success in attaining this goal.

The question was: *What is your opinion of the government's success in increasing employment and reducing unemployment?* The results (percent) follow:

Very successful indeed	2
Very successful	8
Somewhat successful	24
Not very successful	36
Totally unsuccessful	30

Most of the public (66 percent) believes that the government has not succeeded. Particularly critical were the *haredim* and those with far-below-average incomes, 45 percent of whom replied that the government had failed **totally** in its effort to reduce unemployment. However, even one-fourth of people with high incomes and higher education, the groups that have benefited most from government economic policy in recent years, shared this view. Women were more critical than men; 71 percent of them, as against 60 percent of men, believed that the government policy in this area had not been very successful or had totally failed.

9. Value Priorities of the Public

This year the survey again examined several dimensions of respondents' ideological value system. The first question concerned the goals that ostensibly guide policy. This question complements the questions in the previous section about the public's attitude toward government policy and its goals and achievements.

The first question was, *Some claim that there is a conflict between a policy that aims to narrow social disparities and a policy that promotes economic growth.* The purpose was to gain an impression of the public's attitude toward the possibility of tackling these two perennial serious problems on Israel's economic agenda and to infer respondents' priorities. The results (percent) follow:

	2003	2005
There is a conflict and narrowing disparities should come first	34	33
There is a conflict and economic growth should come first	30	26
There is no conflict between these two courses of action	36	41

Analysis of the responses was not simple. First, 127 respondents – almost 13 percent of the total – did not respond at all (a significantly high rate relative to the share of non-response to other questions). Second, notably, more than 40 percent of those who responded believe there is no conflict between these courses of action (a higher proportion than in 2003). From the respondents who claimed that there is a difference between the goals and expressed a preference, one can gain some impression of the country's social mood.

First, the groups are not far apart but a larger proportion of the total sample considered it preferable to narrow social disparities. Comparison of the distribution among subgroups with the distribution of the sample as a whole (the overall average) focuses the spotlight on several groups. FSU immigrants preferred economic growth to the narrowing of disparities (35 percent vs. 23 percent, respectively); those with primary or partial-secondary education showed a similar preference (35 percent vs. 26 percent), and Arabs and pensioners did the same. Salaried employees preferred to narrow disparities more strongly than the self-employed did, but the groups that preferred this option most clearly were the *haredim* and the unemployed. No real difference was found in the preferences of the population when they were divided by income.

The second question concerned the universal nature of National Insurance benefits: ***National Insurance benefits are given to all households with children, to all persons of pension***

age, etc. In your opinion, should benefits to high income population groups be reduced or eliminated?

The question has a distinctly “ideological” nature because it tackles the dilemma of choosing between universal and selective transfer payments. Support for universality stresses, among other things, the insurance nature of the benefits. It strives to prevent social stigma and to preserve the value of the benefits. The preference of selective benefits, in contrast, is prompted chiefly by considerations of efficiency (focusing on helping the needy) and preventing the wastefulness of paying benefits to people who do not need them.

The results (percent) follow:

	2002	2003	2004	2005
Eliminate them entirely	33	38	41	30
Reduce them very greatly	8	10	8	10
Reduce them greatly	17	21	18	17
Reduce them slightly	16	16	13	14
Leave things as they are	26	15	20	28

Public opinion on this matter changed somewhat last year. Between 2002 and 2004, the preference for selective payment showed an upward trend; in 2005, the pro-universality view, reflecting the opinion that benefits should not take the beneficiary's current income into account, made a comeback. In a complementary finding that stood out this year, more people believed that the situation should remain as it is and fewer recommended eliminating benefits for those with high incomes. Importantly, the change was reflected in the intensity of feelings and opinions on this subject and the differences among the population groups. Most of the public, however (72 percent as against 80 percent last year) still seems to believe that some kind of means test should be applied.

The group that stood out most in its demand to eliminate benefits for the high income population was the 50–64 age cohort (40 percent in 2005, 52 percent in 2004, 45 percent in 2003). The groups that were most conspicuous in favoring the status quo, like last year, were the Arabs (40 percent) and the self-employed (38 percent). The distribution of responses in 2005, as in 2004, was only slightly affected by the respondents' financial situation. Among the respondents as a whole, however, support for eliminating benefits for the economically well-off decreased from around 40 percent to approximately 30 percent.

Another value priority question concerns *education*. Respondents were asked about the contribution of the education system toward narrowing social disparities, an issue raised many times in earlier surveys. In all previous surveys, it was found that respondents think the education system is not contributing enough toward narrowing educational and social disparities and may even be contributing to them. Given this view, coupled with the prominence of the education issue on the public agenda, respondents were asked how important they think this issue is relative to scholastic achievements.

