

Chapter 4

Welfare Policy

Social policy in Israel is to be seen against the background of long-term processes such as the fall in demand for unskilled workers that has resulted *inter alia* from the economy's exposure to imports, high technology oriented growth and the permission granted for the mass entry of foreign workers and during recent years, the slump in the labor market. These processes, which derived partly from the economy's integration in the global economy – in itself a welcome development – have reduced the weak populations' earning ability, adversely affected security of employment, deepened the extent of poverty and expanded income gaps. As a result, the importance of social policy, which is intended to help the weak populations, has increased in the globalization era. This policy also assists in the successful absorption of new immigrants.

Following a general analysis of social policy, this year the chapter focuses on transfer payments and on the area of education. Until the beginning of the decade, the number of transfer payment recipients had increased rapidly and the volume of payments had reached over 14 percent of GDP. Despite their contribution to the welfare of the weak strata, transfer payments failed to prevent the extent of poverty and inequality in disposable income from increasing. It is doubtful whether the growth in transfer payments could have been maintained, especially in view of the negative incentives to work inherent in them.

Since the beginning of the 2000s and especially since 2002, transfer payments have become much less generous (particularly child allowances, unemployment benefit and the income guarantee payment). The policy turnaround derived from a conceptual change of reducing government involvement in assuring the population's welfare while focusing on encouragement to participate in the labor force, against the background of the low labor force participation rates – as well as from budgetary necessity. Due to these changes, the generosity of the allowances in Israel is relatively low compared with Western countries. The changes were

accompanied by programs—few in number and late in implementation—for encouraging integration in employment, and together with the slump in the labor market, exacerbated the extent of poverty in the short term. However, the reduction in the number of foreign workers contributed to the integration in employment of unskilled Israeli workers.

The social services (such as education and welfare) increase the benefit of service recipients, and have positive implications for the rest of society as well. Government involvement is also important because of the need to assure the quality of the services. During recent years the government has placed an emphasis on increasing the efficiency of the social services and improving their quality. In addition, a number of services that were still financed by the state have been privatized concurrent with a decrease in the government's share in the financing of other services.

The national expenditure on education amounts to approximately 10 percent of gross domestic product, a ratio that has been rising for a long time, and is the largest component of public consumption. The volume of resources that Israel allocates to education is no less than that usual in Western countries.

Over the years the resources available to schoolchildren have increased, the distribution mechanisms have improved and the discrimination that was practiced against various sectors has decreased. As for educational achievements, most of the usual indexes show a substantial and continued improvement and (inadequate) reduction in achievement gaps by nationality, ethnic origin and socio-economic status. Yet there are also a number of indicators pointing to a decline in the level of knowledge of those completing high school and until recently, comparative examinations showed that Israel was falling behind on the scale of achievements.

In recent years calls have grown for a comprehensive reform of the education system, based primarily on a reorganization and increase in efficiency without a significant growth in resources. The main principles of the “National Education Plan” (the Dovrat Report, January 2005) are a strengthening of public education, a reduction in the differentials in the allocation of resources and in educational achievement, and an increase in the school's independence.

The essential aim of social policy is to improve economic and social welfare, and assure a favorable standard of living in accordance with the values of society.

1. INTRODUCTION

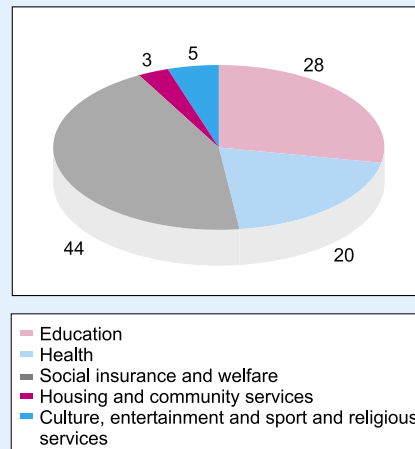
The essential aim of social policy is to improve economic and social welfare, assure a favorable standard of living in accordance with the values of society, and to provide a socio-economic safety net for those needing it. The necessity of government involvement in social issues results from the fact that the market's remuneration to

part of the population does not allow it a suitable standard of living in accordance with the values of society. The necessity also derives from market failures that lead to under-investment in social services such as education and health, and thereby reduce the welfare of the population as a whole and that of the weak strata in particular. Moreover, the distribution of income in the economy resulting from economic activity is not necessarily the desired distribution on the basis of society's preferences, and government involvement is intended to remedy this. Forming the basis of social policy therefore is the concept that it is the government's function to contribute to an increase in the welfare of its citizens and especially of the weaker members of the population, apart from the welfare that they are capable of producing from the proceeds from their economic activity. The government must ensure that the support that it provides to the population does not create negative incentives to work among those who are able to work.

The government engages in a wide range of social issues. Its most prominent activities in this respect are the provision of transfer payments and social services, such as education, health, nursing and immigrant absorption (Figure 4.1). Apart from these, it provides direct support for commodities and services (subsidies), and acts by means of legislation (the labor laws, for example) and regulatory coverage, such as supervision of the prices of basic commodities. This year we have chosen to focus on two areas in this chapter: education, in view of the comprehensive reform that is being prepared in this area, and the transfer payments system for households, which has undergone a shake-up in recent years.

The extent and nature of government involvement in social issues are affected by the government's and the Knesset's worldview and order of priorities, as well as by various necessities and commitments (immigrant absorption, for example) and by fluctuations in business cycles. These affect the relative size and the distribution of the budget that is allocated to welfare expenditure. The volume of resources allocated to welfare spending is also dependent on the level of per capita GDP, which dictates the sources of finance for expenditure and the demand for social services, as well as fiscal requirements regarding the tax burden and the size and composition of public spending (for example the security situation, which affects the volume of defense spending, and other rigid expenditures such as debt servicing). During the years until

Figure 4.1
Composition of Welfare Expenditure
in the Budget, by Services, 2002
(percent)



SOURCE: Based on Central Bureau of Statistics data

The government's principal social activities are the extension of transfer payments, the supply of social services, and legislation and enforcement in the area.

Table 4.1
Social Expenditure, 1980–2004

(selected years)				
	Welfare expenditure ^a	percent of GDP ^c	Transfer payments to households	Direct subsidies
			percent of GDP ^c	
	Share of expenditure by government, ^b national institutions and municipalities			
1980	32.3	23.9	7.6	2.9
1985	34.5	23.4	8.6	4.6
1990	44.3	25.5	10.4	2.3
1995	52.1	28.5	10.4	0.4
1996	53.5	29.1	10.7	0.5
1997	54.0	28.7	10.8	0.4
1998	54.2	28.5	11.1	0.4
1999	54.4	28.1	11.1	0.4
2000	55.1	27.8	11.2	0.5
2001	56.4	29.9	12.3	0.5
2002	55.3	30.0	12.3	0.4
2003	55.0	29.3	11.8	0.6
2004	53.7	27.7	11.0	0.4
			in current NIS million	
2004	145,894		57,988	2,199

^a Community social services, including education, health, social and welfare insurance, housing, community services, culture, entertainment, sport and religious services.

^b Including nonprofit organizations most of whose expenses are financed by the government.

^c Not including mortgage subsidies. At the beginning of the 1990s the subsidy constituted 1.2 percent of GDP on average, and at the beginning of the 2000s was down to 0.3 percent of GDP on average.

SOURCE: Central Bureau of Statistics and processed data of the Bank of Israel.

2001, welfare spending increased greatly and in 2004 reached 28 percent of GDP (Table 4.1). This increase was possible due mainly to the decrease in the proportion of defense spending to GDP since the stabilization program.

Against the background of social policy are high rates of poverty and substantial economic gaps, two problems that have worsened over the years (Figures 4.2 and 4.3). The worsening problem of poverty and the considerable growth in economic inequality mainly derive from the labor market, with the large difference in unemployment rates between different groups of the population and the expansion of the wage differentials between employed persons, principally in the levels of education and vocational skill.¹ These trends are primarily attributed to the fall in demand for less-educated workers. This is the result of high-tech oriented economic growth as reflected by the increase in the proportion of highly educated employees in the principal industries, and to a lesser extent of the structural change in the economy, with the increase in the proportion of industries requiring educated employees. These changes also derive from the growth in competition in the traditional industries' export markets, and also possibly from the

¹ See Figures 5a and 5b in the section "The Economy and Economic Policy" in the Bank of Israel's Annual Report for 2004.

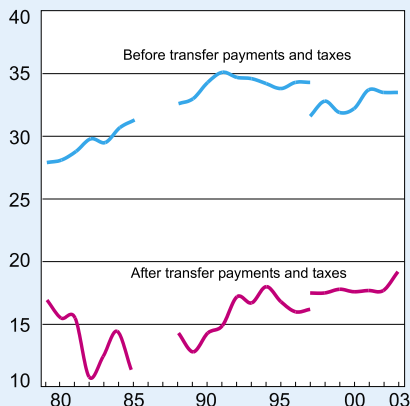
Against the background of social policy are high rates of poverty and substantial economic gaps, which mainly derive from the labor market.

decrease in unionization among unskilled employees. The changes were supported by the government's policy measures – the opening up of the economy to competing imports and especially labor-intensive imports from low-wage countries, and by the permission granted for the entry of foreign workers, whom the cost of employing is low. In contrast to these policy measures, transfer payments and taxes reduced the differentials in disposable income and the extent of poverty, but also pushed part of the population into leaving the labor market. (See the discussion below.)

The previously mentioned long-term processes and the nature of economic growth are increasing the extent of poverty and inequality. The attempt to offset these effects on poverty and on the economic gaps has involved a consistent increase in transfer payments. It can be assumed that this process cannot be maintained over time in the conditions of the Israeli economy.

In view of the social problems facing the economy, quantitative social objectives should be set, such as a poverty target, an employment target and targets in the area of educational achievement². Setting these targets will help to generate a commitment on the part of the government, will affect the orders of priority in the budget, make it possible to assess activity in these areas, and thereby contribute to increasing the level of social welfare.

Figure 4.2
The Incidence of Poverty Among Families, 1979–2003^{a,b} (percent)

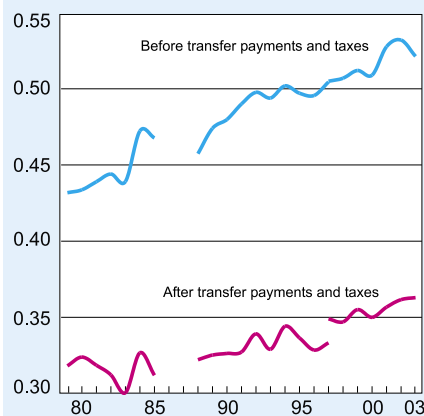


^a Not including the population of East Jerusalem, except for 1998 when that population was included.

^b In 1986 and 1987 the figure was not published. In 1997 there is a break in the series due to the introduction of a new sample in the income surveys.

SOURCE: The National Insurance Institute, Annual Survey 2002/03, Poverty Report 2003.

Figure 4.3
Gini Index of Income Inequality, 1979–2003^{a,b}



^a Not including the population of East Jerusalem, except for 1998 when that population was included.

^b In 1986 and 1987 the figure was not published. In 1997 there is a break in the series due to the introduction of a new sample in the income surveys.

SOURCE: The National Insurance Institute, Annual Survey 2002/03, Poverty Report 2003.

² For a discussion of social targets see: D. Gottlieb and N. (Kaliner) Kasir, 2004, "Poverty in Israel and the Strategy Proposed to Reduce it: Increasing Employment and Changes in the Welfare System," Bank of Israel (Hebrew), and also in the volume of the 2004 Bank of Israel Annual Report 2004 entitled The Economy: Development and Policies.

Box 4.1: Welfare indexes in Israel and the OECD countries

Increasing the welfare of the country's residents is one of the main objectives of society and public policy. Welfare is dependent on a range of factors, and the government is able to influence only part of them. The welfare indexes relate to different aspects of a person's life, from economic factors such as per capita GDP and levels of unemployment, poverty and inequality, through the output of the public services (for example, the level of education and life expectancy), the quality of the environment (for example, population congestion, air pollution and crime rates), to human rights (such as political rights and discrimination against the background of ethnicity and other characteristics), social capital (such as the extent of confidence and mutual relations between people), and indexes from the life of the community and the family, which reveal *inter alia* social and other forms of distress.

Aggregate welfare indexes are published worldwide, such the UN's Human Development Index (HDI).¹ The index is constructed from three components – per capita GDP, rates of study and reading and writing, and life expectancy at birth. In 2000 Israel was rated in 21st place worldwide (Table 1 and Figure 1). Although an aggregate index makes it possible to make an international comparison on the basis of a single and uniform scale, the main problem is obviously in selecting the index components and the weight attributed to each of them (that is, translation to monetary values). It can be assumed that individuals in different countries attribute different weights to the aggregate index components, with the result that the construction of the index is very difficult. It is possible to partly alleviate this difficulty by examining general satisfaction with life. It transpires that satisfaction in Israel is in a similar place to its location in the human development index (Figure 2).

As for economic indexes of welfare, the principal index is per capita GDP (adjusted in respect of purchasing power). Israel is rated in the lower part of the OECD countries (Figure 3), and this rating has actually been reduced in recent years. It should be realized that a choice exists between work, which makes possible private and public consumption, and leisure that increases welfare. Although in Israel, the number of gross weekly working hours exceeds that usual in the developed countries, the number

¹ The Economist ("The World in 2005") recently published a quality of life index based on components in different areas, the most important of which are: income, health, employment, freedom and family life. The weighting of the components was based on their share in the contribution to explaining satisfaction at life. Israel was rated in 38th place.

of working weeks in the year is relatively low. Overall therefore, the annual number of work hours is similar to the number in those countries.

The unemployment rate in Israel is one of the highest in the developed countries, although it should be remembered that the Israeli economy was recently at a low ebb in the business cycle. The labor force participation rates in Israel are also low because of the low participation among large populations such as ultra-orthodox Jews and Arab women. It is usual to partly cope with the drawbacks in the labor market, such as low income and instability of employment, by means of a transfer payments system, a progressive supply of public services, and programs for encouraging integration in employment. While extensive government involvement provides comprehensive support for the needy, it involves a heavy tax burden that creates negative incentives to work. Welfare expenditures in Israel as a percentage of GDP are lower than in European countries and higher than in the USA, and the transfer payments are not generous. (See the section on transfer payments.) In the final account, even after government involvement the extent of poverty in Israel is among the highest in the Western countries, as is the inequality in disposable income.

The level of the population's education and health are key variables for determining welfare, and the government involvement in their finance and supply is considerable. Expenditure per student in Israel (relative to per capita GDP) is slightly higher than usual in the developed countries, and the share of private expenditure in financing national spending on education is relatively high.² The rates of study in schools are slightly lower than in the developed countries, but in the higher education system are higher than in those countries. The quality of the education at schools, as reflected by the results of international comparative studies, is inadequate. (See the section on education for details.) The proportion to GDP of per capita national expenditure on health (adjusted in respect of age composition) is one of the highest among the OECD countries. The rate of private expenditure in financing national spending is also very high, and is indicative of substantial inequality. As for the population's basic health indexes, infant mortality (among Jews) is relatively low. The life expectancy at birth of Israeli males is longer than in the developed countries. That of women is relatively short, but an examination of healthy life expectancy shows that their position is improving.

