Looking at the Budget of the State of Israel

2002

Dr. Shlomo Swirski
Etti Konor-Attias
Alon Etkin
Barbara Swirski

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INTRODUCTION

Unequal Funding of the Spending Increase for Defense

The 2002 Budget allocates more for defense, largely at the expense of the social services.

The Ministry of Finance accomplished this by cutting the budgets of all the ministries across the board. Since the ministries that have the largest budgets (apart from Defense) are those that deliver social services, they were the most adversely affected. The budgets of these ministries, particularly Education and Health, have been eroding for years. Health funds and schools rely increasingly on co-payments, i.e., funding by the ill and by parents. The cutbacks this year will only aggravate the trend of shifting the funding burden to service users. The main casualties of this trend are low-income earners, who cannot afford the supplemental charges and therefore receive a minimal level of service.

We believe it would have been preferable to fund the special defense needs progressively, the affluent covering a higher proportion of the hike than the not-so-well off. One example of progressive funding would be the imposition of a compulsory defense loan at a rate that rises commensurate with income level.

Another method would be to reduce-if only on a one-time basis-the wages of senior officials in the general government, including those of the defense force. Many high-tech enterprises, immersed in today's crisis, are slashing their executives' wages; the state could do the same for its thousands of senior officials.

A third alternative would be the elimination of "indemnification of employers" (National Insurance contributions for workers that the Finance Ministry pays in lieu of employers), an item budgeted at NIS 3.5 billion in 2002. The Finance Ministry has been indemnifying employers since 1986 on the grounds that this stimulates employment. The argument is not especially convincing, since the number of unemployed has been rising for years. That sum alone could bolster the defense budget, and there would be money to spare for education and health.

Deficit Target and Economic and Social Development Policy

The 2002 Budget Proposal is somewhat more expansionary than one would expect in view of the recession and the continuing military confrontation. The Finance Ministry achieved this by setting a growth target higher than most economists predicted and by setting the deficit target slightly higher than the level stipulated in previous government resolutions. This gives the government some flexibility at this time of recession, unemployment, and military confrontation.

Many critics have taken the government to task for this expansionary policy and, especially, for having set a seemingly unattainable growth target. At the end of the fiscal year, they say, the government will be saddled with a huge deficit. However, we do not object to the deficit increase as such, since we believe that in view of Israel's economic and social problems, the government should not be deterred by deficits that exceed the criteria of international financial institutions.

However, the willingness to risk a deficit does not guarantee that the funds will be put to proper use. The fact that in many fields the government does not follow long-term plans to attain worthy goals makes us even more concerned about misuse.

The 2002 budget is not the first in Israeli history to be based on deviation from the declining deficit path that international financial institutions have recommended. In recent years, Israeli governments have succeeded each other with considerable frequency. Each new government tends to make its debut by unveiling a budget proposal that augurs "new priorities" and, accordingly, swerves from its predecessor's deficit target. The new government then promises to return to the declining deficit path in subsequent years. Each such government, however, is replaced by its successor before it can honor its commitment. Thus, governments of Israel deceive themselves and the public: they pretend to adhere to a low deficit target but in practice deviate from it quite regularly. This pattern is flawed in two senses: it is based on a creeping deception of sorts, and the deficits are wasted because they stem from circumstantial pressures and fleeting caprices instead of systematic and consistent development plans. Thus, they have no positive cumulative effect on Israel's economy and society.

The following example will demonstrate: many agree that the education system needs a general upgrade. Such an upgrade requires large investments, which may entail a larger budget deficit. However, it has been years since any government in Israel has held a serious discussion about the education system, and no government has written a long-term contingency upgrade plan. Were there such a plan, the deficit - or an unexpected surplus - could be used to implement it; the added investment would probably deliver a handsome future payoff in the form of a better trained and educated labor force. Instead, when a new government comes to power and wishes to present its "new national priorities," it selects educational projects at random. It may, for example, choose after-school centers for children-a worthy undertaking in itself but not the sort of project that has the potential to improve the achievements of pupils in peripheral areas. Only investing in schools and teaching staffs can improve standards; in the absence of such investment, the after-school centers may tranquilize the system's critics temporarily but will not solve the problem of poorly functioning schools.

