

# Social Investment in Israel

**John Gal, Shavit Madhala, and Guy Yanay**

## Taub Center for Social Policy Studies in Israel

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Translation: Julie Rosenzweig / Sagir International Translations Ltd.  
Editing and lay-out: Laura Schreiber

Center address: 15 Ha'ari Street, Jerusalem, Israel  
Telephone: 02 5671818 Fax: 02 5671919  
Email: [info@taubcenter.org.il](mailto:info@taubcenter.org.il) Website: [www.taubcenter.org.il](http://www.taubcenter.org.il)

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## Abstract

Traditionally, the main role of the welfare state has been to ensure social protection for individuals with insufficient income and resources to meet their needs. An alternative approach to the role of welfare states is that of social investment, which underscores the capacity of welfare states to not only redistribute resources, but to contribute to their creation. The social investment approach assigns the welfare state an important role in enhancing human capital, so that individuals can realize their full potential and, in so doing, it promotes economic growth. Although the idea of social investment has not yet become entrenched in Israeli public discourse, an array of social initiatives undertaken in recent years — investment in early childhood education and care, active labor market policies that promote work force integration, and the Saving for Every Child program — promote social investment on a practical level. Indeed, the findings of the current study suggest that the share of social expenditure devoted to social investment in Israel has grown over the past decade, and is higher than that of other welfare states. However, because total social expenditure in Israel is low, social investment spending is still relatively low as well. This study looks at the advantages and limitations of social investment in Israel and in other welfare states. The emphasis is on how the adoption of social investment policies affects efforts to fight poverty and inequality. The tendency of social investment programs to benefit stronger populations, rather than those living in poverty, is also examined. The study conclusions highlight the potential embodied in social investment policy, but these programs need to be accessible to marginalized populations, and the welfare state's role as social protection provider should not be compromised.

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\* Professor John Gal, Principal Researcher and Chair, Social Welfare Policy Program, Taub Center; The Paul Baerwald School of Social Work and Social Welfare, the Hebrew University of Jerusalem. Shavit Madhala, Researcher, Taub Center. Guy Yanay, Research Assistant, Taub Center for Social Policy Studies in Israel.

## Introduction

The crisis sparked by the coronavirus pandemic has underscored the welfare state's importance in times of trouble, when the free market is unable to meet the needs of individuals and families. The crisis also highlights issues pertinent to the welfare state's role in more normal times. Should its primary function be to ensure economic security for those whose income, for a variety of reasons, is inadequate, or is it no less important to cultivate the individual's skills and abilities to ensure their optimal integration into the labor market? Should the welfare state adhere to its traditional role of correcting the negative effects of market failure on individuals and families **after the fact**, or should it also engage in **preparation and prevention** by, for instance, creating systems that enable individuals to realize their full potential and navigate smoothly through periods of crisis, until they can once again actively participate in the labor market and the economy? Should the welfare state play a role in encouraging growth and development, rather than simply providing social protection? Is it even possible to tackle inequality and poverty while also promoting skills acquisition and the upgrading of human capital? And if so, where is the policy balance between these two goals?

In recent years, these issues have been central to public discourse on the welfare state. They relate to the way in which society's resources are distributed among population groups and social programs, and to priorities regarding the features and operating modes of these programs. This discussion focuses on the need to adapt the welfare state and its myriad systems to the post-industrial age and to the dramatic demographic changes currently underway; it also relates to the social, economic, and labor market impact of these processes. Those who favor transforming the structure of the welfare state seek to go beyond the traditional focus of extensive resource allocation for social protection, mainly through, or under the responsibility of, public systems. They advocate correcting the neo-liberal trends of the past few decades such as the shrinking of the role of the state, a sweeping adoption of free market mechanisms, and the assignment of responsibility to individuals for their own welfare. Instead, they argue, we should strive for a welfare state that puts the idea of social investment front and center.

## Social investment

The social investment approach emerged in response to difficulties faced by the traditional welfare state. These difficulties resulted from social risks created by economic and demographic processes that challenged the welfare state's central programs, which were oriented toward providing social protection and advancing social equity. The processes included the aging of the population with its implications for the pension and social benefit systems; technological developments and their impact on the labor market, especially its effects on the employment of low-skilled workers; and changing family structures, e.g. a greater prevalence of single-parent families, women's growing participation in the labor market, and delays in childbearing — issues that pose work-life balance difficulties.

A number of studies and policy papers published in the early 2000s by social investment advocates (Esping-Andersen, Gallie, Hemerijck & Myles, 2002) propose changes to the welfare state to help it meet these challenges. An underlying premise is that it is wrong to view social policy as a burden on the economy. Rather, the welfare state can be a productive factor vital to economic growth and the expansion of employment. Supporters of the emerging social investment approach seek to address features of the post-industrial economy and labor market, with their associated social risks. Two main paths toward handling these issues are proposed: the adoption of social policies that focus on the individual throughout their lifespan, and the realization that social policy tools are a vital means of dealing with gender-related aspects of family and work life.

Over the two decades that have passed since the social investment idea was first formulated, three major goals have been defined for it (Van Kesbergen & Hemerijck, 2012). The first goal is that of investing in the development of human capital throughout the individual's lifespan, from early childhood on. The second goal is to make the most effective possible use of this human capital, through systems that encourage full employment for both women and men, and through labor market regulation and protections that make it possible to enter and leave the market place easily. The third goal is to encourage social inclusion through a concentrated effort to integrate marginalized social groups. A variety of policy fields have been identified where this approach can be adopted and where policies can be implemented that differ from classic welfare state policy and from those inspired by the neo-liberal outlook. These areas include: early childhood education and care;

schooling and higher education; lifelong learning; programs to facilitate the work-life balance and women's employment; programs to encourage active aging; and improving occupational skills. The programs promising access to quality education systems from early childhood through higher education are intended to enhance human capital so as to ensure optimal integration in the knowledge and service economies. The programs that focus on the labor market, such as those offering vocational training and activation, aim to maintain workers' abilities and upgrade their skills with changes in the world of work, enable workers to navigate job changes as well as the possibility of leaving and reentering the labor market, and to allow individuals who have officially left the labor market to continue to contribute to their communities in their old age. Additionally, social investment programs focus on women and the family, with systems of childcare and care for the infirm, and generous parental leave, aiming for the optimal integration of women into the labor market as well as a reasonable work-life balance for all parents (Morel, Palier & Palme, 2012).

Social investment is regarded as a cornerstone of the modern welfare state by the European Union and the OECD and this is reflected in a variety of policy documents produced by these organizations (European Commission, 2013; OECD, 2015). Moreover, supporters of the approach describe it as a new paradigm capable of offering an alternative both to the traditional welfare state and to the form of welfare state that emerged under the influence of neo-liberalism (Hemerijck, 2018). However, critics of the social investment approach raise doubts (Cantillon & Van Lancker, 2013). They note the difficulty of shifting from policies that emphasize social protection to ones oriented toward social investment, and cast doubt on the benefits to be gleaned from the adoption of social investment policy. Above all, however, the critics are concerned that an emphasis on social investment could potentially undermine one of the welfare state's main goals — fighting poverty and inequality. They are worried that a policy focused on human capital and labor market integration prioritizes those population groups that are capable of promoting economic growth and are perceived as productive (at least theoretically), thereby having an adverse impact on populations that are unable, for various reasons, to participate in the labor market. Moreover, in an era characterized by chronically limited resources and major difficulties in fighting inequality, allocating funds for social investment at the expense of social protection has the potential to widen existing gaps and intensify social distress.

## Social investment in Israel

Unlike European welfare states, where there has been lively public and academic debate for the past two decades on the advantages and limitations of social investment, social investment discourse in Israel is still in its infancy. The term “social investment” has yet to become a major presence in Israeli social policy discussions, and research on social investment has been very limited. Nevertheless, major elements of the social investment approach, such as devoting more resources to the development of early childhood frameworks (Vaknin, Shavit & Sasson, 2019; Bank of Israel, 2019), creating dedicated systems to encourage labor market integration for marginalized populations or, alternatively, to support social mobility (Yashiv & Kaliner Kasir, 2018; Malach, 2018), have made it onto the Israeli social agenda and, over the past decade, have even been promoted by the country’s social and economic decision makers. Evidence that central components of the social investment outlook have been adopted can be found in two interesting recent studies. These studies show how ideas and attitudes associated with the social investment approach are gaining traction with Israeli economic policy makers, and call attention to manifestations of the approach in policies relating to early childhood services and the Arab Israeli sector (Maron, 2019; Zehavi & Breznitz, 2018). However, there has as yet been little focused thought about social investment and its advantages and limitations, nor has the adoption of this policy outlook in Israel been studied empirically.