The question was: *What, in your opinion, should be the main consideration in resource allocation for the education system?* The results (percent) follow:

Distinct preference for pupils of weak socio-economic background	36
Distinct preference for pupils who have strong scholastic achievements	11
Standard allocation for all pupils	53

Responses were surprising. Given the findings of the previous surveys, the expectation was that respondents would prefer that the education system strive to narrow disparities, i.e., to prefer a policy of affirmative action in the allocation of Education Ministry resources. Instead, most respondents prefer a

policy of “official” equality, reflected in standard allocation of resources rather than affirmative action. Nevertheless, it should be noted that the proportion of respondents who believed that affirmative action should be the main criterion in allocating resources was three times greater than those who think high achievers deserve preference. The groups that most strongly favored affirmative action for socio-economically weak pupils were those with low education and religious Jews.

FSU immigrants, on the other hand, expressed different opinions. Only 28 percent of them believed that pupils of weak socio-economic background deserve priority and 36 percent believed that priority should be given to outstanding pupils.

Another sphere that was included among the value priority questions was *labor relations*, with emphasis on the importance that respondents attach to union involvement in making decisions that affect workers. The labor relations system has undergone many changes in recent years. The status of the unions seems to have fallen somewhat; this is connected to the decline in the status of the *Histadrut* (General Federation of Labor) in the eyes of workers and the public at large.

Earlier surveys indicated that the respondents felt the contribution of labor organizations like the *Histradrut* toward protecting workers' rights had decreased. In the 2003 survey, over half of the participants believed that the unions offer workers little protection or none at all (see table). In 2001, a smaller proportion of respondents felt this way.

The question in the previous surveys was: ***To what extent do you think that trade unions such as the Histadrut protect workers' rights?*** The results (percent) follow:

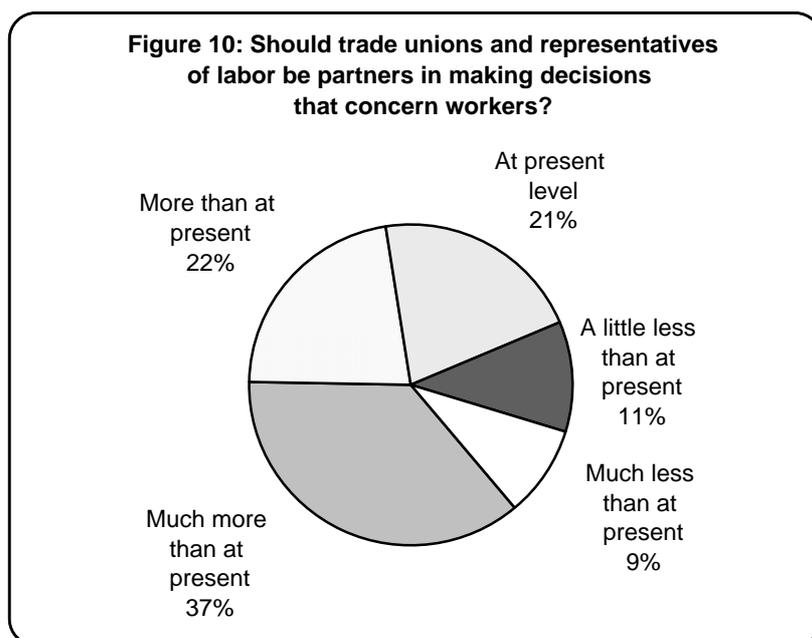
	2001	2003
To a very large extent	5	6
To a large extent	13	12
To some extent	39	31
To a small extent	28	21
Not at all	16	30

In this year's survey, respondents were asked, *Should trade unions and representatives of labor be partners in making decisions that concern workers?* The responses seemed to contradict the dim view of trade unions that had been expressed in the previous surveys. Almost 60 percent of the participants believed that trade unions should play a greater role in decision making than they normally do today. The results are shown in Figure 10.

Thus, while the public is critical of the contribution of trade unions to workers' welfare, it neither opposes nor belittles the involvement or importance of these organizations. On the whole, the public continues to believe that trade organizations have a role to play in labor relations and actually would like to see them become more involved. In the respondents' opinion, the idea of an organization that protects workers is not bankrupt; more than one-third chose the option of "much more [involvement] than at present."

Not all respondents shared this "socialist" attitude. First, the higher their income, the more they opposed union involvement in decision-making. Whereas 70 percent of low-income respondents believed that unions should be more involved than today in making decisions that concern workers, only 47 percent of high income respondents felt this way. The disparity is large and unsurprising; it is only surprising that half of the high income respondents believed it important to increase the involvement of labor organizations in decision-making.

A significant difference was found between salaried employees and the self-employed (some of whom, of course, are also employers): 60 percent of the former and only 36 percent of the latter favor more union involvement. Interestingly, however, more than one-third of the self-employed thought that union involvement should be increased.



FSU immigrants were relatively more opposed to the involvement of the trade organizations than the population at large. This attitude may derive from a tendency to reject anything reminiscent of socialism and the world they left behind.⁵ Even so, 51 percent of this group still believed that the unions' involvement should be increased.

⁵ For more extensive treatment of this topic, see the Social Survey chapter in the Taub Center report, *Israel's Social Services 2004*.