An Attempt to Neutralize the Legislature's Influence on Budget Affairs

Each year, the government augments the budget bill with what it calls the Economic Arrangements Bill. This year, it attached an additional bill: an amendment to the Basic Law: The State Economy. Its purpose is to deny the Knesset any genuine involvement in shaping the budget priorities.

The proposed amendment states that no bill that entails budget expenditure shall be adopted by the Knesset except by a majority of sixty-one members of the house or more-on all three readings. If and when the amendment is passed into law, it may be amended only by a majority of the same magnitude.

This threshold is so high that it can rarely be attained. Practically speaking, the amendment will thwart all legislation involving budget expenditure.

On the whole, the Knesset's ability to affect the budget is quite limited. Its strength actually lies in the right of members to table their own bills, the sort that are sometimes termed "populistic." Over the past decade, MKs from most parties have presented bills that aim to balance the neo-liberal policy Israeli governments have promoted since 1985. Examples are the Long School Day Law and the Public Housing Law. By proposing a draft amendment to the Basic Law, the government wishes to preclude the Knesset from approving expenditures on public services.

If the amendment is adopted, not only will the Knesset be throttled. So too, indirectly, will the many social advocacy organizations that attempt to influence Israel's socio-economic agenda through the legislature.

A final note: the Knesset should take up any proposal as sweeping as this in the regular legislative process, which includes painstaking debate in committee and three readings in the plenum. Nothing so far-reaching should be hastened through in the course of the pressured debates that surround the budget and "economic arrangements" bills.

The 2002 Economic Arrangements Bill: Cutbacks and Postponement of Implementation of New Laws

Before we discuss the list of infringements proposed this year, we should pause again, as in previous years, to consider the damage the Arrangements Law inflicts on the Knesset as an autonomous governing institution, one that ought to be equal in status to the executive and judicial branches. This damage is manifested in two main ways:

First, the 2002 Arrangements Bill, like its precursors, contains draft legislation or draft amendments that should be properly discussed in the usual manner: a parliamentary debate, i.e., first reading, discussion in the relevant committee, second reading and third reading. Two salient examples are proposals that would, first, reorganize the health funds and, second, establish a national zoning committee that will circumvent the existing National Zoning Board. In this context, it should be noted that in the opinion of the Knesset's legal counsel, attorney Anna Schneider, twenty-seven of the fifty-four clauses in the 2002 Arrangements Bill are not directly related to the state budget. (See the document presented by Attorney Schneider to the Knesset Finance Committee, October 28, 2001.)

Second, the Cabinet uses the Arrangements Bill as a "broom" to sweep away much of the parliamentarians' legislative work during the year. This is how the Cabinet cancels so-called populist legislation, i.e., laws that entail budget expenditure. In this fashion, year after year, the Arrangements Law makes a mockery of the work of the Israeli parliament.

Below are the laws that the Cabinet wishes to sweep away this year by means of the Arrangements Bill.

Income Maintenance:

The Ministry of Finance officials who wrote the 2002 Arrangements Bill looked for every possible way to reduce the allowances for people who receive subsistence or unemployment benefits.

1. The Income Maintenance Law (1980) states that those who receive subsistence benefits for twenty-four months shall receive an increased rate of benefit from the twenty-fifth month on. This stipulation is the result of two factors: (1) the realization that after two years of unemployment, most people are very unlikely to re-join the labor force and are in need of long-term support, and (2) it is difficult to survive for long on the regular income-maintenance benefit, which is set at 20 percent less than the poverty line. The increased benefit is meant to raise these people's standard of living to slightly above the poverty line. The new Arrangements Bill proposes to do away with the automatic transition to the higher benefit and, instead, to introduce a test of some kind, the nature of which is not mentioned explicitly. (The revocation would not apply to persons already receiving the higher benefit.)