## Research goals

The current study aims to place the social investment idea at the center of Israeli social policy discourse, and, in doing so, to encourage thinking about welfare policy goals, about the allocation of social funding and the extent of that funding. We will also look at the concerns raised by critics of social investment through the prism of Israeli data. To this end, we examine social expenditure patterns in Israel, assess the share of social investment spending out of all social expenditure, and identify the characteristics of this form of investment.

Accordingly, the following questions lie at the heart of this study: What are the dimensions of Israeli social investment, and which target population benefits from it? What is the scope of Israel’s social investment expenditure relative to other welfare states? What recent social investment trends

can be identified in Israel and other parts of the world? And, what are the disadvantages as well as limitations of policies based on social investment?

## Definitions and data

In order to assess the extent of social investment in Israel and other welfare states, we need to distinguish between social investment and social protection. This distinction will not always be clear-cut. For example, there are programs (such as unemployment insurance) that can be considered both as social investment and as social protection. The research literature offers several theoretical and functional definitions of social investment and what policy measures are included in it. These definitions are shaped not only by theoretical ideas about what constitutes social investment but also, by the constraints of the available data.

In the current study, we distinguish between three categories of social expenditure (Kuitto, 2016):

**Social protection** encompasses programs that provide protection through cash benefits and in-kind services (i.e., non-monetary) to those whose income from the free market does not afford them a reasonable standard of living or the ability to meet their needs and their family's needs. Social protection programs include social assistance and old-age pensions; assistance with childrearing expenses (child allowances); and funding for disability care (e.g., the Long-Term Care Law).

**Social investment** programs aim to strengthen the abilities of individuals, to promote social mobility, to help individuals find their place in the work world, or to increase their labor income. Examples are: investment in education from early childhood through higher education, research and development spending, and programs that help individuals find work (active labor market policies — ALMP), or that increase compensation for labor (work grants).

**Other expenditures** refers to programs that do not fit into either of the two categories, and are thus excluded from our analysis. Healthcare system expenditures are an example of the type of welfare state activity that does not clearly belong to the category of social protection or social investment.

As a rule, there is a distinction between public social investment and social protection expenditure based on the type of benefit provided: cash benefits generally belong to social protection, while services and non-monetary

benefits are usually considered to be social investment. In this study, we employ Ronchi's (2016) classification. He classifies government expenditures of various kinds as social investment, social protection, and other spending, and also distinguishes between benefits and social services intended for different population groups — children and families, working-age individuals, and the elderly. For the purposes of this study, a few changes to this classification scheme were made to adapt it to the Israeli context. The final breakdown is shown in Table 1.

**Table 1. Social expenditure categories**

	Social protection	Social investment
Children and families	<ul style="list-style-type: none"> <li>• Child and family allowances</li> </ul>	<ul style="list-style-type: none"> <li>• In-kind services</li> <li>• Early childhood education and care, primary and post-primary education</li> <li>• Saving for Every Child program</li> </ul>
Working-age adults	<ul style="list-style-type: none"> <li>• Early retirement</li> <li>• Housing assistance</li> <li>• Disability allowances</li> <li>• Unemployment insurance</li> <li>• Income assurance</li> </ul>	<ul style="list-style-type: none"> <li>• ALMP — programs for labor market integration</li> <li>• Vocational retraining</li> <li>• Negative income tax (work grants)</li> <li>• R&amp;D</li> <li>• Higher education</li> </ul>
Elderly	<ul style="list-style-type: none"> <li>• Old-age allowances</li> <li>• Survivor's allowances</li> <li>• Long-term nursing care</li> </ul>	<ul style="list-style-type: none"> <li>• In-kind services</li> </ul>

Source: John Gal, Shavit Madhala, and Guy Yanay, Taub Center, based on Ronchi, 2016

Social spending data is based on OECD data. The data on the Saving for Every Child program are taken from the National Insurance Institute (NII). The data on higher education rates and the characteristics of day care centers and home daycare use (*mishpachtonim*) are taken from the Central Bureau of Statistics.

## Is there social investment in Israel?

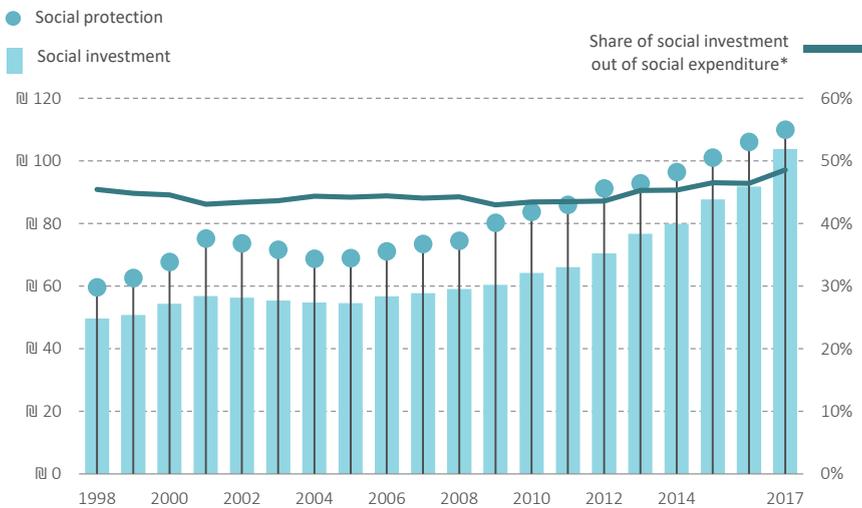
A quick glance at Israeli social expenditure over the past two decades reveals growth in spending on both social protection and social investment.<sup>2</sup> The share

2 Social expenditure in this paper is defined as the total public expenditure for social protection and social investment and includes spending on the programs as detailed in Table 1. Other programs not delineated in the table, like public spending on health, are not included in the definition of social expenditure.

of social protection out of the budget has grown, although not by much (Figure 1). In recent years, spending on social investment in Israel has been rising rapidly due to programs such as Saving for Every Child. This accelerated growth brought Israel, in 2017, to a 20-year peak in the share of social investment out of social expenditure — 48.5 percent.

**Figure 1. Public expenditure on social investment and social protection in Israel from 1998 to 2017**

NIS billions, 2017 prices



Note: Social expenditure is defined as the total expenditure on social protection and social investment, without other budgetary line items.

Source: John Gal, Shavit Madhala, and Guy Yanay, Taub Center | Data: Ministry of Finance; OECD

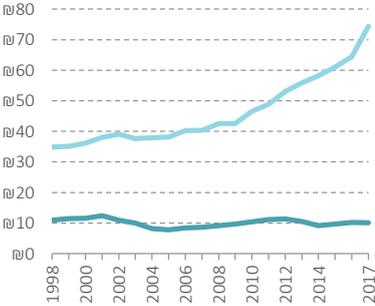
Focusing on the various groups targeted by Israeli social policy (Figure 2) shows that the increases in social investment and social protection spending went toward different programs. While the social protection budget grew mainly for programs directed towards the elderly (from NIS 33 billion in 1998 to NIS 67 billion in 2017), most of the social investment spending increase benefited children and families (from NIS 35 billion in 1998 to NIS 74 billion in 2017). Figure 3 illustrates the growing emphasis on social investment with regard to the budgeting of younger populations. If, in the late 1990s

and early 2000s, Israel’s child allowances and cash benefits for families — policy measures associated with social protection — constituted nearly a quarter of the budgeting intended for this population group, in 2017, these programs accounted for less than 12 percent of such budgeting. Regarding the working-age and the elderly populations, there appears to have been almost no change in the share of social spending out of the budget earmarked for these populations, which have remained at 46 percent and 2 percent, respectively.