As for the indexes of the quality of the environment, Israel suffers from a lack of environmental resources that is apparent from high population

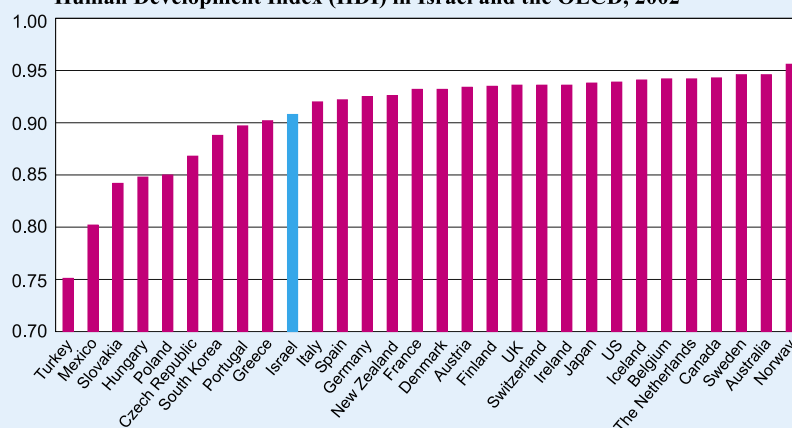
² Due to the relatively high rate of private expenditure on pre-elementary education and higher education; in elementary and post-elementary education, the rate is not exceptional.

congestion, the paucity of open spaces for the benefit of the public (recreation), the low availability of water sources and relatively high air pollution.

Another factor that affects welfare is personal security. In Israel, the rates of serious crime (offenses against the body for example) are much lower than in the developed countries, but the rates of minor crime (such as property offenses) are relatively high. Terrorism and the state of confrontation detract from individuals' welfare, and have considerable weight in Israel.

Recent years have seen an increase in the preoccupation with social capital, which is defined as systems of relationships that are based on common norms and values and permit cooperation between and within groups in society. The principal anchors in social capital are confidence and mutuality in the relationships between people in society, which are essential for the functioning of the social systems.³ These contribute to individuals' welfare and their ability to rely on others when necessary. In Israel the extent of confidence and mutuality is less than in North and West Europe, and more than in South and East Europe. One of the most notable manifestations of social capital is the extent of social involvement, which is reflected *inter alia* by voluntary activity in organizations. According to this index as well, Israel is in the middle of the distribution of European countries.

Figure 1
Human Development Index (HDI) in Israel and the OECD, 2002

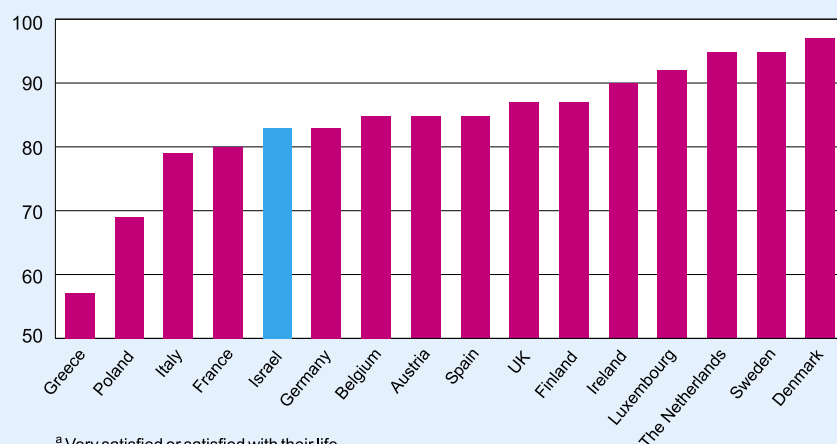


SOURCE: UN (2004), Human Development Report, 2004.

³ For details, see OECD (2001), *The Well-being of Nations: The Role of Human and Social Capital*.

To conclude, it can be assumed that taking into account the range of indexes detailed above, welfare in Israel is in the higher part of the lowest third of the welfare rating in the OECD countries, and is notably good in the output of the health system and bad in the unemployment rate and the extent of poverty.

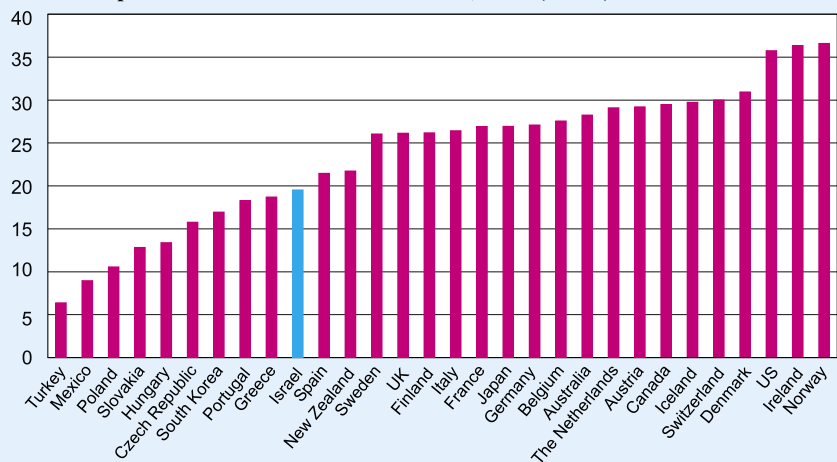
Figure 2
Share of Population Satisfied with their Life^a in Israel (2002) and the EU (2001) (percent)



^a Very satisfied or satisfied with their life.

SOURCE: Central Bureau of Statistics, and European Commission (2001), Eurabarameter, Report No. 55.

Figure 3
Per Capita GDP^a in Israel and the OECD, 2002 (\$ '000)



^a Corrected to purchasing power parity.

SOURCE: UN (2004), Human Development Report, 2004.

Table 1
Main Welfare Indicators for Israel and the OECD Countries

Category	Index		Year	Ranking of Israel relative to the other countries ^a	Value of the index in Israel	Average value for the OECD countries
General	Human Development Index (HDI)		2002	21 (30)	0.908	0.909
	Proportion of those satisfied with their lives ^b	(percent)	2001 (Israel, 2002)	12 (16)	83	84
Economic	Per capita GDP ^c	(\$, thousands)	2002	21 (30)	19.5	23.9
	Net weekly work hours ^d	(hours)	2002	16 (24)	37.3	38.5
	Unemployment rate	(percent)	2004	24 (27)	10.4	6.9
	Welfare expenditure	(percent of GDP)	1998	21 (30)	18.3	21.0
	Proportion of the poor ^{e,f}	(percent)	2000 ^g (Israel, 2001)	16 (18)	15.6	9.9
	Income inequality	(Gini index for disposable income per standard individual ^f)	2000 ^g (Israel, 2001)	16 (18)	0.346	0.296
Education	Expenditure on education per student in elementary school relative to per capita GDP	(percent)	2001	19 (28)	22	20
	Proportion of public expenditure on education in total public expenditure	(percent)	2001	20 (26)	80	88
	Proportion of individuals with higher education.	(proportion of those with academic education among 25-34 year olds, percent)	2002	5 (31)	25	20
Health	Adjusted ^h national per capita expenditure relative to per capita GDP	(percent)	2001	3 (24)	8.9	7.4
	Proportion of public expenditure in total national expenditure	(percent)	2001	19 (24)	69	74
	Infant mortality rate	(cases per 1,000 live births)	2002	6 (25)	5.4 ⁱ	4.8

Table 1 (cont.)
Main Welfare Indicators for Israel and the OECD Countries

Category	Index		Year	Ranking of Israel relative to the other countries ^a	Value of the index in Israel	Average value for the OECD countries	
Quality of life and the environment	Life expectancy	Men	(years)	2002	6 (31)	77.4	74.8
	at birth	Women	(years)	2002	25 (31)	79.2	80.7
	Population density		(population per sq. km.)	2003	23 (27)	305	78
	Air pollution		(sulphur dioxide per capita, tons)	2000	19 (28)	10.0	9.8
	Crime		(Household break-ins and theft, ^j percent)	2000 (Israel - 2001)	16 (16)	7.6	3.7
Social capital	Social involvement		(Proportion of members in voluntary organizations, (percent)	2003	7 (14)	55	54

^a The first country in the ranking is that with the highest value of the characteristic. For example, the country with the lowest rate of unemployment will be rated first. The number in parenthesis indicates the number of countries in the relevant comparison group.

^b Satisfied or very satisfied with their lives.

^c Adjusted for purchasing power.

^d Including temporary absentees from work.

^e The poverty line is defined as half of the median per standard capita disposable income.

^f Based on a scale of weights in which the number of standard individuals in a household is the root of the number of individuals and therefore \sqrt{n} .

^g The data for some of the countries is for the second half of the 90s.

^h Adjusted for age distribution.

ⁱ Jews - 4.0, Arabs - 8.6.

^j Including unsuccessful attempts.

SOURCE: Central Bureau of Statistics; the National Insurance Institute; processed data of the Bank of Israel;

U.N. (2004), Human Development Report – 2004; ILO (2003), Yearbook of Labour Statistics 2003; OECD; European Commission

(2001), Eurobarometer, report number 55; Luxembourg Income Study (LIS); Kestern, J.N. van, Mayhew, P. and Nieuwebeerte, P.

(2000), Criminal Victimization in Seventeen Industrialized Countries: Key-findings from the 2000 International Crime Victims Survey,

The Hague Ministry of Justice, WODC; European Social Survey 2002/2003;

Karen Bar, Anat Oren and Noach Levin-Epstein (2003), Israel in Europe: Closer to the Eastern Side of the Continent, B.I. and Lucille Cohen Institute for Public Opinion Research, Tel Aviv University.

a. Forms of intervention

The public sector's welfare-related activity mainly takes the form of: (1) the provision of direct financial support (transfer payments); (2) the supply of actual services – partly the direct supply of services, and partly the finance of services that are supplied by other entities and the supervision of their level and quality; (3) monetary benefits by means of credits and deductions in the tax system and subsidies for commodities; (4) the implementation of programs for the active encouragement of employment; (5) legislation, such as the Minimum Wage Law, the Sickness Benefit Law, the Work and Rest Hours Law and the Compulsory Education Law, and regulatory coverage – for example, the supervision of the prices of basic commodities.

Transfer payments to households are intended to help them finance their consumption and insure them against risks in order to reduce the adverse impact on consumption.

Transfer payments to households include child allowances, old age allowances, disability allowances, unemployment benefit and the income guarantee payment. Part of these payments are intended to help households finance their consumption and are therefore granted according to criteria relating to the family's composition, size, economic situation and health situation, and part of them are subject to an employment test. Other transfer payments insure the population against risks such as temporary lack of employment and disability, in order to reduce the adverse impact on consumption in various situations. In contrast to the actual supply of services, transfer payments enable their recipients to use them at their discretion.

Transfer payments (and taxes) are one of the principal instruments for the redistribution of income – reducing the extent of poverty and inequality – although inherent in them is a negative incentive to work.

Transfer payments (and taxes) are one of the principal instruments for the redistribution of income – reducing the extent of poverty and income inequality.³ The contribution of these transfer payments to reducing the extent of poverty is appreciable: In 2003 the ratio of poor families to total families, after transfer payments and taxes, was 43 percent less than the ratio of poor families on the basis of their economic income. The major contribution of transfer payments in reducing inequality is apparent from the fact that despite the substantial growth in inequality in economic income (income from wages and capital), since the end of the 1970s the increase in disposable income inequality has been relatively moderate. In 2003 transfer payments (and taxes) reduced the Gini index of inequality in the distribution of income by 30 percent (from 0.5265 to 0.3685). Notwithstanding transfer payments' contribution to reducing poverty and inequality, it should be remembered that inherent in the transfer payments to part of the working-age population is a negative incentive to participate in the labor force that has the effect of increasing poverty, especially in the long term.

Until the beginning of the decade, transfer payments to households increased greatly, primarily because of the mass immigration from the CIS, the expansion of wage differentials and the decrease in the rate of employment in the economy, mainly among the less educated. (This development also resulted from the liberal approach adopted to applying the criteria for the receipt of part of the allowances.) Another

³ Although considerable inequality exists in the ownership of property, the information on it is limited and income tests hardly refer to it at all.

source of the growth in transfer payments was the change in the concept regarding the desired method of support for households, from the direct subsidization of goods, principally basic commodities – a form of support that was usual until the mid-1980s – to the direct support of household. As a result of the large rise in the proportion of transfer payments and the growing need to cut government spending, at the beginning of the decade it was decided to change the manner of public intervention, from “welfare to work” (details will be presented later), in the spirit of the policy measures that have been adopted in Western countries.

Social services that are actually supplied encompass numerous areas – education, health, housing, immigrant absorption, and personal and other services. Part of the services, education and health for example, are supplied to the entire population while others, such as nursing and immigrant absorption, only to specific populations. Most services are centered on areas where they are essential for current functioning and social and economic integration in the economy. It should be noted that these services, which directly increase the benefit of their recipients, have favorable implications for the rest of society as well. Government involvement is also important because of the need to assure the quality of the services. Supervision is particularly necessary when the suppliers of the services are very large entities. Moreover, were part of the services to be purchased in the free market, the expenditure on them by part of the population, especially the weak strata, would probably be less than that desirable on the basis of social considerations. Government involvement therefore has the effect of increasing the use of the services to a proper level.

The social services help to reduce poverty and socio-economic gaps in the short and long term, and their benefit for the needy strata is particularly high. This is because basic services are involved, whose consumption benefit is greater among the population strata that lack them to a large extent (due to decreasing marginal benefit). Moreover, the low income-earning deciles use public social services more because of their extensive need for them (due to their large number of children or greater incidence of medical problems, for example), and due to lack of means, which prevents them from using private service suppliers. As a result, the allocation of public resources to the social services is progressive,⁴ and this at least partly offsets the growth in economic and social gaps. In addition, part of the services (principally education and health services) have the effect of increasing future income-earning ability and thereby reduce the extent of poverty and economic inequality in the long term.

Over the years, the proportion of private finance in overall finance for the social services has increased. Part of the increase reflects a rise in the standard of living, and with it a demand for expanding the volume of services and improving their quality – a

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The supply of social services by the government has favorable implications for society as a whole. It also assures the quality of the services, and has the effect of increasing the weak strata's use of them.

The low income-earning deciles use social services more because of their extensive need for them and their lack of means. The progressivity in the allocation of the services helps to reduce poverty and economic gaps.

⁴ In 1992-93 (the last years for which data are available), actual transfers in the areas of education and health to households in the lower decile were three times greater than those granted to households in the upper decile, and accounted for nearly half the disposable income of the former.

Over the years, the proportion of private finance in overall finance for the social services has increased. Part of the increase reflects a rise in the standard of living.

demand that the public sector has not fully supplied – although it could also reflect the public's dissatisfaction at the level of public services. While a growth in households' share in the finance of public services reflects an increase in their own responsibility for their welfare, at the same time it reflects a decrease in the government's responsibility and involvement in its citizens' welfare (which obviously reduces the pressure on the budget). Private finance is positively correlated with households' income. Private purchases of education services and health services in the upper decile are 3.8 and 4.6 times more respectively than those in the lower decile, and therefore have the effect of increasing the social and economic gaps in the population.

b. Welfare policy in recent years

Since the beginning of the 2000s the generosity of the transfer payments system has been reduced. This development has resulted from the reduction in the government's involvement in assuring the population's welfare, while focusing on integration in employment, as well as from budgetary necessities.

Since the beginning of the 2000s and with greater frequency since 2002, changes have been made in welfare policy. The generosity of the transfer payments system has been greatly reduced, and an emphasis has been placed on encouraging participation in the labor force. This emphasis has been applied by increasing the efficiency of the services that are actually supplied. The turnaround in policy derived from a conceptual change of reducing the government's involvement in assuring the population's welfare, while focusing on entry to the labor force in view of the low labor force participation rates. The policy turnaround also resulted from the decrease in government spending relative to GDP and the desire to reduce the tax burden with the aim of encouraging growth, which is a prerequisite but not in itself adequate for improving the population's welfare. The maintenance of social policy at its present level is conditional on economic growth, which will lead to an increase in tax revenue, an increase in public sector efficiency and a further reduction in defense spending, as far as this is possible.