2. According to a 2001 amendment to the Income Maintenance Law, certain National Insurance benefits for the needy are not to be included in income when a subsistence benefits applicant is put to an income test. One of these benefits is unemployment compensation. The new Arrangements Bill deletes unemployment compensation from the list of benefits to be excluded from the reckoning. The 2001 amendment was passed at the Cabinet's initiative; now the same Cabinet seeks to repeal it.

3. The new Arrangements Bill proposes to reduce the subsistence benefit by 25 percent for three months in the case of people who refuse to furnish the National Insurance Institute with information or documents that the Institute demands. The bill also prescribes a similar fine for those who deliberately submit false information or documents. This proposal treats the entire population of subsistence benefit recipients as a collective that is prone to cheating the authorities. It would be more appropriate to punish the submitters of false information in accordance with existing laws than to expose them to the shame of economic distress.

4. According to a 2001 amendment to the Income Maintenance Law, even people who own one small used passenger car (up to 1300cc engine displacement and at least five years old) are entitled to subsistence benefits if they meet the other criteria. This amendment, sponsored by MKs from immigrants' and Arab parties, is meant to ease the lives of people whose income level entitles them to subsistence

benefits even if they own cheap cars. The new Arrangements Bill postpones the implementation of the amendment to 2004.

Public housing tenants: The 1998 Public Housing (Purchase) Law entitled public housing tenants to purchase their dwellings at a large discount. The law was meant to enable families that had not benefited from Israel's economic growth to purchase the dwellings that they had rented for decades to upgrade their level of housing. The 2001 Arrangements Law postponed the implementation of this law from January 1, 2001, to January 1, 2002. The Cabinet sought this postponement in order to pass new legislation that would, practically speaking, sell public housing on less attractive purchase terms. The 2002 Arrangements Bill would postpone implementation once again, to 2005. In the meantime, public housing units are being sold to their tenants on less advantageous terms.

Senior citizens: Senior citizens receive a 30 percent discount on the general municipal property tax. The 2002 Arrangements Bill limits this discount to those defined as needy on the basis of an income test. The very imposition of an income test, of course, dissuades many from applying for discounts, benefits, or other services. Thus even if it manages to filter out affluent seniors who receive the tax discount today, the proposed measure will also deter many seniors whose income would qualify them for the discount.

Workers' compensation: The National Insurance Law prescribes up to twenty-six weeks of workers' compensation. The 2002 Arrangements Bill shortens the period to thirteen weeks, in the course of which a work accident casualty may sue for a disability allowance or grant that s/he would receive if a medical committee declares him/her permanently or temporarily disabled. This proposal is meant to reduce the number of compensation recipients by toughening the terms and creating a bureaucratic hurdle.

Schoolchildren in need of textbooks: The Lending of Textbooks Law (2000) was designed to enable schools to keep an inventory of textbooks for lending and exchange purposes. According to the law, the first initial stock of books is to be built with state funding. The 2002 Arrangements Bill postpones the implementation of this act to 2005.

Free education for sick children: A 2001 law requires the government to provide free education for children who are housebound or hospitalized for periods exceeding twenty-one days. The 2002 Arrangements Bill postpones the implementation of this act to 2005.

Widowers: According to the Equality of Pension Rights for Widows/Widowers Law (2000), if the statutes of a pension fund prescribe different rates of pensions for widows and widowers, these rates are to be equalized at the higher rate. The law was meant to benefit the widowers of women members of pension funds. The cost of the equalization was to be charged to the State Treasury. The 2002 Arrangements Bill postpones the implementation of this act to 2005.