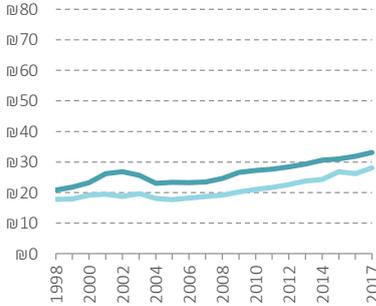
**Figure 2. Social expenditure by target group**

NIS billions, 2017 prices

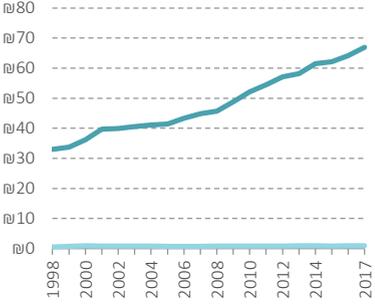
**Children and families**



**Working-age adults**

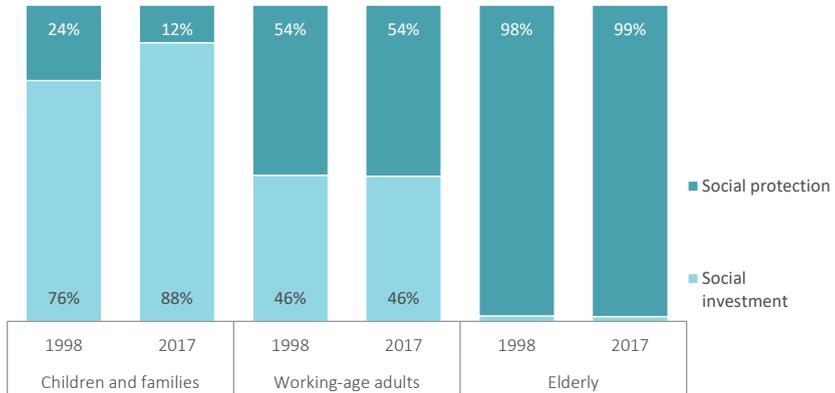


**Elderly**



Source: John Gal, Shavit Madhala, and Guy Yanay, Taub Center | Data: Ministry of Finance; OECD

**Figure 3. Share of social investment and social protection out of total social expenditure for each target group**



Source: John Gal, Shavit Madhala, and Guy Yanay, Taub Center | Data: Ministry of Finance; OECD

### Social investment: An international comparison

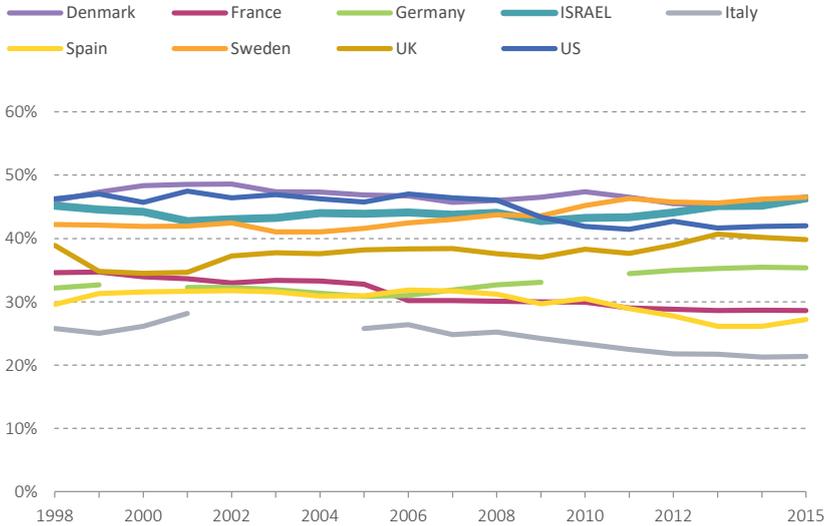
A look at expenditure on social investment in other countries offers a different perspective on Israel's social investment. In addition to Israel, this comparison includes countries representing different types of welfare states (Tarshish, 2017): the US and the UK (liberal welfare states); Germany and France (conservative welfare states); Sweden and Denmark (social-democratic welfare states); and Spain and Italy (Mediterranean welfare states). Although the Israeli welfare system has features similar to those of each of these types, especially the liberal welfare state, it is generally considered to belong to the Mediterranean welfare state category (Gal, 2010).

The comparison data in Figure 4 indicate that, over the years, Israel's budgetary emphasis on social investment has been very strong, placing the Israeli welfare system at the top of the list, alongside the social-democratic welfare states (Sweden and Denmark) that are characterized by universal and generous social policies and high, progressive taxes. Even when public expenditure on education and research and development is excluded, which in Israel accounts for a considerable share of social expenditure, Israel still devotes a large share of its spending to social investment — more than do most countries examined here (see Appendix Figure 1).

Interestingly, despite the vigorous debate in European countries and the European Union about the importance of social investment, no major trend can be detected over time toward a higher share of social investment spending out of total social expenditure in these countries. Similar findings are documented by Kuitto (2016), who looked at 23 European welfare states during the 2000s and discovered no clear upward trend in the share of social investment programs out of total social expenditure.

Nevertheless, certain changes in trend can be discerned. For instance, in France, the share of social investment declined throughout the period in question, due to a more massive rise in spending devoted to social protection programs. In the UK, by contrast, the opposite trend was observed: in the early part of the period, the share of spending on social investment dropped, but later rose, thanks to a substantial increase in nominal spending on social investment programs. The 2008 economic crisis sparked an interesting turning point, reflected in a number of different patterns of change in the comparison countries. For instance, the Mediterranean welfare states, Spain and Italy, showed a decline in the share of social investment spending, due to a rise in nominal spending on social protection programs, especially unemployment benefits. The US also showed a decline in the share of social investment; although social investment increased overall, particularly for ALMP programs, the really massive growth occurred in the social protection area. By contrast, Germany, the UK, Sweden, and Israel placed greater emphasis on social investment programs during the post-crisis years.

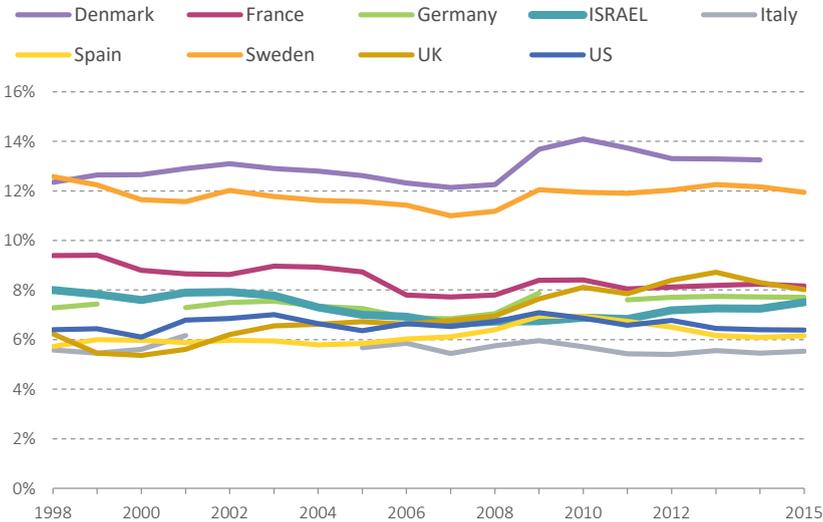
A recent study (Kim & Choi, 2019) examines the relationship between the two types of spending, social protection programs and social investment programs, in OECD countries. The study examines these countries' spending patterns between 1980 and 2010 seeking to determine whether the expansion of one type of spending necessarily leads to contraction of the other type. The findings point to a positive relationship between the two types of spending, indicating that a rise in expenditure on social protection programs is usually accompanied by an increase in spending on social investment programs, though during the later years of the research period this relationship weakened considerably. The trends detected among the OECD countries were mixed: during periods of increased social spending, comprehensive welfare states such as Sweden and Norway augmented both kinds of spending, while more limited welfare states, such as Japan, did not. However, when increased social spending reaches its limit, whether for political or financial reasons, a rebound effect is noted, and one type of spending is reduced to augment the other.