The maintenance of social policy at its present level is conditional on economic growth, which will lead to a growth in tax revenue, an increase in public sector efficiency and a further reduction in defense spending.

The main area in which welfare policy has changed is transfer payments. In the past, efforts were largely directed as stated at coping with the problem of poverty by means of direct support in the form of transfer payments, which were reduced consistently over the years. These payments created a negative incentive to participate in employment among part of the working-age population, and therefore led to a growth in poverty in the long term. In particular, this was due to government policy, which permitted the large-scale employment of low-cost foreign workers. The government thereby reduced the potential wage of the less educated and contributed to a surge in the unemployment rate among them. In many Western countries, the approach to dealing with poverty was changed in the second half of the 1990s. Awareness increased that the function of the individual is to help himself by means of his income from the fruits of his labor. Accordingly, the emphasis was moved to helping those capable of working to integrate in employment. In Israel the approach was changed at the beginning of the decade due to fiscal distress and the growth in the extent of poverty. But the measures that have been adopted in Israel to date have mainly included a stricter approach to eligibility criteria and the size of transfer payments. In contrast to many Western

countries, programs for encouraging employment have hardly been implemented at all, except for the program for supporting single parents and a decrease in payments to the National Insurance Institute. (See the discussion on employment and wages in this publication.) Since the end of 2002 however, strident measures have been taken to reduce the number of foreign workers and to increase the cost of employing them. This gives low educated Israelis a chance to integrate in employment.

The policy measures that have been adopted – a large cut in transfer payments and programs for the encouragement of employment – are intended as stated to bring back people to the labor market and thereby enable them to contribute to improving their economic position. Yet the order in which the changes were implemented – reducing transfer payments first and only afterwards quite limited activity to encourage employment, in a situation of burgeoning unemployment – led to a growth in the rate of poverty in 2003 (from 17.7 percent in 2002 to 19.2 percent in 2003, among families). In 2003 the policy measures also led to a large decrease in the rates of extrication from poverty by means of the transfer payment and tax systems (Figure 4.2), and to a decrease in the contribution of transfer payments and taxes to reducing inequality (Figure 4.3). Given the further reduction in the amount of transfer payments in 2004 and since the reduction in tax on work improves only the situation of those who paid tax from the outset, it can be assumed that the contribution of transfer payments and taxes to reducing poverty and inequality decreased in 2004 as well.

In the area of social services, in recent years the emphasis was placed on the need to increase the efficiency of these services. This was due mainly to the need to cut the budget, because of the high proportion of expenditure on social services to total government spending,⁵ and to the dissatisfaction with part of these services, especially the education and health services. The result has been the privatization of a number of social services that were still financed by the state (treatment of the retarded, for example) and an increase in their efficiency concurrent with a decrease in government finance for various services (such as geriatric treatment). Changes were also made in existing public systems, but to a limited extent. (In education, for example, measures were taken to strengthen weak students, part of the study programs were changed, and a professional enrichment program for teachers was implemented.) It should be noted that extensive reforms are being planned.

There have been growing calls in recent years for a comprehensive reform in the educational system that will be based mainly on a reorganization and efficiency-drive, without a major increase in resources. We will give a brief review of the recommendations of the “National Plan for Education” (the Dovrat Report of January 2005), whose main elements we regard as: (1) strengthening public education; (2) reducing gaps in the allocation of resources and in educational achievements, and the encouragement of equality and fairness; (3) enhancing the school’s status and

The large cut in transfer payments and programs for the encouragement of employment are intended to bring back people to the labor market. However, the limited extent of the programs and the delay in implementing them have led to a growth in the rate of poverty.

In the area of social services, the emphasis was placed on increasing their efficiency, on privatizing services that were still financed by the state, and a decrease in the government’s share in financing the services.

⁵ However, welfare spending in Israel as a percentage of GDP is less than the average for the OECD countries.

independence; (4) increased efficiency in the use of resources; (5) improving teaching and the status of the teaching profession; (6) introducing market mechanisms and competition to the education system; (7) encouraging democratization processes, reducing the power of the teachers' unions and reducing political parties' involvement in the educational system; (8) creating transparency and reporting responsibility that will make it possible to measure and assess results relative to defined educational objectives; (9) strengthening the early stages of education, including nursery schools.

Activity by voluntary organizations involved in welfare has increased greatly. But it is feared that their activity will speed up the decrease in government involvement in assistance to the weak strata.

Activity by voluntary nonprofit organizations that deals with the welfare of the individual has increased greatly during the last few years. The reasons for the increase include the worsening economic distress of the weak strata – to the extent of a shortage of essential commodities such as food – due to the recession in economic activity and the cuts in transfer payments. Survey findings show a large growth in demand for food via activity in the area in 2002 and 2003. The average increase in food distribution by the foundations in question reached 46 percent in 2003 following an increase of 37 percent in 2002. While the activity by the third sector organizations is welcome, it may be speeding up the decrease in government involvement in assistance to the weak strata. The support that these organizations provide is not always based on clear criteria of necessity, and the accessibility of their services is not always uniform.

2. EDUCATION

Investment in human capital makes a supreme contribution to consolidating the individual's economic status. Government involvement is desirable not only in view of the positive external effects of acquiring an education, but also because of the difficulty in financing the investment.

Investment in human capital makes a supreme contribution to consolidating the individual's economic status and to his integration in modern society. The acquisition of education increases the labor force participation rate, yields a positive return in terms of income-earning ability, reduces the exposure to unemployment and poverty, and helps to improve the health and the ability to make economic and other decisions with important ramifications. As a result, economy and society as a whole as well as the individual benefit from the return on investment in education, thereby increasing the well-being of society. Extensive government involvement in the finance and supply of education services is desirable not only in view of the positive external effects of acquiring an education, but also because of individuals' difficulty in financing the investment due to the lack of collateral backing and the need to assure the quality of the education and the equality of opportunity in the acquisition of basic education. The educational system in Israel has long been subject to fierce criticism, and in recent years this criticism has become even more vociferous. We will give a brief review of developments in the inputs and outputs for the educational system since the 1980s (hereinafter the period reviewed)⁶—the reciprocal relationships between which

⁶ The discussion will focus on the schools, that is, elementary and post-elementary education, pre-elementary education (day centers and nursery schools), while the higher educational system will be a marginal element in the analysis.

should provide an idea of the extent of the system's efficiency—and will make an international comparison.

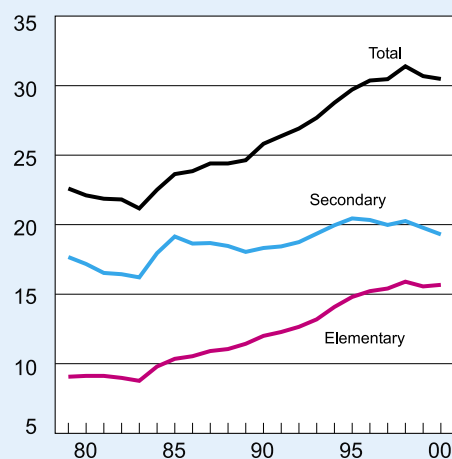
a. The inputs in the educational system

National expenditure on education totaled NIS 48 billion or 10 percent of GDP in 2002 (Table 4.3),⁷ and this ratio has been increasing for a long time as a result of the rise in the standard of living. The demand for education services has increased together with this ratio due to the reduction in the share of defense spending in GDP, which has freed resources, and despite the decrease in the proportion of children in the population. Some 13 percent of the government's civilian spending (except for debt servicing) is allocated to education services, and the educational system's expenditures account for over a quarter of total welfare spending. The educational system's central position in economic activity is also reflected by its share in employment: The number of persons employed in the education services (including in the private sector) in 2004 totaled 300 thousand, 12 percent of the total number of employed persons in the economy and 43 percent of those employed in the public services. A fifth of the finance for national spending on education derives from households. Households' private expenditure on education accounts for an average of only 3 percent of their overall consumption, but for 16 percent in the case of the average spending of a household with two parents and two children. The public sector is responsible for the clear majority of education services, and only a tenth of these services are supplied by non-profit organizations and other entities.

A consideration of demographic developments, with an emphasis on the proportion of children in the population and the distribution of their ages, is necessary in order to conduct a precise analysis of the development of the allocation of resources to the education services. We will therefore examine the expenditure per pupil according to educational stage. Real national spending per pupil in elementary schools

National expenditure on education accounts for 10 percent of GDP, and this ratio is increasing continually.

Figure 4.4
Current National Expenditure
per Student,^a by Educational Level,
1979–2000 (NIS '000)^b



^a Until the mid-1990s the move to the newly formed junior-high schools was at its peak. This process had a smoothing effect on expenditure per student by educational level.

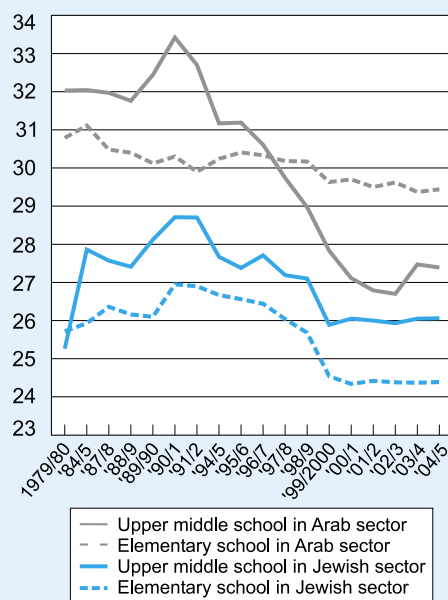
^b At constant 2000 prices.

SOURCE: Based on Central Bureau of Statistics data.

Real national spending per pupil has risen during the last two decades.

⁷ Much of the data on the educational system are obtained with a considerable lag. Available and updated data are presented in this section.

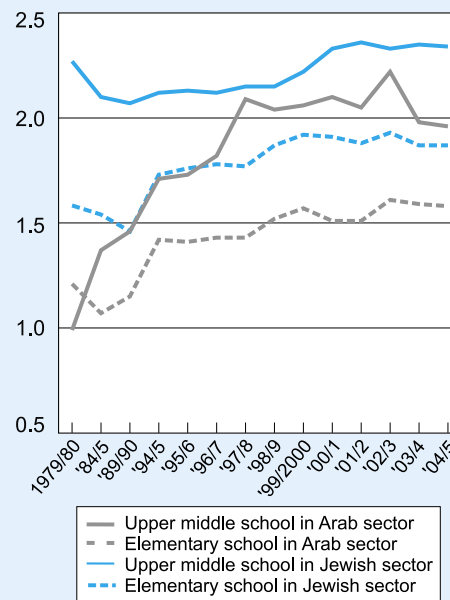
Figure 4.5
The Number of Students per Class,
by Sector and Level of Education,
1979/80–2004/5,^a



^a 2004/5 Ministry of Education forecast.

SOURCE: Based on Central Bureau of Statistics and Ministry of Education data.

Figure 4.6
Weekly Hours of Teaching per
Student,^a by Sector and Level of
Education, 1979/80–2004/5,^b



^a Weekly hours per class divided by total students per class.

^b 2004/5 Ministry of Education forecast.

SOURCE: Based on Central Bureau of Statistics and Ministry of Education data.

and post-elementary schools (intermediate stream and upper stream) rose during most of the period reviewed (Figure 4.4). Two thirds of the public sector's current spending on education services are wage payments, and the increase in the average wage per employee post (FTE) in the education services is more rapid than the average in the economy. These developments show that apart from the quantitative expansion in education spending, which mainly reflects the increase in the number of students (Table 4.2) and real spending per student, the relative price of education services also rose. The real appreciation is apparent from the surge in the price of education services at a rate exceeding that of business sector GDP prices. This phenomenon also indicates that the item relating to households' expenditure on education services (as well as culture and entertainment) in the consumer price index also rose more than the general increase in the index.⁸

⁸ In a similar manner, relative to the prices of GDP the prices of the products of other non-marketable sectors, including public services, also increased.

Table 4.2
Students in the Education System, 1980 to 2003
(selected years)

	1980	1990	1995	2000	2001	2002	2003
Kindergartens							
Students (annual rates of change ^a)		1.3	1.0	2.1	0.4	3.9	6.0
Attendance rates for 3-4 year olds (percent)							
Jewish sector ^b	87.2	97.3 ^c	97.0 ^d	88.6	77.3	97.6	98.8
Arab sector ^c				38.3	56.6	49.3	69.4
Schools							
Students (annual rates of change ^e)		2.2	2.7	2.5	1.9	1.6	1.0
Attendance rate in the Jewish sector (percent)	80.0	79.0	80.0	79.0	78.0	77.0	77.0
Proportion of students under ultra-Orthodox supervision in elementary school in the Jewish sector (percent) ^f	5.7	7.6	10.3	20.4	21.2	22.5	23.6
Students per class in the Jewish sector							
Elementary school	25.7	26.1	26.7	24.5	24.3	24.4	24.4
Junior high	27.6	30.0	30.2	30.8	30.6	30.5	30.4
High school	25.3	28.1	27.7	25.9	26.1	26.0	25.9
Students per class in the Arab sector							
Elementary school	30.8	30.1	30.2	29.6	29.7	29.5	29.6
Junior high	32.8	33.1	33.5	32.9	33.0	32.6	33.0
High school	32.0	32.4	31.2	27.8	27.1	26.8	26.7
Institutions of higher education							
First degree students in universities and colleges							
Thousands	42.0	55.0	86.0	127.0	130.0	138.0	145.0
Annual rates of change ^a (percent)		2.7	9.3	8.1	2.1	6.3	4.5
Proportion of first degree students in colleges (in the total number of students, percent)	4.8 ^g	15.0	22.5	41.8	43.1	45.5	47.0
Students in other institutions of higher learning (annual rates of change, ^a percent)		-0.8	11.0	5.5	16.2	5.5	-13.2

^a 1990, annual average 1980-90; 1995, annual average 1995-95; 2000, annual average 1995-2000.

^b Including day care centers. Starting from the 2002/3 school year, the data for private kindergartens were not weighted.

^c 1988/89 school year.

^d 1993/94 school year.

^e Arab children in a Jewish school are included in the Jewish sector. Residents of East Jerusalem are not included.

^f Starting from the 1999/2000 school year - includes Talmud Torahs.

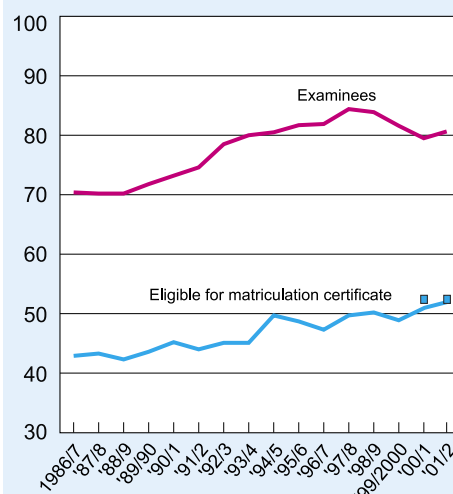
^g 1982/3 school year.

SOURCE: Central Bureau of Statistics and processed data of the Bank of Israel.

There is no agreement on the issue of whether a reduction in class size stands up to the test of a cost-benefit examination. The number of pupils per class fell until the end of the 1990s and then stabilized.