Consumers of medicines: A 2001 amendment to the State Health Insurance Law expanded the discounts that certain health fund members receive when buying medicines. Among other things, the amendment entitles immigrants to a higher rate of discount during their first thirty-six months in the country (with no income test for the first twelve months). It also increases the discount from 50 percent to 75 percent for senior citizens who receive subsistence benefits. The 2002 Arrangements Bill postpones the implementation of the amendment to 2005.

Indigent citizens in need of public defender services: At the present time, a judge may appoint a public defender for an indigent defendant in criminal proceedings even if the offense is so slight that the law does not require counsel.

Wishing to economize on public defender expenses, the Finance Ministry now proposes that defense counsel be appointed only through prior approval of the president or vice president of the court. The idea is to reduce the number of authorizations for the hiring of lawyers at the state's expense. The Ministry also proposes that defendants be charged a fee.

These measures will result in more criminal trials in which the defendant is not represented because they cannot afford lawyers, in contrast to the state, which is always professionally represented. This will increase the likelihood of miscarriage of justice.

The right to a hearing-for notables only: The Tendering of Notice Law (Amendment 28 to the Criminal Jurisprudence Law) stipulates that a suspect must be informed when a police investigation of him/her has ended and the file is handed over to the prosecuting authorities (the state prosecutor or a corresponding office). After receiving this notice, the suspect is entitled to apply to the prosecuting authority and ask it to refrain from presenting an indictment.

The Tendering of Notice Law is meant to entitle all citizens to a hearing before they are indicted. Today (on the basis of an unwritten practice), the main beneficiaries of this entitlement are white-collar offenders and political figures, who thereby are given a chance to convince the prosecutors not to indict them.

To implement the Tendering of Notice Law, additional personnel positions and a larger budget will be needed. The Finance Ministry wishes to thwart this by means of the 2002 Arrangements Bill. The savings attained will be at the expense of the public at large, since those who benefit from the hearing procedure today will continue to do so.

The National Zoning Committee: Short-Circuiting the Public Debate

The 2002 Arrangements Bill includes a proposal related to zoning procedures that would circumvent the debate phases stipulated in the law and obviate the democratic requirement of citizenry involvement in zoning decisions.

The detailed proposal would establish a special committee for national infrastructure projects that would circumvent the National Zoning Board. The committee would be composed of low-ranking bureaucrats, three professionals (a planner, an environmental quality expert, and an investigator), and *one* representative of the public-all of whom would be paid by the Minister of the Interior. Practically speaking, the committee would be a closed-membership government club. Municipal governments, NGOs such as the Greens groups and various public interests that are represented on the National Zoning Board today would not be represented on the committee.

Notwithstanding the small and non-representative makeup of the proposed committee, the Arrangements Bill would invest the new body with all the powers currently wielded by the National Zoning Board. Furthermore, the committee's decisions would not require approval of the Farmland and Open Areas Committee.

In the bill, the concept of "national infrastructure projects or facilities" is very broadly defined, raising concern that cabinet ministers may be able to push anything that they consider important through the proposed committee.

Extension of Compulsory Education to Age Eighteen

The Arrangements Bill proposes the extension of compulsory schooling (under the Compulsory Education Law) from age 15 through the twelfth grade. This welcome idea may be especially useful for pupils in Arab localities, where more than one-third of this age group drop out before reaching the end of high school, and for many immigrants in disadvantaged urban neighborhoods and development towns.

Further perusal, however, shows that the measure is merely rhetorical. The proposal states that the legal sanction for parents who fail to keep their teenage children in school will apply as it applies today, only up to age fifteen-the current age of compulsory education.

If the Finance Ministry wishes to take the credit for expanding compulsory schooling, it should pay the price by funding the extension. First, it should provide money to enforce the law, e.g., by hiring more truant officers. That, however, is not enough. To bring today's dropouts back into the system, additional classrooms are needed (especially in Arab localities), as are more teachers and a general upgrade of schools in Arab localities, disadvantaged urban neighborhoods and development towns.