**Figure 4. The share of social investment out of total social expenditure**

Source: John Gal, Shavit Madhala, and Guy Yanay, Taub Center | Data: OECD

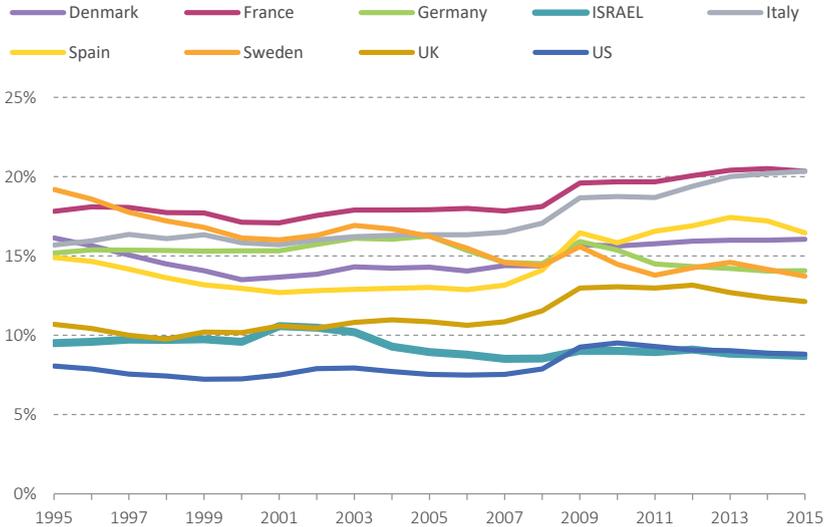
In comparison to the welfare states shown in Figure 4, Israel ranks among those countries that dedicate a larger share of their social expenditure to social investment programs. However, a look at the total sum of spending dedicated to social investment, shows that there is a substantial gap between Israel and the social-democratic welfare states that allocate a great deal of resources to social investment. This large disparity is reflected in the share of social investment spending as a percent of GDP (Figure 5): while Denmark and Sweden consistently spend over 11 percent of their GDP on social investment, Israel's social investment expenditure ranges between just 6.7 percent and 8 percent of GDP. This gap reflects political and social decisions regarding taxation, and the way in which the government chooses to allocate those revenues. Regarding taxation, it should be noted that Israel's share of revenue from taxes is lower than that of most welfare states, and substantially lower than that of the social-democratic welfare states.

Figure 5. Social investment as a percent of GDP



Source: John Gal, Shavit Madhala, and Guy Yanay, Taub Center | Data: OECD

A clearer picture of the gap between Israel and the other welfare states emerges with a look at social protection spending as a percent of GDP (Figure 6). Israel’s expenditure patterns more closely resemble those of the liberal welfare states (the UK and the US), and the high degree of expenditure on social investment programs out of total social expenditure is due mainly to the low levels of social protection spending. Essentially, since 2009, Israel has been spending a smaller percentage of its GDP on social protection programs than any of the other comparison countries, including the US. Although some of the increased spending in the other countries was spurred by the economic crisis of 2008, which affected Israel to a lesser degree, Israel’s relative position on this scale was low even before the crisis, and has not been trending upward.

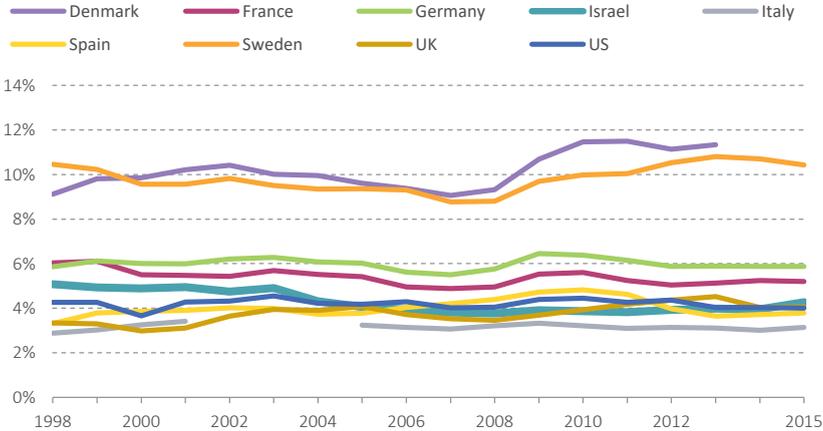
**Figure 6. Social protection as a percent of GDP**

Source: John Gal, Shavit Madhala, and Guy Yanay, Taub Center | Data: OECD

In Israel, it appears that the relatively large share of social investment out of social expenditure stems, to a considerable degree, from the country's low level of expenditure on social protection. This point becomes especially clear when social investment spending per capita is examined. For those of working age (ages 20-64), Israel spends just 4 percent of GDP on social investment per capita, like the Mediterranean welfare states (Italy and Spain) and the liberal welfare states (US and UK), which rank lowest in terms of social investment (Figure 7). The situation worsens when social investment per capita for children and youth (ages 0-19) is examined. Israel ranks lowest, with a social investment of just 15 percent of GDP per capita since the early 2000s (Figure 8). This finding reflects both the relatively large share of children in Israel's total population, and the low level of social spending.

**Figure 7. Social investment per capita for ages 20-64**

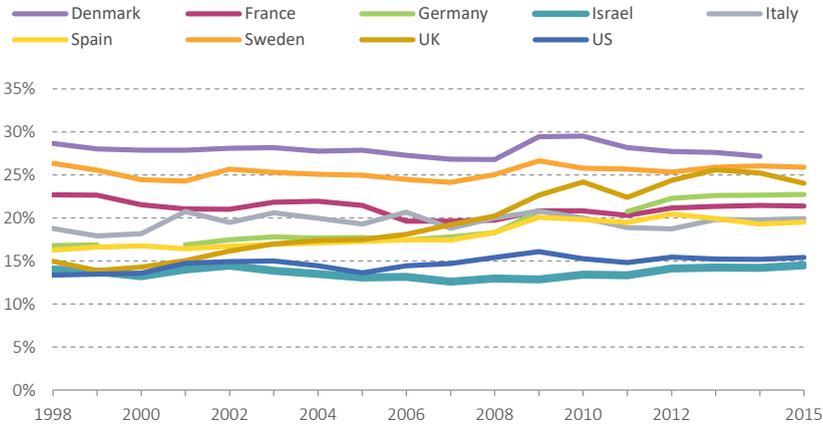
As a percent of per capita GDP



Source: John Gal, Shavit Madhala, and Guy Yanay, Taub Center | Data: OECD

**Figure 8. Social investment per capita for ages 0-19**

As a percent of per capita GDP



Source: John Gal, Shavit Madhala, and Guy Yanay, Taub Center | Data: OECD

# SPOTLIGHT

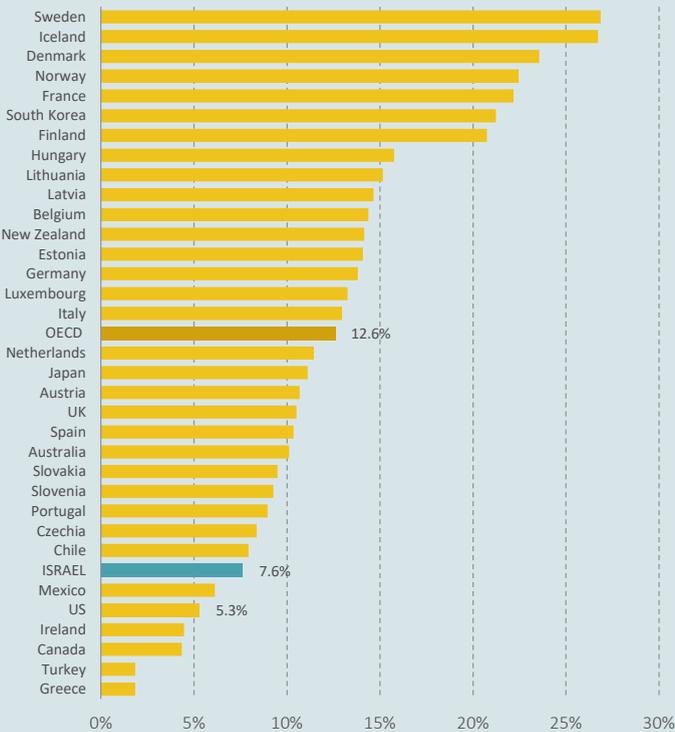
## **Social investment in Israel: Early childhood education and care and employment programs**

An examination of two major spending areas identified with social investment — early childhood education and care (ECEC), and active labor market programs (ALMP) — highlights the limitations of actual spending on social investment in Israel. Out of all of the social investment elements, ECEC may be expected to yield an especially large return. Skills acquisition at this stage of life has the potential for major lifelong impact on the individual, in terms of education, employment, future wages, and more (Shavit, Friedman, Gal & Vaknin, 2018). In addition to the long-term benefit, investment in the creation of a subsidized education system for young children has an immediate positive effect — it incentivizes parents (mothers especially) and gives them the opportunity to join the labor market. Despite the clear importance of expenditure on ECEC, a comparative look at the OECD countries reveals major gaps in the level of investment between the countries (Figure 9). Public spending on ECEC for children ages birth to 4-years-old as a percent of GDP in the social-democratic welfare states is among the highest in the world, reaching levels of 27 percent of GDP per capita. In Israel and the US, by contrast, spending in this area is particularly low, amounting to just 8 percent and 5 percent, respectively. Moreover, Israel's level of spending on the education of very young children (from birth to age 2) places it even lower on the scale. The policy aimed at extending free education entitlement,

adopted in the wake of the 2011 social protests, applies only to children ages 3 and older, while most children in the birth to 2-years age range are still cared for in private frameworks.