The educational system's principal resource is teaching power, and studies show that a large ratio of teachers to students and quality of educators contribute to students' achievements to some extent. However, the literature is divided as to the contribution of a reduction in class size to learning achievement, and there is no agreement on the issue of whether this measure stands up to the test of a cost-benefit examination.⁹ Reducing the number of students in crowded classes enables teachers to devote more attention to students, alleviates disciplinary problems and is beneficial to the teachers' working conditions, although it obviously involves an increase in teaching power and major costs. It is therefore not at all clear whether such a measure is more economically effective than other measures. In any case, its efficiency has been proven as greater at the pre-school age, in the lower grades and among relatively weak learners. The number of pupils per class in elementary education fell until the end of the 1990s and then stabilized (Figure 4.5). The variability in class size is considerable: Crowded classes are mainly found in urban localities while classes in the periphery are relatively small, as they are among pupils belonging to an educational stream that constitutes a minority in the residential environment (for example, pupils in state religious schools in secular neighborhoods). During the last two decades, the number of teaching hours per pupil has increased, especially in the Arab sector, although this trend ceased recently (Figure 4.6).¹⁰

Figure 4.7
Share of Matriculation Examinees^a
and the Share Eligible^b for the
Matriculation Certificate among
12th Grade Students, 1996/7–2001/2
(percent)



^a Students who sat at least one exam.

^b Eligible for the matriculation certificate at the summer session. Since 2000/1 students can sit the exams in English and math at a second sitting later in the year (indicated in the graph by boxes).

SOURCE: Ministry of Education.

⁹ For a comprehensive review in the area, see: E. Hanushek, 2002, "Evidence, Politics, and the Class Size Debate" in L. Mighel and R. Rothstein (eds.), "The Class Size Debate", Economic Policy Institute, Washington; A.B. Kruger, 2003, "Economic Consideration and Class Size", *Economic Journal*, No 113 (485), pp. F34-35.

In Israel it was found that a decrease in the class size in elementary schools led to an improvement in study achievements in the fourth and fifth grades, but not in the third grade. See: J.D. Angrist and V. Lavy, 1999, "Using Maimonides' Rule to Estimate the Effect of Class Size on Scholastic Achievement", *The Quarterly Journal of Economics*, Vol. 114 (2), pp. 533-575.

¹⁰ However, the number of teaching hours allocated to frontal lessons appears to be decreasing. For example, the actual average number of post-elementary teaching hours amounted to 22 in the 1981-82 school year, and had fallen to 19 in the 1999-2000 school year.

Table 4.3
Inputs of the Education System, 1980 to 2003
(selected years)

	1980	1990	1995	2000	2001	2002	2003
National Expenditure on Education:							
Total (NIS billions, in 2000 prices)	19.1	27.3	37.2	43.1	44.5	45.7	
As percentage of GDP	8.5	8.3	9.4	9.2	9.6	9.8	
Proportion of civilian expenditure spent by the government and the municipal authorities on education (as a percentage of their total expenditures not including debt service)	10.9	10.1 ^a	13.1	13.1			
Proportion of national expenditure on education ^b paid for by households (percent)		23.1	20.5	20.5			
Share of national expenditure on education paid for by households in private consumption (percent)		2.5	3.1	3.1			
Expenditure per student (NIS thousands, in 2000 prices)							
Elementary school	9.1	11.4	14.8	15.7			
High school	17.7	18.3	20.5	19.3			
Equivalent full time teaching posts (annual rates of change, ^c percent)		1.7 ^c	5.2 ^c	4.0 ^c	2.9	1.6	2.9
Weekly teaching hours per student in the Jewish sector							
Elementary school	1.6	1.5	1.7	1.9	1.9	1.9	1.9
High school	2.3	2.1	2.1	2.2	2.3	2.4	2.3
Weekly teaching hours per student in the Arab sector							
Elementary school	1.2	1.2	1.4	1.6	1.5	1.5	1.6
High school	1.0	1.5	1.7	2.1	2.1	2.1	2.2

^a 1987.

^b Before 1995 - also includes private NPOs.

^c 1990, annual average 1980-90; 1995, annual average 1995-95; 2000, annual average 1995-2000.

SOURCE: Central Bureau of Statistics and processed data of the Bank of Israel

As regards the characteristics of teaching power, teachers' level of education has risen considerably due to the academization of vocational training institutions and the expansion of the higher education system, including the opening of colleges and branches of foreign universities—a process that has speeded up the rise in teachers' wages. However, the quality group of those learning in teacher training institutions is relatively low. Teachers' age and seniority has increased, a phenomenon that could be accompanied among part of the teachers by an erosion in the quality of instruction and that could also involve an increase in wage expenses in respect of seniority increment. By its very nature, this phenomenon is not connected with the teachers' achievements although seniority does enhance the quality of instruction, principally in the teacher's initial years of the employment. Another notable phenomenon is the feminization of the education system, a phenomenon that is closely related to the limited number of

Teachers' level of education and their seniority have increased considerably.

working hours, which benefits working mothers. Over the years, a slight decrease has been recorded in the number of work hours per teacher, and the proportion of teachers working in more than one post has risen. Teachers' wages relative to those with similar levels of education and professions are a key factor—together with working hours and other accompanying conditions—in determining the quality of the personnel that choose to join the education system and remain in it. Although teachers' monthly wages are relatively low, particularly at the start of their career,¹¹ taking into account the number of work hours a year, teacher's wages per hour in comparison with that of other public sector employees (such as social workers and nurses) are not particularly low. During the middle of the 1990s, wage agreements were signed with the teachers that provided them with considerable wage increments, like the agreements that were signed with other public sector employees.

b. The outputs in the education system

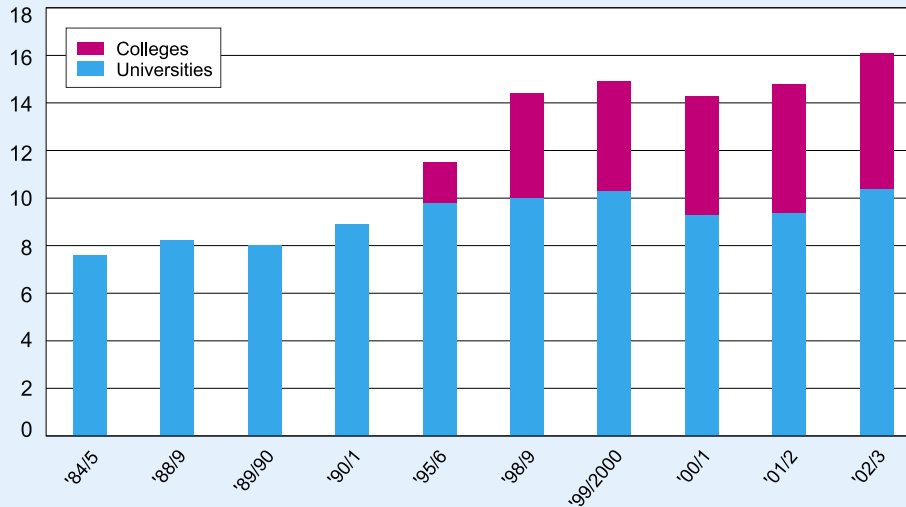
From a long-term perspective, a significant improvement is apparent in measurable learning achievements in the education system.

The outputs in the educational system are diversified and apart from measurable learning achievements, include the acquisition of skills necessary for pursuing the course of life and normative behavioral patterns that are difficult to assess and examine over time. We will therefore focus only on measurable learning achievements (Table 4.4). From a long-term perspective, a significant improvement is apparent in the majority of these achievements. For example, the dropout rate from schools has fallen, and the proportion of those sitting for matriculation exams and earning a matriculation certificate has increased (Figure 4.7). The latter proportion currently amounts to 44 percent of 17-year olds.¹² The proportion of those joining the educational system is higher among those with matriculation certificates, and the ratio of those studying in the system to the population in the relevant age group has risen sharply (Figure 4.8). These increases were achieved due to the rapid expansion of the higher education system in the mid-1990s, when colleges were opened that now account for half of all students in that system (Table 4.2). The improvement in the indexes presented so far disregards two major developments—a possible decrease in the quality of education and an inadequate reduction in the significant gap in learning achievements by nationality, ethnic group and socio-economic status, as will be detailed below.

¹¹ A graduate teacher who starts working in an elementary school earns NIS 3,550 gross a month. After 15 years, the teacher's gross salary (not including additional increments apart from the seniority increment) will amount to NIS 5,570 a month. Most teachers benefit from various increments over the years (such as those in respect of advanced study and "class educator").

¹² It should be noted that the proportion of students earning a matriculation certificate among those ending their studies in the summer rises at the winter session, and continues to increase for many years afterwards due to supplementary studies. Among those who sat for the matriculation exams in 1995, the success rate rose from 66 percent in that year to 78 percent after eight years.

Figure 4.8
Rates of Enrollment in Universities and Colleges^a among Jews Aged 20–29
Years, 1984/5–2002/3 (percent)



^a Since 2002 non-university academic institutions have been called colleges.

SOURCE: Central Bureau of Statistics.

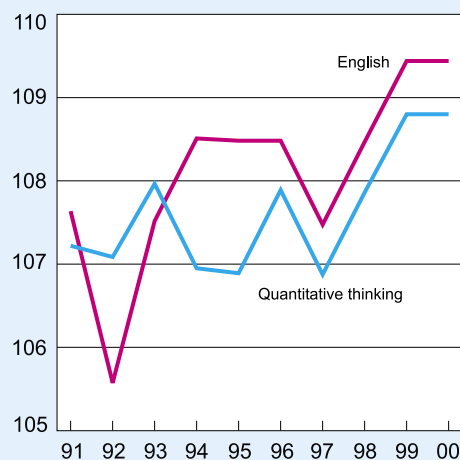
(1) The quality of education

There are few direct indexes that illustrate the changes that have occurred over the years in the quality of Israeli children's education. This is due to the lack of joint nationwide examinations that are comparable in different areas and are necessary for assessment and planning purposes. In order to remedy this deficiency, pupils' achievements could have been checked over time in international comparative examinations, but no unity in these was recorded for most of the period and the populations of those tested changed (see below for details). However, a uniform scale was retained in the international comparative examinations in mathematics and the sciences (TIMSS) that were conducted in the years 1995, 1999 and 2003. The results show that in Jewish state education, absolute achievements fell significantly in 1999 compared with 1995, while in 2003 a considerable improvement was recorded among pupils in the state education system (including the Arab system).¹³ The amount of study material required in the matriculation examinations appears to have decreased over the years, and examinations have become more lenient (with respect, for example, to

¹³ Not including ultra-orthodox pupils in the independent educational system and East Jerusalem Arabs, who were not examined on any occasion. From the 1999 examinations, pupils in the Arab education system, whose learning achievements are lower on average than those in the Jewish educational system, were added to the population examined. As a result, a comparison with the 1995 examinations is only possible in the Jewish state education system.

the range of examination opportunities, additional sessions, and the extension of the time available for examinees who are recognized as learning-challenged). These developments may indicate that the authorities have relaxed their requirements from the student. The language skills of native-born Israelis who are to be recruited to the IDF have decreased as well. However, there are signs that the quality of school-leavers' education has actually improved: The average number of study points in the matriculation certificate has increased, including in subjects that can be upgraded such as mathematics. The average marks in English and theoretical ability in mathematics in the psychometric tests for admittance to higher education institutes also improved during the 1990s (Figure 4.9), although this development may derive from factors unrelated to the educational system.¹⁴

Figure 4.9
Average Grades in Two Sections of the Psychometric Test,^a 1991–2000



^a Students taking the test, in Hebrew, for the first time. The grade was adjusted for the improvement in the average obtained by participating in preparatory courses, based on the research paper (in Hebrew) by K. Shatzman and C. Oren (1997): The Utility of Preparatory Courses for the Psychometric Test Compared to Self-Assessment, the National Center for Examinations and Evaluation, Report 232.

SOURCE: Based on data from the National Center for Examinations and Evaluation.

(2) Gaps in learning achievements

One of the education system's objectives is to provide an equal opportunity to students from a weak background. Measures have been taken to strengthen them while creating a remedial preference.

One of the educational system's objectives is to bridge the gaps between students' learning achievements while providing an equal opportunity to those who have grown up in families with weak socio-economic characteristics, and as a result are educationally disadvantaged. Studies show that these characteristics (such as parents' education and income, and number of siblings) have a decisive impact on the student's ability to exhaust his potential. Substantial differences in private expenditure on private education exist at the pre-school age, in supplementary education¹⁵ and in higher

¹⁴ Such as the expansion of the communications media, which increases the exposure to English. However, the ratio of the established Jewish population in the relevant age group who were tested in the psychometric exam in Hebrew remained stable, a finding that could indicate that the extent of examinees' selectivity did not change.

¹⁵ For example, the expenditure on educating a pre-school age child in a household from the upper decile (according to standardized disposable income per capita) is eight times higher than the expenditure per child in the lower decile and in supplementary education – seventeen times. In addition, schools' income from parents' payments in the Jewish education system are seven times higher than in the Arab education system.

education, and provide students from the established strata with a greater chance of succeeding in their studies, even if their personal abilities do not exceed those of students from disadvantaged families. Numerous measures have been taken in the educational system in order to strengthen weak populations, and clear and uniform criteria have been determined for the allocation of resources and the generation of a preference for positive discrimination. These measures include an emphasis on helping children with special requirements and weak students, an incentive for teachers to work in national preference areas, and the gradual enforcement of the Compulsory Free Education Law for those aged 3-4 with first preference to localities with a low socio-economic rating, such as disadvantaged neighborhoods.

A major step towards reducing the differences in learning achievements was taken in the 2003-2004 school year with the move, in elementary schools, to the allocation of teaching hours per pupil instead of per class while enhancing the form of allocation to the pupil, in the spirit of the recommendations of the Shoshanni Report. These recommendations stipulated that the allocation per pupil in the lower socio-economic decile was to be 60 percent higher than for a pupil in the upper decile.

A comparison between the Jewish and the Arab sectors shows a considerable decrease during the last two decades in the discrimination against the latter in the allocation of such resources as teaching hours per pupil (Figure 4.6), teacher training and infrastructure. The gaps in learning achievement also decreased due to the increase in studies at the ages of 3-4 and in technological education in the Arab sector. Nevertheless, the gaps in learning achievement are still significant at all levels of education. For example, the high school dropout rate in the Jewish sector is half that in the Arab sector,¹⁶ and the percentage of those earning a matriculation certificate is 56 percent and 42 percent respectively. Moreover, the quality of the matriculation certificate in terms of the composition and extent of the curriculum and the marks obtained in it are clearly inferior in the Arab sector, as is therefore the ratio of those matriculating who are able to subsequently fulfill the requirements for a college education. As a result, these gaps are increasingly apparent in the higher education system.

The inter-ethnic gaps in learning achievement, which largely overlap the economic gaps, appear to have decreased over time but are still considerable – relatively small in the lower grades and larger with the rise in educational grade. The weak groups' relatively low participation rates in higher education has serious negative implications for their success in the labor market, and derive from a number of factors: relatively high dropout rates from school, study in tracks and streams that do not lead to a matriculation certificate or even to a lower quality certificate and lastly, difficulties in financing higher education.

Greater educational achievement is to be found in socio-economically established localities than in other localities and especially in the periphery, due *inter alia* to the

The negative discrimination in the allocation of resources to students in the Arab education sector has decreased considerably. However, their learning achievements are still much lower than in the Jewish education sector.

¹⁶ Relatively high dropout rates can also be found among new immigrants, mainly those from Ethiopia, and among pupils in certain peripheral areas.

The differences in socio-economic position and local authorities' ability to participate in financing expenditures on education contribute to the perpetuation of the gaps in learning achievements.

strong municipal authorities' ability to recruit higher-wage personnel and resources for financing the local educational system. Since over a quarter of the local authorities' spending on education comes from independent sources (not to mention the direct raising of funds from parents and schools within the framework of independent management), the large differences in resources between the authorities usually contributes to perpetuating the gaps in learning achievement.