The fact that the 2002 Arrangements Bill does not extend the criminal sanction to age seventeen shows that the Cabinet does not intend to tackle the dropout problem seriously.

Agreement between Ministers of Finance and Health to Erode the Cost of Insured Health Services

In September 2001, the ministers of Finance and Health reached an agreement that was anchored in a formal document (*Agreement between Ministers of Health and Finance,* September 5, 2001) and reflected in the Health Ministry's budget book (Ministry of Finance, *Budget Proposal for Fiscal Year 2002 and Explanatory Notes, Ministry of Health*: October 2001: 64-65).

The agreement, designed to set the cost of insured health services for 2002-2004, reads like a recipe for protracted erosion of the national health insurance budget and for additional increases in co-payments. Generally speaking, it gives the health system too little, too late:

1) The agreement increases the basic funding for insured health services by less than 1 percent of the cost of the services in 2001. The increase is laudable but, as we show below, insufficient.

2) The agreement stipulates an increase of 1.75 percent to compensate the health funds for expected increases in expenses in 2002 on account of population increase and aging. However, the expected rate of population increase is 2.8 percent-1 percentage point higher than the stipulated rate of compensation.

The agreement sets an identical rate of increase (1.75 percent) in each of the two subsequent years, 2003 and 2004, "for demographic changes and *in consideration of the required efficiencies"* (emphasis ours) (*Agreement*: 65). In other words, the Finance Ministry demands that the health funds offer the services they provide today but at lower cost. In this fashion, the Finance Ministry is forcing the funds to take one of two possible measures: downscale services or cover their costs by charging higher co-payments.

3) The agreement stipulates that in 2002 the funds will receive an increase for new technologies at a *lower* rate than in previous years-less than 1 percent (0.74 percent) of the total cost of the insured services (ibid.).

Furthermore, in 2003 and 2004 the rate of increase for new technologies will be determined "in view of the budget capabilities of the economy and the government's priorities" (*Agreement*: 2). Thus, the accord establishes no permanent basis for cost adjustments on this account.

4) The agreement perpetuates the practice of budgeting by "safety net": it makes an additional sum (NIS 200 million in 2001 prices) available to the health funds "against the health funds' meeting expenditure targets that will be determined in agreements between them and the government" (Ministry of Finance, *Budget Proposal for Fiscal Year 2002 and Explanatory Notes, Ministry of Health*: 65). The health funds will be allowed to access an identical sum in 2003 and 2004-if they meet the terms set forth. Notably, the "safety net" in 2001 was NIS 280 million (in 2001 prices)-a larger sum than that cited in the new agreement.

Another "incentive" that the interministerial agreement gives the health funds is NIS 150 million (in 2001 prices) "against the funds' lowering their public deficit at a rate that shall not fall short of 5 percent each year" (ibid.). To meet this condition, the health funds will have to reduce services or increase co-payments.

MINISTRY OF EDUCATION

The Ministry of Education budget (including budget lines for culture and sports that are currently assigned to the Ministry of Science, Culture and Sports) began to grow in 2000 after four years of standstill or erosion (1996-1999) and will continue to grow slightly in 2002, bringing the increase in 1999-2002 to 13.7 percent (in 2000 prices).

Notwithstanding the increase, however, the 2002 budget of the Ministry of Education augurs no significant change in the Ministry's policy, let alone any program of substance to improve the performance of schools in disadvantaged urban neighborhoods, development towns and Arab localities.

About half of the increase in the Ministry budget in the past two years was allocated to various projects and activities that have nothing to do with teaching, e.g., the Pedagogical Administration, adult education and remedial instruction. Each of these activities may be important in itself but collectively they do not help to change the system at large.

