

## **Resource Allocation: Summary of Findings**

The state budget, presented to the Knesset, includes a sizable allocation for the social services – education, health, personal welfare services, housing, and immigrant absorption. Complementary to these, the National Insurance Institute offers an array of in-cash services: old-age and survivors' pensions, child allowances, disability benefits, unemployment compensation, and miscellaneous payments under the Income Maintenance Law, to name only a few. Our analysis of the state budget brought the following facts to light:

### **State Budget**

- 1) The state budget, including National Insurance, is NIS 226 billion – 1.7 percent higher in real terms than the original 1999 budget.
- 2) If the government's forecast of economic growth proves accurate, the proposed budget will be smaller than the 1999 budget by 1 percent of GDP (Gross Domestic Product), pursuant to a long-term downtrend in the share of government expenditure in GDP.
- 3) Over the past two decades, the share of government spending in the Israeli economy has declined significantly. At the beginning of the period, the state budget (not including debt servicing) consumed about half of GDP; by the end of the period, this share had declined steadily to about one-third of GDP.

### **Social Expenditure**

- 4) Government social spending is projected at NIS 88 billion (in 1998 prices) up by NIS 1 billion or 1.2 percent in real terms.
- 5) This growth rate will fall short of the predicted growth rates of economic activity, total government spending, and the population. Indeed, the per-capita expenditure, NIS 14,056, will be 1.2 percent lower than in 1999.
- 6) The in-kind services – education, health, personal social services, housing, and immigrant absorption – are facing an absolute decrease of about NIS 500 million.
- 7) The decrease will focus on the investment (development) component of social spending, which will decline by about NIS 700 million. In contrast, expenditure for in-kind services through the current budget will increase by NIS 250 million.
- 8) Among the in-kind services, education spending will decline by NIS 120 million, health spending will increase by NIS 130 million, and spending on other components will contract by NIS 400 million.

### **Long-Term Developments**

- 9) Israel underwent several far-reaching changes in the first half of the 1990s, among them mass immigration from the former Soviet Union, the inception of the peace process with the Palestinians, and the resumption of economic growth. During this time, government social expenditure grew at an average annual rate of 8.7 percent, and within this aggregate the in-kind services expanded with particular vigor (10.1 percent per year). This growth reflected the reprioritization that the government proclaimed in 1993.
- 10) In the second half of the decade, even though the government decided to reduce its deficit by cutting the budget, government social spending continued to grow. The main contributory factor was demographic change, but the onset of the economic slowdown also played a role, for example, by

causing an increase in outlays for unemployment compensation and income maintenance.

### **Income Maintenance**

11) The patterns of income-maintenance expenditure – payment of various benefits – are different from those of the in-kind services. In most of the 1980s, the share of income maintenance in total social expenditure climbed and that of in-kind services declined. The trend reversed direction in the early 1990s, but since 1993 the share of income-maintenance expenditure has again been rising steadily and that of in-kind services has been falling.

12) The largest component of income-maintenance expenditure is for old-age and survivors' benefits. Child allowances are the second-largest; their main function is to help improve economic-income distribution and to correct the income-tax base, in which the rates hardly take account of family size.

13) The increase in allowances, as stated, also reflects the lengthy economic slump: unemployment – compensation and income-maintenance expenditure climbed from 10 percent of National Insurance outlays in 1990 to 16 percent in 1998. In absolute real terms, a threefold increase has occurred during the current decade, with large sudden increases in years of pronounced economic downturn, such as 1992, 1996, 1998, and 1999.

### **In-Kind Services**

14) Education is the largest component of government social expenditure and, after defense, the largest item in the state budget. **National** education expenditure (government plus private) increased in the past decade from 8.5 percent of GDP to 10.5 percent.

15) The share of education in the government's total social expenditure climbed from 23 percent at the beginning of the

decade to 30 percent at its end. Health expenditure, in contrast, remained stable in absolute terms during the 1990s and eroded somewhat in relative and average per-capita terms.

16) National health expenditure is 8.4 percent of GDP. The share of government funding in national health expenditure has declined from more than 53 percent in past years to 47 percent in the present decade.

17) The government is a main player in funding social services for population groups in distress. In the past half-decade, expenditure has increased more rapidly in this field than in education and health, but the change has focused on one component of these services: long-term care benefits, in which the growth trend has been more similar to that observed for income-maintenance programs than for other in-kind services.