Another interesting issue related to the reduction in educational gaps by socio-economic class and nationality is the rapid opening since the 1990s of different types of colleges (such as private, regional and teacher-training colleges) and branches of

Table 4.4
Outputs of the Education System, 1980 to 2003
(selected years)

		1980	1990	1995	2000	2001	2002	2003
Proportion of 17 year olds learning in grade 12	Total ^a		82.7	81.6	85.9	86.2	89.6	91.5
	Jewish sector	62.5	82.7	88.5	89.2	90.2	93.8	94.6
	Arab sector			54.4	70.7	68.2	75.6	79.9
Proportion of grade 12 students writing matriculation exams	Total		73.5	76.7	80.7	80.4	81.0	
	Jewish sector		73.3	76.0	79.4	79.3	79.8	
	Arab sector		74.7	80.9	88.8	87.4	88.2	
Proportion of grade 12 students earning matriculation certificates	Total		34.4	50.5	50.6	55.1	55.5	
	Jewish sector		35.5	52.4	52.1	55.6	56.3	
	Arab sector		27.4	39.2	41.8	52.2	51.1	
Proportion of grade 12 students earning matriculation certificates in the Jewish sector by socioeconomic ranking ^b :	1-2				30.7	30.5	9.8 ^c	
	5-6				47.6	49.1	56.3	
	9-10				70.8	71.1	78.3	
Proportion of 25-29 year olds completing a first degree		2.0	3.3	4.8	5.6	5.7	5.7	5.9

^a As published by the Central Bureau of Statistics. Due to differences in definitions, the data are not identical to those published by the Ministry of Education (appearing in Figure 4.7).

^b According to the socioeconomic index of the municipalities which is published by the Central Bureau of Statistics.

^c Socioeconomic rankings 1 and 2 include a relatively high proportion of localities with many ultra-orthodox residents, most of whom do not write the matriculation exams.

SOURCE: Central Bureau of Statistics and the Ministry of Education.

foreign universities. These institutes have a larger representation from the populations that in the past failed to win a university place, such as Arabs, Sephardic (Eastern) Jews, residents of the periphery and vocational (technical) training graduates, part of whom have a lower learning ability than university students. This made it possible to supply the demand for higher educational studies that were not previously possible within the existing frameworks, which since then have expanded at an only moderate rate and whose entrance requirements have not been relaxed. Although the colleges are less exacting in their entrance requirements, the high tuition fees in the private colleges that teach prestigious occupations are a problem for impecunious students. Only recently did the Council for Higher Education allow the colleges to begin second degree research studies, a development that could expand the range of opportunities for their students. It remains to be seen whether university graduates' success in the labor market exceeds that of those graduating from other institutes of higher education.

The rapid opening of the colleges has provided the opportunity to acquire a higher education to part of the populations who were unable to do so in the past.

c. International comparison of inputs and outputs

In the era of globalization and the opening up of the markets to competition, investment in educational is essential for improving the relative advantage of an export-oriented country like Israel. An examination of national expenditure per student by educational grade in Israel compared with other developed countries shows that while in elementary education we are well placed in the middle, in the intermediate division and the upper division the spending per student in Israel is a sixth less than that usual in the Western world. But since major differences exist in the standard of living between the different countries, we examined spending per student by educational grade relative to per capita GDP.¹⁷ It was found that the relative expenditure per pupil in elementary education in Israel is no less than in the developed countries (Figure 4.10), and the same applies to post-elementary education. However, the crowding in elementary schools in Israel exceeds that usual in the West (Figure 4.11), as it does in post-elementary education, and the backwardness in infrastructures is considerable. The statutory annual number of work hours is similar to that in the developed countries and even higher, due to a relatively high number of weekly hours and a lower than usual number of learning weeks during the year. But the number of frontal teaching hours appears to be relatively low, and the number of absences and cases of lateness by teachers and students is high.

The expenditure per pupil in Israel relative to GDP is no less than in the developed countries.

As for teachers, their education is similar to that of their counterparts in the developing countries, and they are younger because of the rapid expansion in the educational system and frequent substitution. The proportion of women is much higher although studies show that the presence of male teachers is desirable in order for them

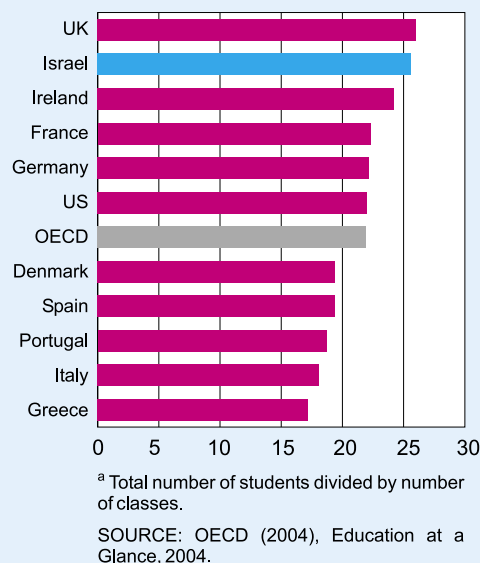
The education of Israeli teachers is similar to that of their counterparts in the developed countries, but their wages are lower.

¹⁷ This index is not free from bias either, because it is dependent on the population's age composition.

Figure 4.10
International Comparison of
National Expenditure per Student
in Elementary Education Related
to Per Capita GDP (percent)



Figure 4.11
International Comparison of
Number of Students per Class^a
in Elementary Education, 2002

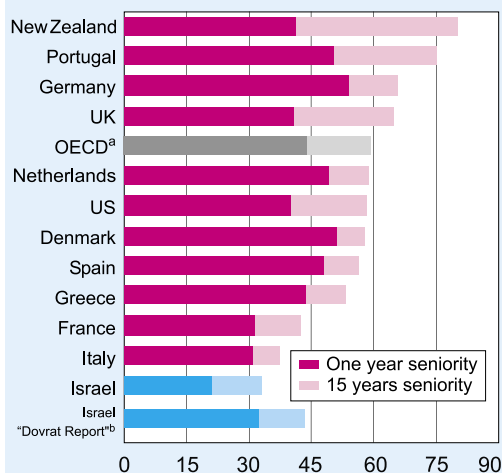


to act as a role model for male students. The proportion of elementary school teachers working in part-time posts in Israel is approximately a fifth, similar to the ratios in the OECD countries. This finding is indicative of occupational flexibility coupled with the fact that many teachers regard their work as a household's secondary source of income. Wages relative to the usual wage in the economy can serve as an indicator of an Israeli teachers' status. The relative wage of an Israeli teacher, it transpires, is much lower than that of a teacher in the Western countries (Figure 4.12) and even after 15 years experience, the gap is still significant despite the relatively large seniority increment in Israel. In many countries, the seniority increment reaches a peak after 10-15 years of teaching while in Israel its increase is limited to 36 years in line with the teachers' wage agreements. This means that at the start of a teaching career, the wage in Israel is not really attractive, although the seniority increment encourages teachers to remain in the system and to accrue many years of work experience. This also applies to less talented teachers and is not necessarily a desirable phenomenon in view of potential erosion and difficulties in instilling knowledge and the use of work tools in certain teaching subjects in an era of frequent changes.

An examination of the allocation of teaching hours for the basic subjects included in a student's essential education package in a developed country—mathematics (Figure 4.13), mother tongue (Hebrew) and English—shows that a reasonable amount of time is devoted to them in Israel.

Israeli students' achievements in international comparative examinations are inferior to the achievements of students in most of the OECD countries. The gaps between students and schools are relatively large.

Figure 4.12
International Comparison of
Teachers' Salaries Related to
Product per Employee/Labor
Productivity, by Years of
Seniority, 2002 (percent)



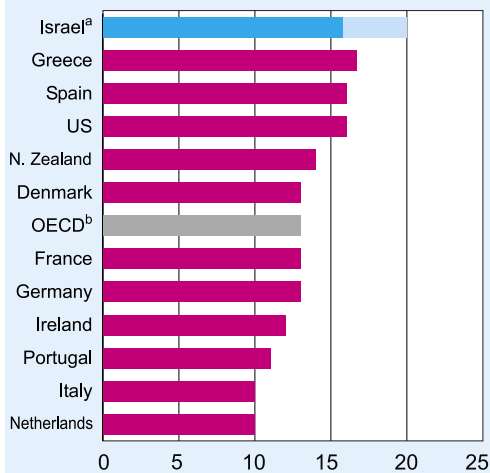
^a Average calculated from the majority of OECD members.

^b A teacher on level 3 of the teachers' scale. With 15 years of seniority the salary of a teacher who had advanced to level 4 (specialist teacher) will reach 48 percent of product per employee.

SOURCE: OECD – (2004), *Education at a Glance*, 2004;

Israel – The National Plan for Education (the "Dovrat Report"), January 2005.

Figure 4.13
International Comparison of the
Share of Hours Devoted to
Mathematics in the Total Number
of Teaching Hours in Elementary
Schools, 1999 (percent)



^a The figure appearing at the base of the column is derived from the core program (implemented since 2002/3). The overall figure is based on teachers' reports in the GEMS (Growth and Effectiveness Measures for Schools) 2001/2.

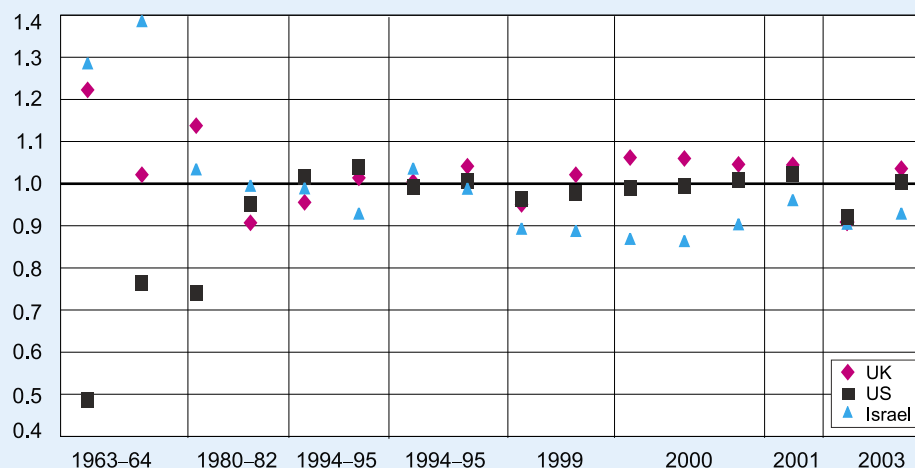
^b Average calculated from the majority of OECD members.

SOURCE: OECD / UIS WEI, www.uis.unesco.org; Israel – Ministry of Education, *Core Plan for Elementary Schools*, Communication 63 10a from the Director General for the 2002/3 School Year, *The Education System and GEMS, 2001/2*.

Israel has participated in a number of international comparative examinations of students' achievements in mathematics, the sciences and comprehension, basic subjects that are required for the purpose of integration in modern society. The results of the examinations reveal a relative regression in Israeli students' learning achievements in the different subjects over the years compared with students who mostly belong to the OECD countries.¹⁸ Israel was rated in the lower third of the countries selected, and its achievements were inferior to those of most of the OECD countries although some degree of improvement has been recorded recently (Figure 4.14).

¹⁸ Countries joining those participating in the comparative examinations over the years are mainly countries whose students' achievements are inferior to those of students in the OECD countries. As a result, Israel's relative position compared with the average for the participant countries rose and exceeded its position relative to the OECD countries, which are a natural peer group for Israel.

Figure 4.14
Grades in Comparative International Tests, 1963–2003
(index: OECD average = 1)



Test	TIMSS		PIRLS	PISA			TIMSS						SIMSS		FIMSS	
Year	2003		2001	2000			1999		1994–95		1994–95		1980–82		1963–64	
Subject	Sc	Math	RC	RC	Sc	Math	Sc	Math	Sc	Math	Sc	Math	Algeb	Algeb	Math	Math
Grade	8th	8th	4th	Aged 15	Aged 15	Aged 15	8th	8th	8th	8th	4th	4th	7th	12th	7th	12th

Math – Mathematics; Algeb – Algebra; Sc – Sciences; RC – Reading comprehension.

SOURCE: IEA (2004), TIMSS 2003 International Science Report; IEA (2004), TIMSS 2003 International Science Report; IEA (2002), PIRLS International Report; <http://www.pisa.oecd.org>; IEA (2000), TIMSS 1999; IEA (1996), IEA's Third International Mathematics and Science Study (TIMSS); Elliott A. Medrich and Jeanne E. Griffith (1992), Mathematics and Science Assessments: What Have We Learned? National Center for Education and Statistics.

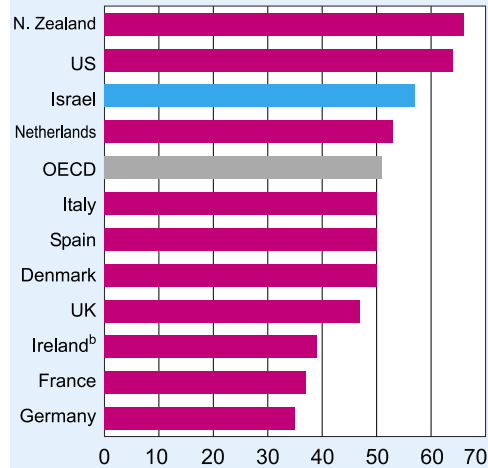
A cautious approach should therefore be adopted when analyzing the findings, since in the past only part of the students in the Jewish educational system participated in the examinations while over the years, the representation of the examinees from the Jewish system increased and students from the Arab sector, whose learning achievements were lower on average, were added. (The ultra-orthodox sector still do not participate in the examinations, except for the PISA.) In addition, the extent of the preparation for the exams in Israel and the other countries was not uniform and fixed over the years. Compared with the USA and the UK, the only two countries that participated in all these exams, some improvement was recorded in the relative learning achievements of Israeli students since the beginning of the decade. An additional two major findings from the international comparative examinations are the large gaps in educational achievement between schoolchildren in Israel compared with the gaps usual in the peer group of countries, gaps that derive *inter alia* from the considerable

heterogeneity in the socio-economic characteristics of students' families in Israel, and from the relatively low level of outstanding students from weak strata in Israel compared with similar strata in the West.

One of the school's main functions is to provide the knowledge and tools that are necessary for further, post-high school education, including higher education institutions (universities and colleges). An international comparison of rates of study in these institutions, that is, the ratio of students belonging to the relevant age groups, places Israel in an impressive position, and the ratio of those studying in these institutions in Israel during their lifetime exceeds that usual worldwide (Figure 4.15). As a result, the ratio of Israelis with a post-high school education amounts

to 39 percent (36 percent excluding immigrants who arrived in the 1990s), far above the usual ratio in most Western countries, and the ratio of those completing a third degree is also very high (Figure 4.16). Moreover, an examination of the academic achievements of Israeli researchers shows that our status is still sound: The ratio of natural science publications per thousand residents is among the highest in the peer group of countries (Figure 4.17), and we are only surpassed by Sweden and Switzerland. Taking into account the fact that per capita GDP in Israel is lower than in most Western countries, which makes it more difficult to raise the resources necessary for conducting research in the natural sciences, the number of scientific publications in Israel relative to GDP is rated in an even higher place. The quality of the publications in a number of areas is also impressive: Israel is positioned in 14th place in the relative importance of publications in key areas of the natural sciences and medicine.¹⁹ It should be remembered however that today's researchers acquired their basic education many years ago, and their studies were conducted in conditions that prevailed in the past.

Figure 4.15
Rates of Participation in Higher Education International Comparison,^a 2002 (percent)



^a Proportion of students who will at some time study in university or college (Tertiary – Type A).