The Ministry of Education has not managed to place the need to upgrade the public education system at the top of the national scale of priorities. Furthermore, the Ministry of Finance has been systematically eroding the Education Ministry's status. During the term of the Barak Government, this was manifested in the Finance Ministry's claim that the education budget was actually too big and ought to be pruned. This argument was based on a presentation to the Cabinet by a group of economists headed by Professors Haim Ben-Shahar and Elhanan Halfman. (For an Adva Center critique of this presentation, see "Remarks on the Education Chapter in *National Socioeconomic Priorities*, by a Group of Professors under Professors Ben-Shahar and Halfman," [<www.adva.org (Hebrew)]). Although the professors abandoned this reasoning as the education budget was being debated, the Finance Ministry continues to adhere to it more than a year later. (See Ministry of Finance, *State Budget for 2002, Ministry of Education,* www.mof.gov.il/dover/, September 11, 2001.)

This year, the Finance Ministry eroded the status of the Education Ministry in a different way: by preparing the draft education budget all by itself. Although the immediate background for this was a personal and political spat between the ministers of Finance and Education, the Finance Ministry's ability to circumvent the Education Ministry has deeper roots.

One reason for this state of affairs is that the education system is divided into sub-systems-state-religious education, vocational education, haredi education, rural settlement education, etc. Each sub-system looks out for its own clientele and its own slice of the pie, and each gets what it wants mainly by political, not necessarily educational, action.

"Industrial calm" among the largest group of students, those enrolled in the State system, is maintained because (among other reasons) well-to-do urban parents have managed to set up a "sub-system" of their own, i.e., "gray education." Gray education refers to the arrangement whereby in return for co-payments, students whose parents can afford to pay significant sums out of pocket are readied for matriculation and subsequent academic studies by special teaching faculty that teaches them curricula over and above the official curriculum. Thus, the educational experience that the public school system is supposed to give every Israeli child becomes the extra privilege of a small social group.

Generally speaking, pupils in disadvantaged urban neighborhoods, development towns, and Arab localities are left outside this charmed circle.

The fact that only 35 percent of teenagers receive matriculation certificates that meet university entrance requirements has not prompted the government to subject the education system to thorough reform. Instead, it comes up with regular "quick fixes." In respect to the matriculation exams, for example, every minister who has served in the past decade has brought along a new "fix" of his or her own, from choosing compulsory matriculation subjects by lottery to a second testing date.

Pupils from families of modest means become the objects of handouts, such as day centers or the "Computer for Every Child" program. Certainly some of these special "campaigns" are devoid of educational justification; they actually act in the service of political privilege and warp the funding principles of the education system. This year, for example, there have been reports of at least two such "campaigns" to be funded directly by the Finance Ministry in circumvention of the Education Ministry budget.

The Post-Primary Education Budget

The post-primary education budget serves as an example of the problem of funding the main activity of the education system, teaching. Post-primary schooling is comprised of two levels: junior high and senior high. According to figures released by the Finance Ministry in the Education Ministry draft budget, in the seven years between 1996 and 2002, enrollment at these levels has increased by 15 percent, from 500,600 to 574,000. In contrast, the budget for standard teaching hours at the relevant levels has grown by only 2 percent, from NIS 5.2 billion to NIS 5.3 billion.

Table 1. Post-Primary Enrollment and Budget
Enrollment-thousands; budget-NIS millions, 2000 prices

	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2001**	**Pct. increase, 1996-2002**
Enrollment	500.6	508.5	540.1	548.7	564.6	574.2	574.0	15%
Budget	5,202	5,099	5,055	4,819	4,979	5,100	5,309	2%

Source: Adva Center analysis of Ministry of Finance, *Budget Proposal for Fiscal Year and Explanatory Notes, Ministry of Education,* various years.

Development Budget of the Ministry of Education

The 2002 development budget of the Ministry of Education is projected to increase very slightly over 2001, after five consecutive years of erosion. The downtrend has severe implications in view of the shortage of classrooms, especially in Arab localities and, foremost, in the Negev.

