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INFORMATION ON EQUALITY AND SOCIAL JUSTICE IN ISRAEL

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Looking at the Budget of the State of Israel 2001

Dr. Shlomo Swirski
Etti Konur
Alon Atkin
Nira Kraus
Barbara Swirski

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TABLE OF CONTENTS

GENERAL REMARKS

The 2001 Budget Proposal allots slightly larger sums than the 2000 Budget to several types of activity, foremost in the areas of infrastructure and education. The larger allocations became possible after the Cabinet decided to adhere less strongly than in 2000 to the macroeconomic management rules of the international financial agencies. Thus, the Cabinet resolved to postpone its compliance of the Maastricht deficit-reduction index until 2003 and to increase the Fiscal Year 2001 budget base by 2.75 percent (Ministry of Finance, *Fiscal Year 2001 Budget Policy,* Web site). Concurrently, however, the government chose to adhere to the Maastricht principles in regard to government debt, and instead of using the increase in tax revenue in 2000 to leverage social initiatives, it is pledging much of the windfall to faster reduction of government debts.

The Fiscal Year 2001 Budget Proposal does not augur any meaningful change in national priorities. Far from it. It offers no creative long-term programs to increase participation in the "new economy" and no measures to impede the widening of social disparities. Instead, it allocates the small budget increase to a number of projects that enable the government to preen about "investment in infrastructures and education" but fall far short of most Israelis' expectations of the the second budget prepared by the Barak government.

Infrastructure: Most of the increase for transport infrastructure is earmarked for roads and not for railroads. Rail transit, although less polluting, more efficient in its use of natural resources, and more accessible to all social strata, is not deemed worthy of large investment in its track network. Furthermore, the hefty investments in roads do not portend an increase in employment, since most roadbuilding is done by foreign workers. The country's largest transport project is still the Cross-Israel Highway, a venture opposed by half of the Knesset, a majority of experts, and most green and social change organizations. Apart from the many kinds of damage it will cause, the road will widen social disparities even further since—in all probability—it will serve mainly suburbanites whose employers will reimburse them for their motor-vehicle expenses.

Education: Much of the supplemental allocation for education is designated not to tackle the failure of education in peripheral areas by improving schools but to reinforce prospective graduates at the eleventh hour before their matriculation exams. These programs, however worthy they may, cannot be expected to cope with education disparities between working-class neighborhoods, development towns, and Arab localities, on the one hand, and affluent localities, on the other hand. Furthermore, the budget proposal does nothing to confront the large inter-school disparities in financial and human resources.

The Knesset proposes, the Cabinet disposes: The Cabinet intends to use the Economic Arrangements Bill for 2001 to defer some of the most important social legislative achievements in recent years, including the Rights of Public Housing Tenants Law (state participation in renovation of dwellings), the Public Housing (Purchase) Law (discounts for long-time tenants who wish to purchase their dwellings), the Preschool Children at Risk Law (state participation in funding the upkeep of toddlers at risk in daycare centers), and the Employment of Workers by Manpower Firms Law (which requires labor contractors to transfer workers from their payrolls to those of their de facto employers after six months on the job). The government is using the Arrangement Bill mechanism to ask the Knesset to repeal laws that it itself adopted, some quite recently.

Welfare Reform: The 2001 Budget Proposal includes an allocation of NIS 100 million for a welfare reform scheme designed to halt the rising numbers of income maintenance recipients by pushing them into the labor market. Although the American "Wisconsin experiment" is widely portrayed as a miracle cure, the results in the United States have been mixed and their implications controversial. Many persons who joined the labor force in the framework of welfare reforms found themselves in low-wage positions and lost the web of benefits that came along with the welfare benefit. The United States government currently spends more to assist low-wage earners than it spent for income maintenance prior to the 1996 welfare reform.

Tax reform: The Budget Proposal includes a reserve that is meant, in part, to fund the tax reform that the Ben-Bassat Commission recommended. Since the reform proposal in its full format did not attract political support, the Cabinet has asked the Knesset to approve a mini-reform. The downsized reform preserves two of the main components of the larger package: taxing capital gains and lowering the marginal personal income tax rate. The main beneficiaries of the latter measure will be employees in high income quintiles. Although some of them will have to pay tax on gains on the stock exchange, the offset will not be symmetrical. As evidence, one need only note that the Ministry of Finance is maintaining a reserve of more of NIS 1 billion to cover the expected loss in tax revenue.

The expectation of taxing gains on the capital market, harbored for many years, was based on the desire to attain a more just tax system and the hope that the measure would enhance state revenues and make it possible to finance needed reforms in the social services. Although the Ben-Bassat Commission has indeed recommended the taxation of capital gains, it also urges the government to use the resulting revenues not to improve the social services but to lower earned income tax, primarily for high-income taxpayers. Thus, neither state revenues nor social justice will increase.

From this standpoint, the Ben-Bassat Commission regulations are another step on a path strewn with economic measures that are turning Israel away from Western European social models and toward the American model. In Western Europe, most of the population benefits from a high level of universal social services due to relatively high taxation. In the United States, a large share of services is delivered privately and, therefore, persons with low incomes receive fewer and lower quality services.

The following analysis does not attempt to examine the draft of the state budget in its entirely. It focuses on selected issues in the major ministries charged with providing social services: Education, Health, Labor and Social Affairs, Construction and Housing, and Transport. The issues discussed represent major budget divisions or departments whose budgets are especially relevant due to the current economic situation or to recent developments in the field.

Fax. 03-5602205 ,Adva Center, POB 36529, Tel Aviv 61364, Tel. 03-5608871

מרכז אדוה, ת.ד. 36529, תל-אביב 61364, טל. 03-5608871, פקס. 03-5602205

e-mail: advainfo@netvision.net.il