^b Full curriculum only.

SOURCE: OECD (2004), *Education at a Glance*, 2004.

The proportion of those with a higher education in Israel is high by international standards, and the academic achievements of Israeli researchers are impressive.

¹⁹ According to data presented by the Council for Planning and Budgeting in the Council for Higher Education, which are based on NSF, *Science and Engineering Indicators 2004*.

Figure 4.16
Recipients of PhDs in Science and Technology, 2000 International Comparison (per thousand in the 25–34 age group)

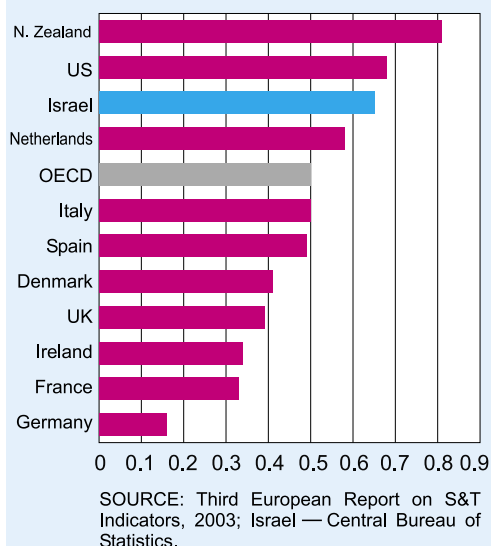
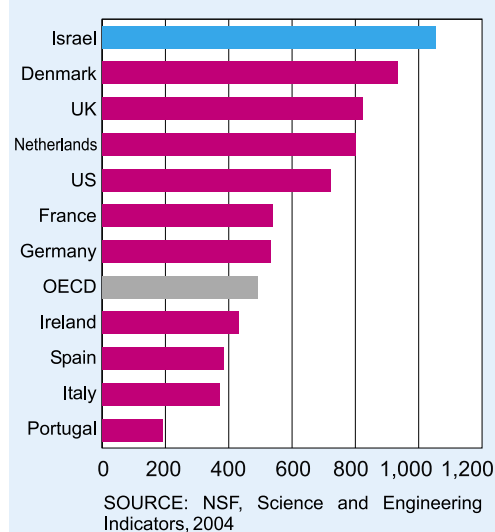


Figure 4.17
Scientific and Technological Articles Published, 1999 and 2000 International Comparison (number per million inhabitants)



To conclude, an estimation of the connection between the educational system's inputs and outputs reveals a complex situation. The previously mentioned analysis of the different aspects of the resources available to students shows an increase in the allocation of resources in most areas during recent years, an improvement in the distribution mechanisms and as a result, an appreciable decrease in the discrimination that was adopted towards various sectors. The international comparison also shows that the amount of resources that Israel makes available to the educational system is no less than that usual in the Western countries. Disturbing developments in teaching power reveal a decline in the prestige of the teaching profession and an erosion in teachers' authority and accordingly, a decline in the attractiveness of the profession. As for educational achievements, most of the usual indexes (such as the proportion of those earning a matriculation certificate) show a substantial and considerable improvement and an (inadequate) decrease in achievement gaps by nationality, ethnic origin and socio-economic class. However, a number of signs point to a decline in the level of high-school leavers knowledge. Until recently, international comparative exams in mathematics, the sciences and comprehension showed a deterioration in Israel's status. Apart from these developments, negative phenomena in the educational system such as discipline problems and widespread violence have increased.

3. TRANSFER PAYMENTS TO HOUSEHOLDS

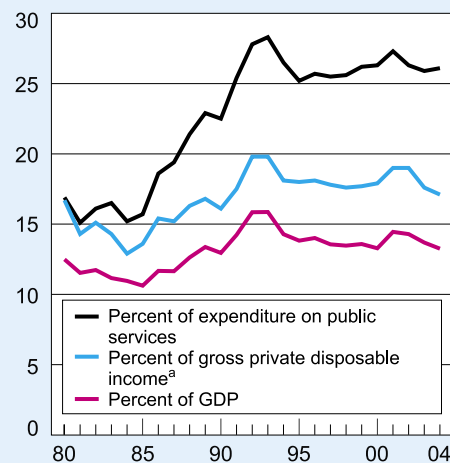
a. Introduction

The public sector grants to households and other entities payments without remuneration that are known as transfer payments. This is in addition to the direct supply of services and goods. Transfer payments are granted in accordance with demographic, economic, health and similar criteria, and their recipients use them as they see fit. These payments are one of the principal instruments for the redistribution of income and the reduction of poverty, and are intended to insure individuals against occupational and other dangers and to help them in financing special needs. Transfer payments are divided into three main groups: current transfers to households, current transfers to non-profit institutions (hospitals for example) and transfers on the capital account (such as support for investment). This section focuses on current transfer payments to households, which account for three quarters of all transfer payments and that are paid mostly by the National Insurance Institute and to a minor extent by government ministries (such as the Ministry of Defense).²⁰

National Insurance Institute transfer payments are usually divided into the following groups: wage-replacement allowances that constitute social insurance, which are paid to working-age insurees who are unable to work due to temporary circumstances and who need monetary support—these include unemployment benefit, work accident benefit and birth benefit; an old age and dependents' allowance that provides insurance due to unknown life expectancy and which is intended to finance a basic standard of living in accordance with society's values; allowances for assuring a minimum income for existence, usually for a relatively long period and part of which contains an insurance component

Transfer payments are one of the main instruments for the re-distribution of income and the reduction of poverty.

Figure 4.18
The Share of Transfer Payments in GDP, in Expenditure on Public Services, and in Households' Disposable Income, 1980–2004 (percent)



^a From domestic sources.

SOURCE: Based on Central Bureau of Statistics data.

Transfer payments expanded more rapidly than GDP, but in the 2000s the trend reversed.

²⁰ Transfer payments to households include a budgetary pension in respect of which payments in 2003 totaled NIS 10 billion. Because of the substantial difference between this and the other transfer payments it is not included in this analysis.

—guaranteed income payment (and income supplement in old age and dependents' allowance), general disability and alimony; child allowance; rehabilitation allowance—such as nursing and special services for the disabled.²¹ An additional distinction between the allowances, which to a large extent overlaps the previously mentioned distribution, is according to the principles on which their allocation is based—insurance, need and compensation. In any event, the classification of the allowances is not clear-cut because of the diverse objectives that part of them serve. It should be noted that the importance of the insurance component has declined over the years, and this has been reflected by the state's increased participation in financing the activities of the National Insurance Institute, the raising of the ceiling for National Insurance payments, the much less generous allocation of insurance allowances, and by the consideration given to conducting income tests (see below for details).

The real annual rate of growth in transfer payments increased rapidly in the 1990s to 6 percent a year, mainly because of the requirements generated by the wave of immigration from the CIS while in terms of per capita allowance the rate of increase was less than 3 percent a year (Table 4.6). Transfer payments grew more rapidly than GDP and spending on public services, and their share in GDP rose from 12.9 percent at the beginning of the 1990s to 13.8 percent in the mid-1990s and then remained relatively stable (Figure 4.18 and Table 4.5.)

During the present decade, a resolute policy of reducing transfer payments has been adopted. As a result, the payments decreased by 3.4 percent in real terms in 2004 compared with 2001,²² when they peaked at 14.4 percent of GDP. This was despite the growth in the population and the slump in the labor market. In 2004, transfer payments totaled NIS 70 billion or 13.3 percent of GDP.

Concealed behind the rapid growth in the amount of transfer payments and in those disbursed by the National Insurance Institute in particular during the 1980s and at the beginning of the 1990s (Table 4.6) are developments in the internal composition of the payments. Old age and dependents allowances increased by 1.3 times in real terms during the two decades and in 2000 accounted for 39 percent of total National Insurance allowances. Child allowances rose by a similar rate, to 20 percent of total payments. However, disability allowances increased by 3.3 times in real terms during the same period and in 2000 reached 14 percent of transfer payment allowances. This was due to the rapid increase in the population of those eligible (Table 4.7), which resulted from the reduced chances of finding employment that led to a relaxation of the criteria for the receipt of an authorization for entitlement to an allowance. Overall, their share in the payments disbursed via the three main insurance sectors – old age and dependents, children and general disability – fell from 86 percent in 1980 to 72 percent at the beginning of the present decade, prior to the comprehensive reform in

²¹ Nursing allowance and remuneration for those on IDF reserve service are defined in the national accounts as public consumption, and not as transfer payments.

²² The year 2001 was selected because it was the year before the turnaround in welfare policy and the first year of the recent economic recession.

transfer payments. Concurrent with the large rise in unemployment during the 1990s, the proportion of payments of unemployment benefit and income guarantee payment increased.

When the social insurance system was expanded in the 1980s and a preference was shown for allowances over welfare payments, two new insurance sectors were operated: income guarantee payment (1982)—see details below—and nursing (1986), under which personal attention for needy elderly people for assistance in daily functioning is financed subject to an income test, in accordance with the approach of preferring treatment at home rather than placement in an institution. The enactment of the relevant laws for these purposes and the indexation of the allowances to the average wage in the economy, marked the end of the period in which the principal welfare programs were formulated.

Apart from legislative changes, the main factors that affected developments in transfer payments during the last two decades were demographic developments and the integrity of the labor market—the decrease in the participation rate and the increase in the unemployment rate. The rate of increase in the population, the sources of the increase (natural increase and net immigration to Israel) and the population's age composition directly affect the number of recipients of child and motherhood, old age and dependents, nursing and other allowances. Long-term trends show a decrease in the childbirth rate concurrent with an increase in life expectancy, as a result of which the proportion of children in the population has fallen and the proportion of the elderly has risen. In addition, divorce rates and the proportion of single-parent families have increased, developments that have led to an upsurge in disbursements to them (for example, alimony and income guarantee payment).

The mass immigration from the countries of the CIS at the beginning of the 1990s led to a rapid and differential increase in the number of allowance recipients. Among the immigrants, the proportions of elderly people and single-parent families are relatively high while there are relatively few children among them. Difficulties in absorption and integration in the labor market, and the non-accrual of occupational pension rights also contributed to the rapid expansion in the populations receiving unemployment benefit, income guarantee payment, and income supplement in the old age and dependents allowance.

The slowdown in economic activity from the mid-1990s, the deep recession prevailing in Israel at the outbreak of the intifada and the global economic slowdown led to a serious slump in the labor market. The decrease in the participation rate and the upsurge in the unemployment rate also derived from long-term processes, such as the contraction of the traditional industries resulting from the Israeli economy's exposure to imports, the permission granted for the mass entry of foreign workers, which greatly increased the proportion of non-Israelis in the business sector, and also possibly the reduced rate of unionization among unskilled workers. All these developments seriously affected less-educated and relatively unskilled workers, reduced occupational security and gave rise to a large class of temporary workers who are exposed to the vagaries of the labor market. As a result, the number of those receiving unemployment

The main factors that affected the development of transfer payments during the last two decades were demographic developments—including mass immigration—and the soundness of the labor market.

benefit and income guarantee payment surged, as payments to them obviously did as well.

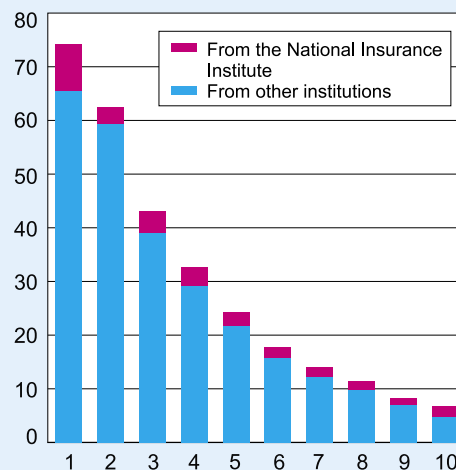
Apart from demographic and economic factors, the relaxation of the eligibility regulations for allowances, for example the employment test for those receiving unemployment benefit and income guarantee payment, and apparently the implementation of the criteria for granting disability and nursing allowances as well, almost certainly contributed to the growth in the number of allowance recipients.

The extensive distribution of income via a progressive system of taxation and transfer payments has the effect of substantially reducing the extent of poverty and inequality in the distribution of disposable income. Involved here is a horizontal transfer, that is, from high to low income-earners with the same requirements, as well as a vertical transfer from individuals with few needs

to those with numerous needs and the same income. The extensive distributional aspect of transfer payments is apparent from the fact that they are equivalent to a fifth of gross private disposable income, and in the case of families in the lower decile, nearly two thirds (Figure 4.19). Households in the lower quintile are entitled to transfer payments that are double the average for those granted to households in the upper quintile.

At the end of the 1990s, even before the reform of the transfer payments system, the gross economic income (income from work and from ownership of factors of production, before transfer payments and direct taxes) of 32 percent of families was below the poverty line.²³ After transfer payments, this ratio fell to 15 percent (Table 4.9). The index of the extent of poverty is the income gap ratio – the average income required for a family in order to rise over the poverty line, calculated as a percentage of the poverty line income. Before transfer payments, the average income of poor families was 62 percent of the poverty line income distant from the poverty line and after the payments, 25 percent. Although inequality in the distribution of gross economic income is extensive, the inequality in disposable income has dropped

Figure 4.19
Share of Transfer Payments^a to
Households^b in their Disposable
Income, by Income Deciles, 2003
(percent)



^a Excluding transfer payments from individuals and from abroad.

^b Excluding households with an income as self-employed; some have business losses which makes the calculation problematic.

SOURCE: Based on Central Bureau of Statistics Income Survey, 2003.

Transfer payments' contribution to reducing poverty decreased following the reform in these payments.

²³ The standardized poverty line is defined as half the standardized median per capita disposable income. A family belongs to the poor population if its disposable income, divided by the standardized number of persons in it, is below the standardized per capita poverty line.

sharply due to progressive taxes and transfer payments. The increase in economic inequality has continued in the present decade. Transfer payments, while reducing the extent of poverty, have not prevented it from growing (particularly among children) or the inequality in disposable income from increasing either (Figures 4.2 and 4.3). In view of the worsening economic inequality, it is doubtful whether it will be possible to maintain the growth in transfer payments.

As a result of the reform of the transfer payments system, which greatly reduced the generosity of these payments, the extent of poverty and the income gap ratio recently rose appreciably. In 2003 the impact of transfer payments on poverty decreased, and they extricated from poverty 43 percent of the poor population compared with 47 percent in 2002.²⁴ Overall, the situation of elderly and non-working working-age families deteriorated relative to working families, which benefited from the reduction in direct taxes on income from work for low wage-earners as well as from the stability in the minimum wage.

Table 4.5
Expenditure on Transfer Payments, 1980 to 2004
(selected years)

	Total (NIS billions, in 2003 prices)	As a percentage of GDP	As a percentage of the expenditure on public services		Transfer payments of the National Insurance Institute ^a (NIS billions, in 2003 prices)
			Total services	Civilian (excluding debt service)	
1980	24.3	12.5	16.9	30.9	10.8
1985	23.5	10.6	15.7	29.9	14.3
1990	36.9	12.9	22.5	37.0	20.1
1995	54.5	13.8	25.2	35.7	28.8
2000	67.3	13.3	26.3	37.0	40.8
2001	73.5	14.4	27.3	37.7	46.0
2002	71.0	14.3	26.3	36.8	44.8
2003	68.7	13.7	25.9	36.5	42.7
2004	70.0	13.3	26.1	37.2	41.3

^a Including the Branch for Long-Term Care and the cost of hospitalization of mothers giving birth which are not transfer payments. Does not include compensation for reserve duty which is not a transfer payment. Due to the differences in definitions, the data are not identical to those appearing in Table A.3.14 in the Bank of Israel Report.