**Figure 9. Public expenditure on early childhood education and care per child ages 0-4, 2015**

As a percent of per capita GDP



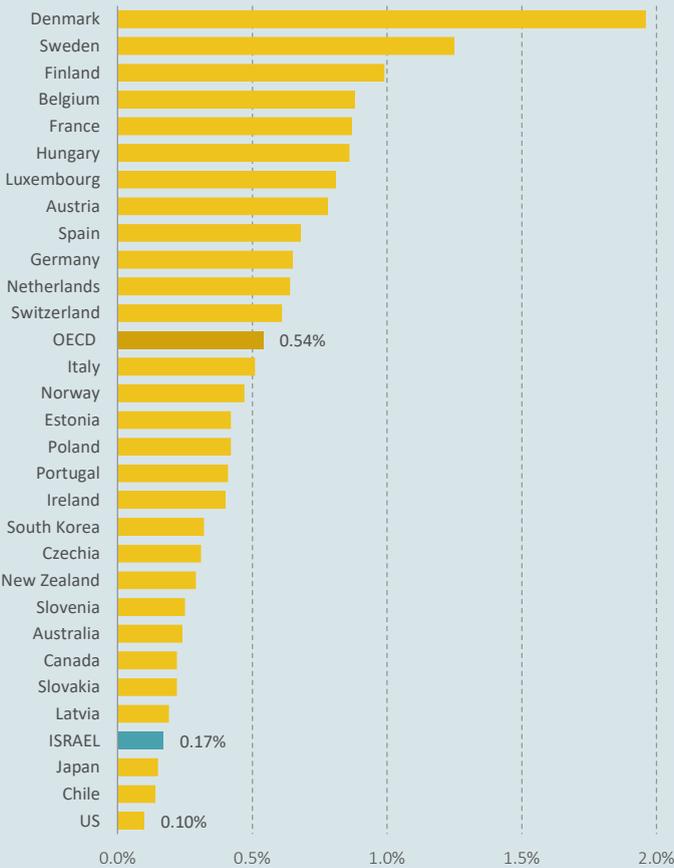
Source: John Gal, Shavit Madhala, and Guy Yanay, Taub Center | Data: OECD

Another element of social investment that has been gaining traction over the past few decades is that of ALMP. These programs focus on helping working-age populations find employment, and encompass vocational training, job search assistance programs, work incentives, and the like. Cross-country comparisons suggest that Israel's level of investment in this area is among the OECD's lowest, amounting to just 0.17 percent of GDP (Figure 10).

In contrast to the main investment element for those of working age — subsidized higher education — ALMP programs are oriented primarily toward assisting weaker populations that find it hard to enter the labor force. The need for larger scale subsidies in this area is highlighted by the reasons given by those interested in study and training frameworks who do not ultimately end up participating in a program. Compared with the OECD countries, Israel has a higher non-participation rate due to overly high costs; this, it turns out, is the main problem for those whose labor market status is the most vulnerable (Madhala, 2019).

**Figure 10. Expenditure on active labor market policies (ALMP), 2017**

As a percent of GDP



Note: For New Zealand and Italy, the data are for 2016 and 2015 respectively.  
Source: John Gal, Shavit Madhala, and Guy Yanay, Taub Center | Data: OECD

## Limitations of social investment

Critics of social investment underscore various limitations involved in its adoption by welfare states, and warn of the potential consequences. The criticism focuses on the efficacy of allocating resources to social investment, the negative impact of channeling funds toward social investment rather than other welfare state goals (fighting poverty and inequality through social protection) and, in connection with this latter issue, the fear that social investment programs actually help socioeconomically stronger groups, sometimes described as the “Matthew effect.”

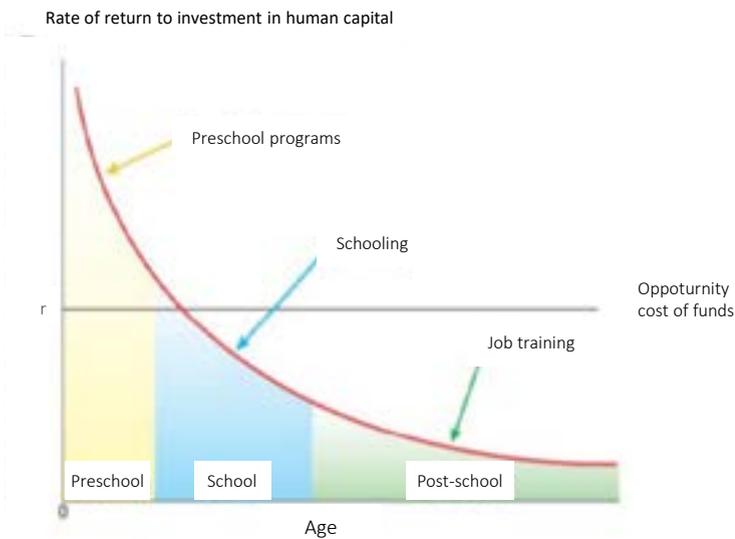
## Is social investment effective?

The social investment idea assumes that investing in elements of human capital at early ages (and, to a certain degree, throughout the human life cycle), and maintaining systems that promote the individuals’ optimal integration into the labor market, will benefit both the individual and society as a whole. Moreover, such measures will not only augment the resources available to individuals and to society at large, but will also reduce the need for public funding to improve the individual’s status after the fact — i.e., when they lack sufficient income to support themselves and their families and require social protection. In other words, by adopting a social investment policy, welfare states promote economic growth and increase the sum total of available societal resources.

The work of James Heckman (e.g., Heckman, 2006) on the economic utility of investing in early childhood education provides a key rationale for the argument that social investment benefits individuals and society as a whole. In his research with Jorge Luis García, Heckman looked at the social and economic effects of two education programs (ABC and CARE) on children from the age of 8 weeks to 5 years from disadvantaged communities, and monitored the participants until their mid-thirties. The findings show that the programs had a positive impact on the participants’ health, education, employment, and income from labor, and even enhanced their ability to learn cognitive and social skills later in life. Heckman and Garcia also demonstrate that these programs have an effect on the children’s parents, some of it immediate. Access to free early education has a substantial positive impact on parents’ employment rates, income, and education levels. The investigators estimate that the return on such an investment over the course of a participant’s lifetime is 14 percent per year; in cost-benefit terms, every dollar invested returns a profit of 7.3 dollars (Garcia, Heckman & Ziff, 2018; Garcia, Heckman, Leaf & Prados, 2019).

Heckman argues not just that investment in early childhood brings a high positive return, but also that, when compared with programs that invest in other age groups, investment in early childhood shows a greater economic payoff. Heckman demonstrates that the return on investment in children from disadvantaged populations declines over time with the progression through the individual's life cycle (Figure 11).

**Figure 11. Return on investment in human capital at different life-cycle stages**



Source: Heckman, 2006

Claims regarding the utility of social investment programs are countered by theoretical and empirical criticisms. Supporters of the traditional welfare state argue that the welfare system exists primarily to address failures of the free market and their adverse implications, and to help individuals deal with social distress of various kinds. This role has been seen clearly during the coronavirus crisis, when the social protection systems of Israel and other welfare states provided income assistance for large numbers of people who became involuntarily unemployed and were suddenly left with no income. Relatedly,

Nolan (2013) asks whether promoting economic growth or proper economic functioning is an appropriate measure for assessing programs whose main goal should be to advance social justice and to ensure social rights.