SOURCE: National Insurance Institute, Central Bureau of Statistics and processed data of the Bank of Israel.

²⁴ The latest poverty report is based on the 2003 income survey. The cuts in allowances that were implemented in mid-2003 are therefore only partly reflected in it.

Table 4.6**Expenditure on Transfer Payments, 1981 to 2004
(annual real rates of change, percent)**

	Total	Total per capita	Transfer payments of the National Insurance Institute by branch ^a					
			Total	Old age and survivors	Long-term care	Income support	Children	General disability
1981-1985	-0.6	-2.3	5.8	6.0			2.2	8.9
1986-1990	9.4	7.3	7.1	5.6	94.7	6.2	3.1	3.4
1991-1995	8.2	4.5	7.5	5.4	13.6	20.6	8.0	7.7
1996-2000	4.3	1.7	7.2	5.6	8.3	10.0	3.7	10.6
2001	9.2	6.7	12.9	11.5	18.4	20.2	7.9	16.7
2002	-3.3	-5.2	-2.5	-3.8	18.4	0.2	-16.2	10.0
2003	-3.2	-5.0	-4.7	0.0	10.6	-12.9	-10.1	3.9
2004	-2.1	0.4	-3.5	1.9	-1.5	-9.3	-21.1	1.6
As a percentage of total transfer payments in 2004			100.0	38.4	6.0	7.1	11.6	16.9

^a Including the Branch for Long-Term Care and the cost of hospitalization of mothers giving birth which are not transfer payments. Does not include compensation for reserve duty which is not a transfer payment.

Due to the differences in definitions, the data are not identical to those appearing in Table A.3.14 in the Bank of Israel Report.

SOURCE: National Insurance Institute, Central Bureau of Statistics and processed data of the Bank of Israel.

Table 4.7**Recipients of the National Insurance Institute Transfer Payments, according to Selected Insurance Branches
(Annual rates of change, percent)**

	Old age and survivors	Long-term care	Income support	Children (families)	General disability	Unemployment	Population by age group		
							Unemployed	65+	25-64
1981-1985	2. ⁹			-1.7	7.7	16.1	9.1	2.3	2.1
1986-1990	4.2		5.3	-2.8	3.4	20.9	10.3	2.3	1.9
1991-1995	2.8	16.3	18.8	12.1	5.1	4.0	-1.9	4.5	4.1
1996-2000	0.7	10.2	11.3	2.3	7.6	8.5	8.4	3.1	3.1
2001	3.0	10.1	10.6	1.7	5.2	13.1	9.0	2.5	3.1
2002	2.4	6.5	6.5	0.7	5.7	-7.5	12.1	2.6	2.6
2003	2.4	0.7	2.8	0.4	4.5	-26.9	6.6	2.4	2.2
2004	1.8	0.3	-5.8	0.7	3.2	-17.6	-0.7		
Number of recipients in 2004 (thousands)	722	113	147	946	162	58	278.0		

SOURCE: National Insurance Institute, the Central Bureau of Statistics and processed data of the Bank of Israel.

Table 4.8
Selected Transfer Payments of the National Insurance Institute, 1980 to 2004

	Old age pension for an individual		Income support ^a		Child allowance ^b		General disability benefit for an individual ^c
	Without income supplement	With max. income supplement	Individual	Couple with 2 children	2 children	5 children	
Real rates of change (percent)							
1981-1985	4.7	-0.2	2.1	2.1	-8.5	7.9	5.1
1986-1990	0.3	1.5	-0.2	-0.2	-13.3	3.0	-0.2
1991-1995	1.2	1.2	0.2	1.0	32.2	0.1	1.0
1996-2000	1.0	1.0	2.2	2.2	0.4	0.5	2.8
2001	8.4	8.5	8.5	8.5	-1.1	12.8	8.5
2002	-7.1	-5.2	-7.1	-7.1	-15.7	-16.2	-4.2
2003	-2.9	-0.9	-2.9	-2.9	-5.5	-14.1	-0.7
2004	0.4	0.4	0.4	0.4	-15.5	-23.0	0.4
2004 (NIS, current prices)	1,069	1,863	1,671	3,309	244	1,313	1,886
As a percent of the average salary							
1980	16.3	32.6	29.4	55.8	6.0	25.6	25.4
1985	19.4	30.5	30.8	58.5	3.7 ^d	35.5	30.8
1990	16.3	27.3	25.3	48.1	1.5 ^d	34.2	25.3
1995	16.8	28.1	24.7	48.9	5.8	33.3	25.7
2000	15.2	25.5	23.8	47.1	5.1	29.4	25.5
2001	16.0	26.8	25.1	49.6	4.9	32.2	26.8
2002	15.9	27.1	24.8	49.1	4.4	28.7	27.3
2003	15.9	27.7	24.8	49.1	4.3	25.4	28.0
2004	15.5	27.0	24.2	48.0	3.5	19.0	27.4

^a An increased allowance for long-time recipients in the income support system ("previously eligible"). Starting in January 2003, new requests were not eligible for an increased allowance.

^b For children born before June 1st, 2003. Children born after this date are eligible for a uniform child allowance regardless of their place in the order of children in the family.

^c For a disabled individual with a level of dysfunction greater than 75 percent.

^d Starting in 1985, child allowances were not paid for the first child in families with 1-3 children, except in low-income families. From August 1990, child allowances were also not paid to the second child in these families. In March 1993, the income test for receiving the child allowance was cancelled.

SOURCE: The National Insurance Institute, the Central Bureau of Statistics and processed data of the Bank of Israel.

Table 4.9

**Extent of Poverty and Income Inequality
Before and After Transfer Payments and Direct Taxes,^a 1999 and 2003
(percent)**

	Before transfer payments and direct taxes	After transfer payments only	After transfer payments and direct taxes
Incidence of poverty (percent)		1999	
Families	31.9	15.1	17.8
Individuals	30.3	15.7	18.8
Children	35.3	20.8	24.9
Ratio of income gap (percent)	62.1	25.3	25.1
Gini index of income inequality	0.516	0.421	0.359
Incidence of poverty (percent)		2003	
Families	33.9	15.4	19.3
Individuals	33.8	18.8	22.4
Children	40.7	26.7	30.8
Income gap ratio (percent)	64.8	30.5	30.5
Gini index of income inequality	0.526	0.424	0.368

^a Includes residents of East Jerusalem.
SOURCE: National Insurance Institute.

b. The reform in transfer payments during recent years

Behind the decrease in the generosity of transfer payments were a change in welfare policy concept, directed at reducing the government's involvement in assuring the population's welfare and focusing on encouraging participation in the labor force, and the need to cut the deficit in the State budget.

Within the framework of the state budget and other comprehensive economic programs, since the beginning of the decade and more notably in 2002 and 2003, strident measures have been taken to restrain public spending as a whole and spending on the social services in particular, with an emphasis on transfer payments. The generosity of transfer payments was reduced by tightening up the eligibility criteria for their receipt and reducing the level of allowances. A number of factors were behind this policy turnaround: (1) A change in welfare policy concept, directed at reducing the government's involvement in assuring the population's welfare and focusing on encouraging participation in the labor force in view of the low labor force participation rates. This is in the spirit of the measures adopted in Western countries with the aim of raising the economic income of needy households and rescuing them from the poverty trap; (2) The growth in the budget deficit as a result of the recession in the economy during the years 2001-2003, which made it necessary to cut public expenditure as a whole, including welfare allowances, and due to the large and continued increase in the number of allowance recipients and in payments to them. From the long-term

perspective, the policy turnaround is likely to bring down welfare spending, and thereby reduce the tax burden and encourage growth, the benefits of which will extend to all strata of the population.

Although important with respect to those who are capable of working, the ‘welfare to work’ program seriously affects the weak populations—in the short term at least—because of the economic recession and long-term processes that are eroding the income-earning ability of unskilled workers. Mechanisms for identifying those who are unable to work should have been devised, in order to assure these workers an adequate standard of living in accordance with society’s values. Frequent and for the most part immediate legislative changes have created uncertainty that is making it difficult for individuals to plan patterns of work, saving and childbearing. More particularly, some of these changes have resulted from decisions that were taken many years ago.

Under the reform in transfer payment policy, the National Insurance Institute’s three main systems for the working-age population—child allowances, unemployment benefit and income guarantee payment—were subjected to major changes, and the eligibility criteria for their receipt were tightened up substantially concurrent with a reduction in the level of the allowances. The cut in these disbursements amounted to a third of their total amount before the changes in legislation. For this reason, we will focus on them later. The size of the payments in respect of nursing allowance, work-accident allowance, alimony and the childbirth grant were also cut to some extent, while conditions of the disability allowance were improved.²⁵ Overall, National Insurance Institute payments in 2004 were cut by almost NIS 5 billion (10 percent in real terms) from their level prior to the main legislative changes. The payments thereby reverted to their level in 2001 when they rose sharply. Given the growth in the population and the number of those receiving the majority of allowances, the decrease in the average allowance per recipients was even larger (Table 4.8).

The policy of reducing reliance on transfer payments was constructed from two components: a decrease in allowances, concurrent with the intention to implement programs for encouraging employment, such as a point and limited wage subsidy during the vocational training process. To date however, the only program that has been implemented to any major extent is that for subsidizing the wages of single parents receiving income guarantee payment. (See Chapter 2 in this report.) Moreover, vocational training has been greatly reduced. Nevertheless, considerable efforts have been made to reduce the number of foreign workers, a measure that is helping to increase the number of available jobs that are suitable for relatively unskilled Israeli workers, who include a substantial proportion of allowance recipients. The number of Israeli workers in the personal services and accommodation and food services industry did indeed grow in 2003 and 2004, concurrent with a decrease in the number of foreign workers. In addition, direct tax rates for low wage-earners were reduced.

National Insurance Institute payments were cut in 2004 by 10 percent in real terms relative to their level prior to the main legislative changes.

The policy of reducing reliance on transfer payments was constructed from two components: a decrease in allowances and programs for encouraging employment. These programs were hardly implemented at all.

²⁵ For details see: The National Insurance Institute, 2004, *Annual Survey 2001-2003*, pp. 79-91.

The short period of time that has elapsed since the implementation of the transfer payment reform makes it difficult to assess its impact on the labor supply of allowance recipients. Yet it can be assumed that these measures have an only minor impact on the more elderly recipients and on others whose ability to integrate in the labor market is limited. The effect of the reform on those capable of working is only partial, at least in the short term, since the unemployment rate amounted to 10.4 percent in 2004 and 14.1 percent among workers with high school and less than high school education, who include many allowance recipients.

The move to updating National Insurance Institute allowances according to the consumer price index instead of on the basis of the average wage in the economy will reduce the level of allowances relative to workers' income at an increasing rate over time.

Because of the shocks that the transfer payment system has experienced in recent years, budgetary and other restrictions limit the ability to cope with the challenges that it faces. The move to updating National Insurance Institute allowances according to the consumer price index instead of on the basis of the average wage in the economy will reduce the level of allowances relative to the income of the working population, at an increasing rate over time (Box 4.3). The restriction imposed on the rate of real increase in government spending to one percent of GDP a year and the objective of reducing the budget deficit support an increase in economic growth and a decrease in inflation and interest rates, all of which have positive implications for the weak strata. However, the limitations on the amount of spending and the size of the budget deficit will make it difficult to expand the social services and the transfer payment system even to an extent that accommodates the requirements generated by the growth in the population. The additional resources that will be made available for implementing welfare policy are likely to derive from growth in the economy, which will increase tax revenue, from efficiency-drives in the public sector, and from a decrease in the proportion to GDP of defense spending and debt servicing. This is providing that the increased resources are not fully directed at reducing taxes, including payments to the National Insurance Institute.

The decrease in the average allowance per recipient is reducing the chances that it will be cut further, and certainly not at the rates seen in recent years. In these circumstances, a proposal is likely to be raised to expand the income tests for the purpose of determining allowance eligibility (with an emphasis on old age allowances and possibly also child allowances), implying an erosion on a selective rather than universal basis. Although such a procedure will make it possible to direct transfer payments at the more needy and to increase the payments while saving on budgetary expenditures and reducing the tax burden, it also has numerous disadvantages. (Box 4.4).

(1) Child allowances

Child allowances are intended to help families finance the expenses of raising their children, under the concept whereby the state has a responsibility and interest in assuring children's socio-economic situation and their proper development. Because of the large overlap between the number of children in a household and its economic situation, the allowances reduce the extent of poverty and inequality in the distribution

of income. In the past, the structure of the allowances and the eligibility conditions for their receipt were regarded as a means of encouraging childbearing.

Recent years have seen a radical transformation in the child allowance system, reflecting changes in worldview and in the political arena that began back in the mid-1990s, when the allowance for discharged soldiers that discriminates against Arabs was abolished. In 2001 the child allowance granted for a fifth child and above in a family (“the Halpert Law”) was increased substantially, making the allowances exceptionally progressive by any standards: The average allowance in a family with five children was 2.5 times higher than that granted per child in a family with two children. Subsequently, under the State budget for 2002, child allowances were cut by 12 percent and in the emergency economic program of July of that year most of the National Insurance Institute allowances were cut, including child allowances. This was a lateral cut of 4 percent. A new approach to the structure of child allowances was included in the economic recovery program of June 2003, which stipulated that the size of the allowance would be uniform for each child, regardless of its serial number in the family. The change is to be applied gradually until 2009 in the case of children who have already been born, and with immediate effect in the case of children born from June 2003 onwards. In 2004 it was determined that the size of the allowance per child would be temporarily reduced until the end of 2005. Eventually, as the result of legislative changes the amount of child allowance payments in 2009 will be less than half that in 2001, prior to the enactment of the Halpert Law (for a given size of population of children). As an example, the child allowance for a family with 5 children will be reduced from NIS 2,100 a year in 2001 to NIS 720 in 2009, a decrease of 66 percent or 18 percent of the present average disposable income of such a family.

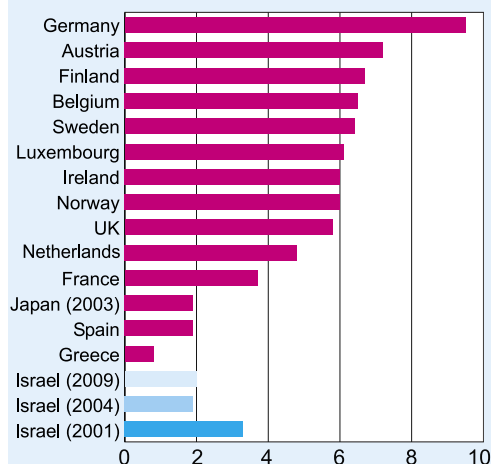
The large reduction in the size of the child allowance and the unification in its size position Israel in a very low place in the extent of the allowance’s generosity in comparison with Western countries (Figure 4.20), and thereby also in the extent of its progressivity—that is, the extent its rate increases as the number of children increases—since in most of these countries the allowance increases with the number of children (Figure 4.21).²⁶ In the past, child allowances in Israel assured large families of a minimum decent level of existence due *inter alia* to economies of scale in consumption. The intention of those initiating the reform is that the change will prompt these families, which are mostly in the ultra-orthodox Jewish and the Arab sectors where the labor force participation rates are low, to increase their supply of labor in order to support themselves and maybe also reduce their birth rate. However, it should be noticed that the legislative change also applies to children who have already been born in families that have completed their family planning. The adults in these families acquired their education and vocational expertise many years previously, if at all, and part of them lack vocational experience. It is therefore difficult for them at

The child allowance has been reduced in recent years. A gradual process of making the allowance uniform for each child by 2009 has been prescribed. Once the process is complete, payments of the allowances will amount to half the payments prior to the legislative changes.

The cut in the allowances for children who have already been born should have been staggered over a longer period.