Doubts have also been raised about the empirical basis for the long-term utility of specific social investment programs. Researchers' attempts to assess key elements of specific programs in this sphere, such as those aimed at helping people from marginalized populations join the labor force or increase their income from work, have not clearly demonstrated such utility (Bonoli, 2012). This is partly due to methodological limitations; however, findings also suggest great variability in the efficacy of these programs for different population groups. For example, one study that looked at the utility of ALMP programs in 14 different countries found that training frameworks for low-skilled individuals were of limited benefit (Bonoli & Liechti, 2018).

There is insufficient data on the direct and long-term utility of ECEC programs in Israel. In the employment sphere, by contrast, efforts have been made to evaluate social investment programs instituted in recent years, and to determine their efficacy. These studies have noted the utility of programs for Haredi (ultra-Orthodox) men (Cave & Aboody, 2011), employment programs operated by JDC-Tevet, such as *Eshet Chayil*, *Mafteach*, and *Strive* (Levy & Deutsch, 2016), and the government *Ma'agalei Ta'asuka* ("Employment Circles") programs operated by the Employment Service (Brown, 2015; Schlosser & Shanan, 2018). It is worth noting, however, that the way in which these programs are implemented, and certain limitations pertaining to the evaluation methods, still make it very hard to reach unequivocal conclusions regarding the program participants' status over the long term.

### **Does social investment have an impact on poverty and inequality?**

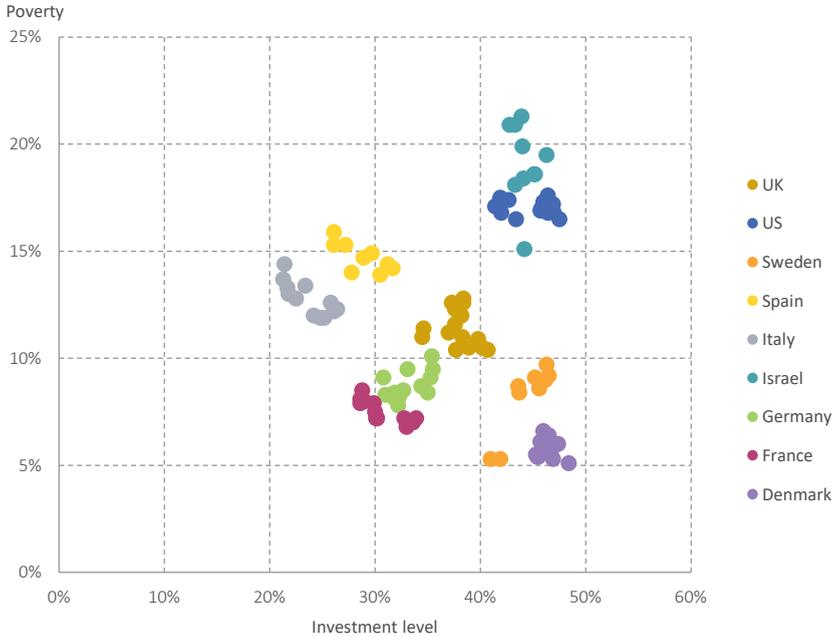
Beyond the doubts regarding social investment's utility, one of the main arguments against it is that a focus on upgrading individual human capital and ensuring optimal labor market integration could potentially undermine the welfare state's efforts to address poverty and inequality. At the heart of the critique are two main contentions. First, an emphasis on social investment means that resources formerly channeled (or that could be channeled in the future) into social protection programs are diverted to programs focusing on human capital. This indicates a preference for "active" programs, those directly connected to labor market integration, over "passive" programs aimed at

increasing the income of population groups that do not participate in the labor market. Second, if social investment's underlying assumption is that we must strive to bring everyone into the labor market, then there is a concern that this would not only upgrade human capital, but would also create mechanisms for pressuring participation in the labor market at any price. The direct outcome of such pressure could be stricter eligibility criteria and less generous benefits for non-employed working-age individuals.

In order to examine these criticisms of social investment policy, we review the research literature for evidence of a relationship between increased social investment spending and higher labor market participation rates/lower unemployment rates. We also look at whether there has been a decline in the incidence of poverty, or in inequality levels. Studies that assess the situation in European countries, mainly through 2010, point to rising employment levels in these countries — accompanied, however, by constant or rising poverty and inequality rates (Cantillon, 2011; Vandenbroucke & Vleminckx, 2011). These studies appear to indicate, that social investment has not made a real contribution, in the short term, to the fight against poverty and inequality; it may even have made the situation worse. Nevertheless, later studies that examine the depth of the relationship between social investment and anti-poverty measures (Taylor-Gooby, Gumy & Otto, 2014) have not reached unequivocal conclusions regarding the nature of this relationship. Although they affirm that, at least in the short term, social investment does not help lower the incidence of poverty, they find no empirical basis for any contribution to a rise in poverty (Van Vliet & Wang, 2015).

An examination of the share of social investment out of total social expenditure relative to poverty rates in the countries covered in this study (Figure 12) shows no evidence of a relationship between the two. Alongside those countries that have high investment ratios and low poverty rates, such as the social-democratic countries, there are also countries with relatively high investment ratios whose poverty rates are high as well, such as Israel and the US.

**Figure 12. The share of social investment out of social expenditure and the poverty rate among families, 2000-2015**

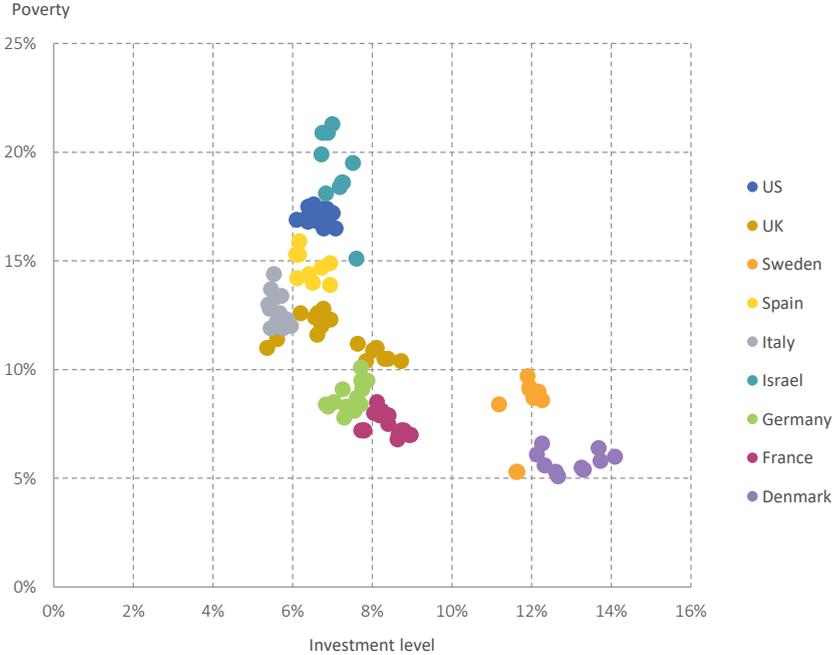


Note: Social expenditure is defined as the total expenditure on social protection and social investment, without other budgetary line items. For those years where data were available.

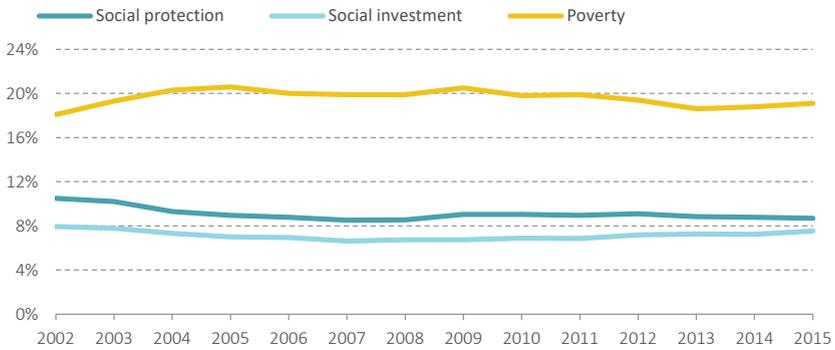
Source: John Gal, Shavit Madhala, and Guy Yanay, Taub Center | Data: OECD

By contrast, poverty rates relative to social investment as a share of GDP shows a clearer pattern (Figure 13). Although a clear-cut relationship between the two cannot be established, higher social investment spending levels do appear along with lower poverty rates in, for example, the conservative welfare states and even in the UK for some of the years. This is especially notable when examining spending levels in the social-democratic welfare states, where there is high investment and low poverty rates.

**Figure 13. The share of social investment out of GDP and the poverty rate among families, 2000-2015**



**Figure 14. Social protection and social investment expenditure as a percent of GDP and the poverty rate among families in Israel**



Source: John Gal, Shavit Madhala, and Guy Yanay, Taub Center | Data: NII; OECD

Despite the trends seen in Israel, the changes have been relatively small and it is hard to discern an unequivocal connection between social investment levels and poverty. Nor is the picture clear on the international level, at least in the short term. On the macro level, a policy aimed at encouraging labor market participation seems insufficient to lower poverty levels to any substantial degree. However, the data from the social-democratic welfare states indicate that low poverty rates can be found in countries with high social investment spending levels.

### Is social investment better for the middle classes (the Matthew effect)?

Critics of social investment often invoke the Matthew effect, a phenomenon identified over three decades ago, according to which the welfare state's main beneficiaries may not be those living in poverty but, rather, the middle classes. The Matthew effect has been identified in the social security system and in the welfare, education, and healthcare services of a number of countries, including Israel (Gal, 1998). The phenomenon is driven by a host of factors. Sometimes it occurs because social programs are also — or primarily — intended for the middle classes; universal programs, for instance, are clearly meant to serve not just the poor, but also the middle classes. In other cases,

it is an unintended outcome of programs aimed at other population groups, but from which the middle classes also benefit. Beyond programs with specific features, clearly there are population groups that are better able to utilize social programs or programs in the education and healthcare spheres. With the development of the social investment discourse, the Matthew effect has returned to center stage (Bonoli, Cantillon & Van Lancker, 2017). Although the goal of social investment programs is to improve the skills of disadvantaged population groups and to help them integrate optimally into the labor market, these programs often end up serving populations other than the target group. This gives rise to concerns that those belonging to the middle classes — individuals with higher skills and more extensive social capital who are already in the employment market — make better use of these programs. Below, we illustrate the Matthew effect in three areas in which the Israeli welfare state operates programs with a social investment rationale. These areas are: day care centers, the Saving for Every Child program, and the higher education system.

### 1. Day care centers

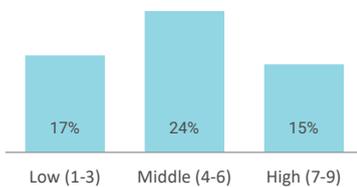
ECEC is the area of activity most closely identified with social investment. However, studies conducted in other welfare states show that, in some countries, the policy has produced a Matthew effect (Pavolini & Van Lancker, 2018). Data on the use of day care centers in Israel indicate a Matthew effect here as well. Despite a substantial increase in government investment, as seen in the creation of a day care infrastructure over the past decade (Gal & Madhala, 2018), the data show that Israel's most marginalized population groups do not make extensive use of this system. In Figure 15a, which shows the utilization data by socioeconomic cluster, there is a higher rate of utilization of recognized day care centers and home daycare frameworks (*mishpahtonim*) among the middle socioeconomic clusters. In the lowest clusters (1-3), 17 percent of households send their children to these centers; in the highest clusters (7-9), 15 percent of households make use of them — but in clusters 4-6, the utilization rate is 24 percent. Although these middle-class families constitute 31 percent of the population with children in the relevant age group (3 months to 3 years), their share of day care centers and home daycare utilization is 41 percent. Among families in the lowest clusters, the percentages are 35 percent and 31 percent, respectively. It should be noted that the subsidized participation in recognized day care centers and home

daycare, and the preferential acceptance to them, depend on eligibility tests designed for working women and low-income populations. The data indicate that the average wage of parents of children attending recognized day care centers is lower than that of all parents of children in this age group (half the wage for fathers, and 70 percent of the wage for mothers). However, the share of fathers and mothers with a gross monthly wage of less than NIS 5,000 among the entire population of families with children enrolled in day care centers is 30 percent (fathers) and 40 percent (mothers), while the rest of the families who utilize these services earn a higher monthly wage (Fichtelberg Barmatz, 2017).<sup>1</sup>

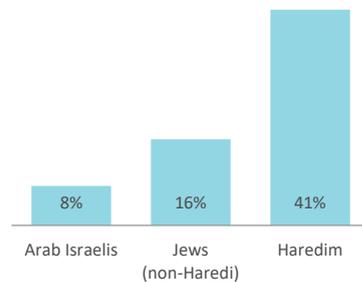
A breakdown by population group indicates that the group that makes the most substantial use of day care centers is the Haredim: 41 percent of Haredi households with children in the relevant age group send their children to day care centers or home daycare. By contrast, the figure for Jewish families (excluding Haredi families) is 16 percent, while for Arab Israeli families it is only 8 percent (Figure 15b).

**Figure 15. Share of households with children in daycare out of all households with children ages 3 months to 3 years within the same group**

**a. By socioeconomic cluster**



**b. By sector**



Source: John Gal, Shavit Madhala, and Guy Yanay, Taub Center, based on Fichtelberg Barmatz, 2017

1 Wage data as of 2015.

We can assume that the day care system's current underutilization by disadvantaged populations is due to features of the policy relating to subsidies and participation of young children in this system (Holler & Gal, 2011), and to the way in which tax benefits are used to encourage utilization. Beyond that, underutilization may also stem from inadequate infrastructures, which is certainly the case with regard to the Arab Israeli population. Their underuse of day care centers can be attributed to, among other things, a lack of day care centers in Arab localities. Although 20 percent of the annual development budgets have been allocated to the construction of day care centers for the Arab sector, this is insufficient to reduce existing gaps.<sup>2</sup>

## 2. Saving for Every Child

One recently instituted Israeli social investment program aimed at reducing poverty and promoting social mobility is the Saving for Every Child program (Gal & Bleikh, 2019). The program seeks to encourage social mobility by ensuring that as individuals enter their early adult years (18-21), they have resources to help them integrate into the labor market, the higher education system, or training programs. The young people have savings in their name, state-funded with parental participation.

Saving for Every Child is a universal program in which, from the time a child is born, a sum of NIS 51 is deposited on a monthly basis into an account in the child's name. The accumulated sum is available to the child when they reach the age of 18 or, alternatively, if they prefer (with the addition of a small amount of money) at age 21. Bank fees are paid by the National Insurance Institute. The child's parents are able to choose the investment track from a number of bank or provident fund options. The tracks are differentiated from each other by the savings level and the amount of anticipated yield on the savings. If the parents do not choose a specific savings track, the National Insurance Institute invests the children's savings funds in a conservative bank plan. Parents can also double the monthly savings amount by depositing an additional NIS 51 from the child allowance they receive into the savings account.

A recent NII analysis of Saving for Every Child program utilization patterns (Pinto & Gottlieb, 2019) calls attention to the difficulty of overcoming the

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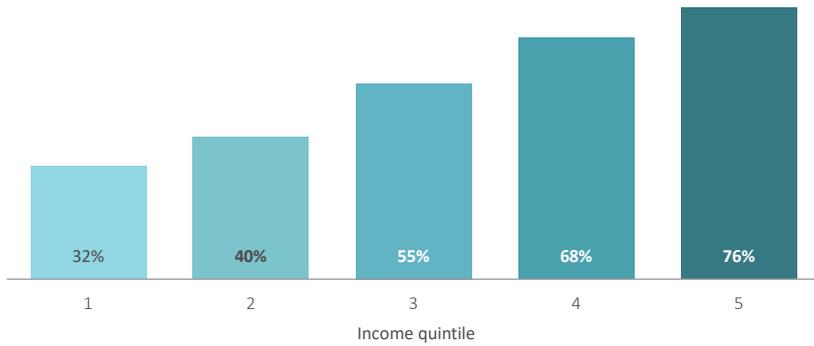
2 See the *The Program to Integrate Arab Israelis into the Economy*.