²⁶ In many Western countries, the overall fertility rate is much lower than in Israel.

Figure 4.20
Child Allowance per Two-Child
Family in Israel^a and in Selected
Other Countries,^b 2004
 (percent of per capita GDP)

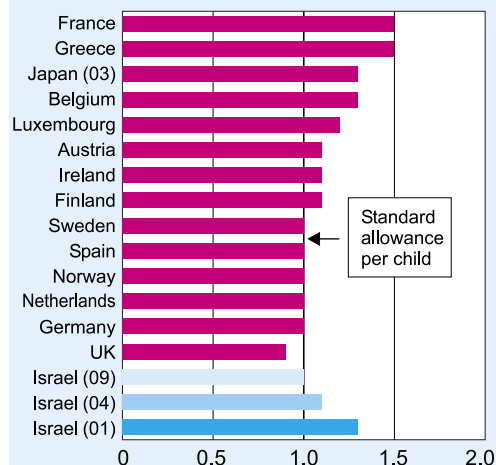


^a Children born after 1 June 2003 ("new children") receive a smaller allowance; the allowance for other children ("existing children") is gradually being reduced until in 2009 it will be the same as that for new children. The figure relates to the allowance for existing children.

^b In some countries entitlement to the allowance is subject to a means test (see Box 4.4).

SOURCE: ISSA (2004), Social Security Programs Throughout the World, 2004 and based on Central Bureau of Statistics and National Insurance Institute data.

Figure 4.21
The Ratio of Average Child
Allowance per Child for a
Family with 3 Children to that
for a Family with 1 Child in
Israel^a and Selected Countries,^{b,c}
2004



^a Children born after 1 June 2003 ("new children") receive a smaller allowance; the allowance for other children ("existing children") is gradually being reduced until in 2009 it will be the same as that for new children. The figure relates to the allowance for existing children.

^b In some countries entitlement to the allowance is subject to a means test (see Box 4.4).

^c The ratio of average child allowance per child for a family with 5 children to that for a family with 2 children in Israel was far higher in 2004 than in the OECD countries.

SOURCE: ISSA (2004), Social Security Programs Throughout the World, 2004; and based on Central Bureau of Statistics and National Insurance Institute data.

advanced ages to change their employment patterns, and it is already feared that the large reduction in the size of the allowances for children who have already been born should have been staggered over a longer period.

(2) Unemployment benefit

The Unemployment Insurance Law is intended to provide an unemployed person with a minimal income, and a period in which he can look for work,

The Unemployment Insurance Law is intended to provide an unemployed person with a minimal income, and a period in which he can look for work that is intended to enhance the suitability between his skills and his next place of work. This will give him the opportunity to fully exploit his income-earning ability and increase his chances of finding orderly employment, as distinct from frequent entries to and exits from the

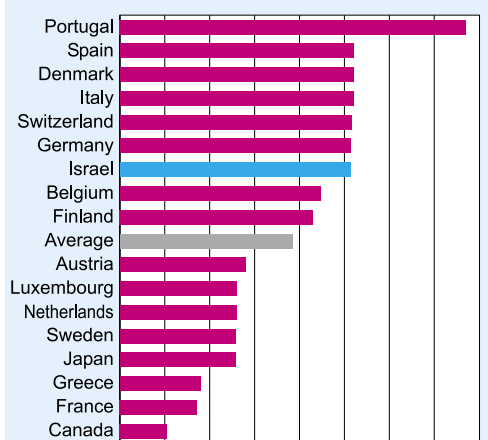
labor market. Studies worldwide have validated these claims. However, a positive relationship has been found between the generosity of the Unemployment Insurance Law and the unemployment rate, a relationship that reflects a growth in the tendency to receive unemployment benefit, an extension of the period of paid unemployment, and the increased abuse of the Law. Since the income guarantee payment complements unemployment benefit, both these systems should be examined together.

It should be noted that the importance of the Unemployment Insurance Law is increasing as the labor market becomes more flexible and occupational security decreases. This process, which has long been apparent, reflects *inter alia* the increased exposure to unemployment as the power of the labor unions decreases, the institution of tenured employment is curtailed and as employment via manpower companies increases.

During the years 1999-2003, the continued large rise in the number of unemployed and unemployment benefit payments from the middle of the 1990s and the need for fiscal restraint led to a deterioration in the conditions of the Unemployment Insurance Law. The eligibility conditions for the receipt of unemployment benefit were

The conditions of the Unemployment Insurance Law became more severe during the years 1999-2003: The eligibility conditions for the receipt of unemployment benefit were tightened up, the maximum period for payments was reduced, and the ratio between the unemployment benefit and wages prior to unemployment was cut.

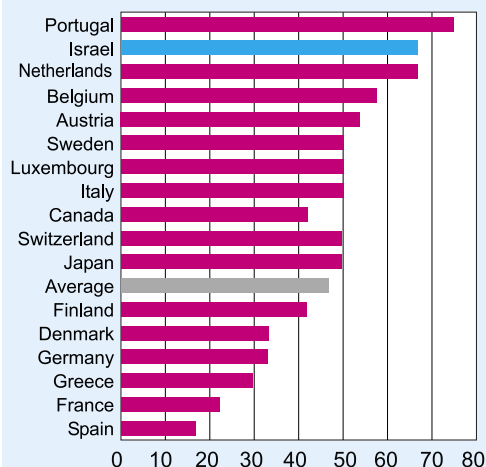
Figure 4.22
Length of Time Worked for Entitlement to Unemployment Pay,^a Israel and Selected Countries, 2004 (weeks)



^a The qualifying work period is determined according to the number of dependants, age, etc. Rules applying to small populations have not been taken into account.

SOURCE: ISSA (2004), Social Security Programs Throughout the World, 2004; and based on National Insurance Institute data.

Figure 4.23
The Ratio of the Work Period Required for Entitlement to Unemployment Pay and the Period in which it must be Accrued,^a Israel and Selected Countries, 2004 (percent)



^a The qualifying work period is determined according to the number of dependants, age, etc. Rules applying to small populations have not been taken into account.

SOURCE: ISSA (2004), Social Security Programs Throughout the World, 2004; and based on National Insurance Institute data.

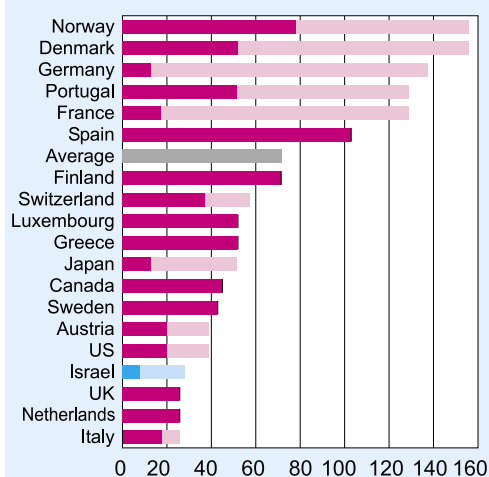
tightened up, the maximum period for payments was reduced, and the ratio between the unemployment benefit and wages prior to unemployment (the substitution rate) was reduced.²⁷ These changes are also intended to encourage a return to employment and to prevent the law from being abused.

One of the most prominent aggregate indexes of the stricter terms for the receipt of unemployment benefit is the ratio of unemployment benefit receipts to the total number of unemployed: This ratio fell from 49 percent in 1998 to 21 percent in 2004. (See also Figure 2.4 in Chapter 2 of this report.)

The eligibility terms for the receipt of unemployment benefit in Israel are inferior to those usual in the developed countries.

An international comparison of the main parameters of the Unemployment Insurance Law shows that the eligibility terms for the receipt of unemployment benefit in Israel are inferior to those usual in the developed countries. The (previous) period in employment required in Israel in order for a person to be eligible to unemployment

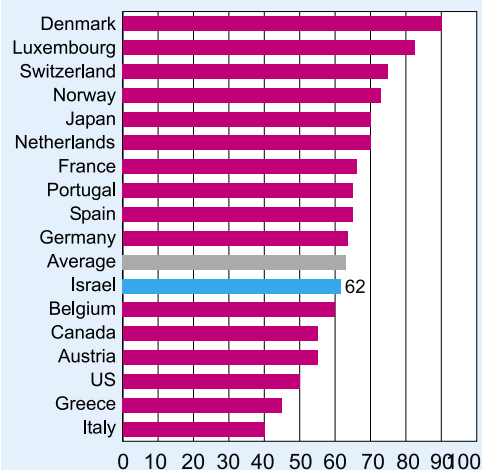
Figure 4.24
Maximum Period during which
Unemployment Pay is Paid,^a
Israel and Selected Countries,
2004 (weeks)



^a The qualifying work period is determined according to the number of dependants, age, etc. Rules applying to small populations have not been taken into account. The right (lighter colored) part of the bars represent special rules applying to some of those entitled to unemployment pay.

SOURCE: ISSA (2004), Social Security Programs Throughout the World, 2004; and based on National Insurance Institute data.

Figure 4.25
The Replacement Ratio,^a Israel
and Selected Countries, 2004
(percent)



^a For countries in which the replacement ratio is a range, the middle of the range has been taken. For countries in which the replacement ratio goes down after a particular period of entitlement, the ratio for the first period has been taken. Many countries have minimum and maximum levels of unemployment pay.

SOURCE: ISSA (2004), Social Security Programs Throughout the World, 2004; and based on National Insurance Institute data.

²⁷ For details of the legislative changes, see Box 2.2 in the Bank of Israel Report for 2002.

benefit is relatively long (Figure 4.22), and constitutes a larger part of the period during which it has to be accrued (Figure 4.23). The maximum period for the payment of unemployment benefit in Israel is among the shortest in the Western world (Figure 4.24). However, the replacement ratio is similar to the average in those countries (Figure 4.25).

It is not clear whether the changes in the Unemployment Insurance Law are the key to reducing the extent of unemployment. The law was already strict before the changes, and the main cause of the rise in the unemployment rate during recent years has been the weakness in demand for labor. In contrast to the principal objective of the law, the standard of living of those seeking work, especially work that is suited to them, could be seriously harmed unless active measures are taken in the labor market. Efforts to cope with abuse of the Unemployment Insurance Law should focus on enforcing the implementation of the law, including more stringent enforcement of the employment test. Given the objectives of the Unemployment Insurance Law, the extent of the changes in it, its impact on the supply of labor and unemployed persons' welfare and the process whereby the flexibility in the labor market is increasing, consideration should be given to retracting part of the measures that have been adopted. This should include a relaxation of the conditions relating to the qualifying period and an extension of the maximum period for the payment of unemployment benefit, concurrent with increased enforcement of the employment test and a further improvement in the functioning of the Employment Service. (See Box 2.3 in the Bank of Israel Report for 2002.)

Given the objectives of the Unemployment Insurance Law and the fact that it was strict even before the major legislative changes, consideration should be given to retracting part of the measures that have been adopted.

(3) The income guarantee payment

The income guarantee payment is made by the National Insurance Institute to working-age families with members who have tried to enter the labor market and earn according to their ability but have no income from work, or families whose income from all sources is very low.

Since the Income Guarantee Payment Law was enacted in 1982, the proportion of families receiving the payment has increased greatly. The desire to stop this trend, to reduce the volume of the payments and to increase participation in the labor market led to comprehensive changes in the law in 2002 and 2003.²⁸ The payment was cut, the rate of offset of the payments against income from work was decreased, the income ceiling that is disregarded was reduced, and the exemption from the employment test was subjected to stricter criteria. In addition, accompanying benefits that income guarantee payment recipients had enjoyed were made conditional on an employment test or were abolished. In 2004 it was stipulated that families of payment recipients in which there are three children and more will receive an increment in respect of the third and fourth children.

In 2002 and 2003 comprehensive changes were made in the Income Guarantee Payment Law, including a reduction in the payment, a decrease in the disregard rate in respect of income from work, and the abolition of exemptions from employment tests and accompanying benefits.

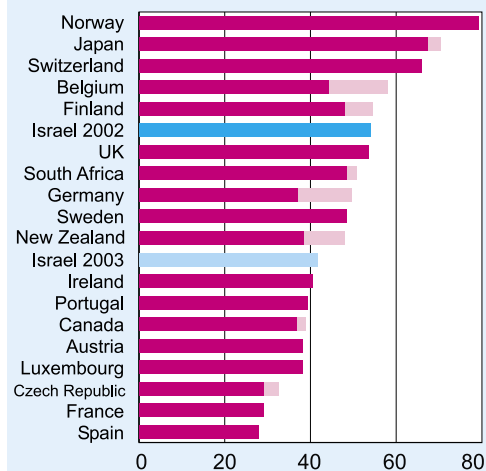
²⁸ For details, see Box 2.1 in the Bank of Israel Report for 2002.

The considerable reduction in the income guarantee payment and in the accompanying benefits, together with the abolition of the exemption from an employment test for the majority of its recipients and the rate of offset of the payment against income from work, are likely to encourage participation in the labor force and lead to a growth in employment. These developments will thereby contribute to raising the family's income from work while reducing its dependency on transfer payments and improving its standard of living. Supporting factors in this respect are the focus of vocational training on income guarantee payment receipts and the programs for subsidizing the wages of single parents (see Chapter 2 of this report), although the extent of the participation in these programs is unfortunately small. However, lowering the disregard rate reduces the incentive to work and is therefore undesirable.

Before the legislative changes of recent years, the income guarantee payment in Israel was high by international standards while it is now lower than the usual level in the developed countries (Figure 4.26).

The substantial reduction in the income guarantee payment was not accompanied by adequate supplementary measures that would enable payment recipients to integrate in employment, and their standard of living has suffered badly. Many recipients have fallen below the poverty line.

Figure 4.26
Income Support Benefit, Israel^a
and Selected Countries,^b 2002
(maximum annual benefit for a couple with 2 children, relative to per capita GDP, percent)



^a Israel 2002 – benefit at a higher rate; Israel 2003 – benefit for a "previously entitled recipient" from June 2003. The income support benefit was cut by 4 percent in July 2002.

^b In some of the countries the benefit paid to an adult and the additional amount paid for children vary according to age, and are represented by the right (pink) part of the bars.

SOURCE: Based on National Insurance Institute and Central Bureau of Statistics data; OECD (2004), Benefit and Wages, 2004; OECD (2003), OECD Economic Outlook, June 2003; and ISSA (2002), Social Security Programs Throughout the World, 2002

Because of burgeoning unemployment as a whole and among the less educated in particular, who are the majority of payment recipients, and the extensive employment of foreign workers, it is doubtful whether the measures that have been taken to date will lead in the short term to recipients' large-scale integration in the labor market. Since the substantial reduction in the income guarantee payment was not accompanied as stated by adequate supplementary measures (apart from the reduction in the number of foreign workers) that would enable payment recipients to integrate in the labor market, their standard of living has suffered badly. Moreover, many recipients who are unable to work have fallen below the poverty line.

The implementation of the recommendations of the Tamir Committee (2001) concerning the establishment of experimental employment centers for 14 thousand income guarantee payment recipients has long been delayed, and only in 2005 are the

recommendations likely to be applied. This is at a time when the Employment Service is having difficulty in providing the individual treatment suitable for the requirements of the unemployed and recipients of the income guarantee payment.

The establishment of a comprehensive nationwide examination system for distinguishing between income guarantee payment recipients who are capable of integrating in the labor force and others, in the forms of the experimental centers recommended by the Tamir Committee for example, will make it possible to provide payment recipients with help that is suited to their requirements. Such a system will also facilitate differentiation of the payment according to income-earning ability and enable proper support to be given to payment recipients who are unable to work.

The establishment of a comprehensive nationwide examination system for distinguishing between payment recipients who are capable of integrating in the labor force and those who are not is necessary.