Matthew effect in social investment programs.<sup>3</sup> The study findings suggest that, although the program may be expected to provide each participating child with an average savings of NIS 24,000, there are major differences between different socioeconomic groups. A substantial correlation was found between parental socioeconomic status at the time the plan was activated, and the amount of money that accumulated for the child. Thus, the percent of parents who match the monthly savings plan deposit with an additional NIS 50 from the child allowance they receive,<sup>4</sup> and the percent of parents who choose a higher yield investment track for their children, is greater among families in the highest quintile, dropping as family income drops. Figure 16 shows that less than a third of parents in the lowest quintile add to their children's monthly deposits, while for parents in the highest quintile the figure is over 75 percent. Regarding the investment track options, the study indicates that, the better the parents' economic status, the greater the chance that they will reject the default track in favor of a higher yield fund track (Figure 17).

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- 3 With regard to total spending on the Saving for Every Child program, one might think that lower-income households, which tend to have larger numbers of children, would ultimately "receive" a larger amount of money than other households. However, since the savings in this program are given to each child separately and can be realized only once the child reaches adulthood and may no longer be living in the original household, the savings cannot be considered a benefit that the household enjoys. Accordingly, the outcome has to be judged at the individual level, not at the household level.
  - 4 While this study was in preparation, the sum was NIS 50; it was increased to NIS 51 afterward.

**Figure 16. Share of families who chose to add NIS 50 to the monthly investment program in 2017**

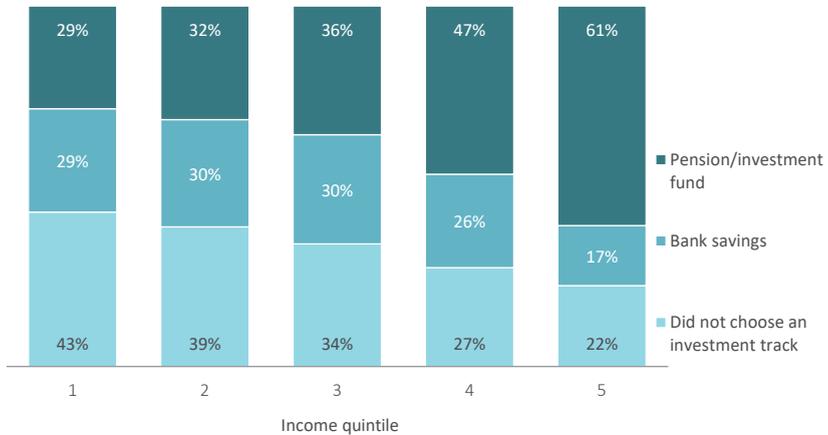
By income quintile



Source: Gal and Bleikh, 2019, Figure 13

**Figure 17. Share of families who chose a specific investment track in 2017**

By income quintile



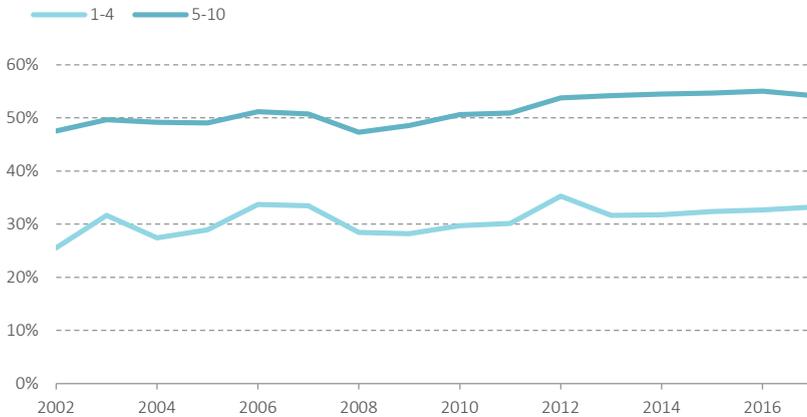
Source: Gal and Bleikh, 2019, Figure 14

### 3. Investment in higher education

Another major element of social investment is higher education. This accounts for 40 percent of social expenditure on the working-age population. Although investment in higher education clearly seeks not just to reduce gaps between population groups, but also to promote diverse goals such as skills and knowledge development, here, as well, we find a Matthew effect. As can be seen in Figure 18, social investment in higher education is not distributed equally across Israel's population groups. The share of those benefiting from subsidized higher education is consistently greater among those of higher socioeconomic status, and within the Jewish sector. Among high school graduates who grew up in localities belonging to clusters 5-10, the share of those who go on to higher education within 8 years of high school graduation is consistently higher by 20 percentage points than the share of such graduates from socioeconomically weaker localities. A similar picture emerges when the Jewish and Arab Israeli population are compared: in 2017, the share of Jews who went on to pursue higher education was about 50 percent, while the corresponding figure for Arab Israelis was barely above 30 percent.

**Figure 18. Share of those who continue on to higher education within eight years of finishing high school**

By socioeconomic cluster



Source: John Gal, Shavit Madhala, and Guy Yanay | Data: Central Bureau of Statistics

## Conclusion

In recent years, social investment — the idea that the welfare state can and should allocate resources to human capital development, and encourage full and optimal participation in the labor force throughout the life cycle — has been a central issue in European social policy discourse. The idea's supporters call for a shift in emphasis from social protection, which aims to ensure citizens' financial income and standard of living in cases where their market income does not suffice, to a better balance between preventing the need for assistance and providing assistance where needed. Although the term "social investment" has yet to penetrate the Israeli discourse, the findings of this study indicate that social investment expenditures have lately been on the rise in the Israeli welfare state. Moreover, the share of expenditure on social investment programs out of all Israeli social expenditure is large, and comparable to that of the social-democratic welfare states (Sweden and Denmark). However, a look at the extent of Israeli social investment spending shows that both social investment and social protection spending are low relative to other welfare states, placing Israel in the same category as the Mediterranean welfare states (Italy and Spain). Under such circumstances, the welfare state's ability to fight poverty (by providing sufficient aid in times of distress) or to encourage future social mobility (by developing social investment systems, such as early childhood education and care, or active labor market policies), is very limited.

Although Israel has shown a steady rise in the resources allocated to social investment programs out of the relatively limited resources available for social issues, this has occurred without any substantial public discussion. No thought seems to have been given to the directions in which the social security and welfare systems should develop; in particular, there has been no consideration of the extent to which resources should be allocated, or how that allocation will look. This is troubling, as the research literature not only shows the advantages of social investment policy, but also raises questions about the outcomes of such policy should it be adopted. The long-term goals of social investment programs need to be well defined; their utility must be evaluated, and their features tailored to the goals set. Attention should also be paid to the Matthew effect, in which the main beneficiaries of welfare programs are not necessarily the target populations suffering social exclusion or poverty, but rather those of more means. Finally, this study emphasizes the importance of discussing the topic of social investment. Such discussion will help social policy decision makers balance their desire to improve individual social capital and welfare with the need to address poverty and inequality through social protection.

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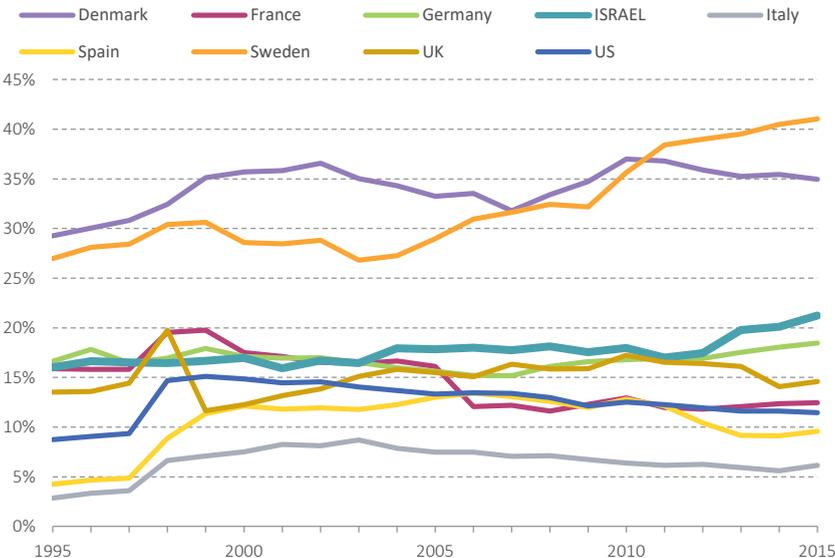
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# Appendix

**Appendix Figure 1. Share of social investment out of social expenditure**

Excluding expenditures for R&D and education



Note: Social expenditure is defined as the total expenditure on social protection and social investment, without other budgetary line items.

Source: John Gal, Shavit Madhala, and Guy Yanay, Taub Center | Data: OECD