Table 2. Development Budget of the Ministry of Education
NIS millions, 2000 prices

1998	1999	2000	2001	2002
1,007.1	921.1	779.1	682.1	699.2

Source: Adva Center analysis of Ministry of Finance, *Budget Proposal for Fiscal Year and Explanatory Notes, Ministry of Education,* various years.

P.F.I.-Private Financing Initiative

Due to the decline in the Education Ministry development budget and the shortage of school buildings, the Finance Ministry has been entertaining ideas of privatization. A delegation of Finance Ministry officials, headed by the Minister of Finance, Silvan Shalom, conducted a fact-finding visit in Great Britain in this matter. One method studied was P.F.I.-Private Financing Initiative.

Accordingly, the Education Ministry budget proposal for 2002 notes that the Ministry intends to solicit bids for the construction of 1,000 classrooms using the P.F.I. method.

P.F.I. means private construction of public infrastructure. Developers build the infrastructure to the government's specifications and the government pays an annual user fee for periods of twenty to thirty years.

From the government's standpoint, P.F.I. offers the possibility of building infrastructures at no immediate cost to the budget. It seems especially alluring when the budget is under pressure and infrastructure building has fallen behind.

However, the P.F.I. method is so riddled with drawbacks that one doubts whether the advantages offset them.

P.F.I. was originally developed in England but has recently been applied in additional countries, including Australia, Canada, New Zealand and Germany. In Great Britain, not only schools but also other infrastructures have been built this way. Since P.F.I. is an innovation of the past decade only, one cannot yet draw final conclusions about its implementation. That will become possible only when the government's contract with the developers expires, i.e., in 20-30 years. However, the experience amassed thus far is broad enough to sustain initial conclusions.

The P.F.I. method is merely part of a more comprehensive process of privatization in government systems, with education at the forefront. Teachers' organizations in various countries, which have been fiercely resisting privatization of education systems, have staunchly opposed this way of building schools. Below we present excerpts from a document published by the teachers' union of New South Wales, Australia.

The government is keen to quote the United Kingdom experience in such schemes, but they are not terribly forthcoming in providing details about the negative ramifications. In England, the Private Finance Initiative (PFI) was introduced under the Tories but has flourished under Labour. These schemes involve using a private for-profit company to design finance, build and operate (DFBO) schools. The schools may be designed, financed, built and owned by the company, but leased to the government. "Operate" refers to the cleaning, maintenance and in some schemes the caretaker/custodian, property management and provision and maintenance of IT equipment.

The argument in support of private finance initiative is that the school can 'forget about' the building - and concentrate on education. Also, the variations in spending from year to year (for example, new roof) is made smoother by annual payments over typically a thirty year period.

Arguments against relate to the school's potential loss of control of the building, the difficulty of foreseeing the future over 30 years in terms of the school's building requirements the transfer of the existing cleaning, caretaking and maintenance staff from the employment of the local authority in the public sector to the private company. And of course the potential for more private profit from state funding than in the previous straightforward borrowing arrangements.

There has been much recent criticism in Australia of private involvement in public infrastructure provision, most notably with respect to build, own, operate and transfer (BOOT) schemes such as motorways, where a private operator builds the facility, owns and operates it, and then transfers it to the public sector at the end of the contract. Private goals are another example.

In effect, what BOOT schemes do is remove the funding from public scrutiny to areas out of the Budget. There are numerous examples of such schemes, in NSW, elsewhere in Australia, and in other countries, where it can be demonstrated that in the long run the cost to the citizens is greater than if it was directly publicly funded in the first place, even via loans.

It is born of the obsession that governments have with being seen to be delivering balanced budgets or surpluses. In reality, all that happens is an accountancy sleight-of-hand with a greater financial, and often severe social, cost.

Not only are the real funding arrangements hidden from scrutiny through "commercial-in-confidence" clauses, but what should be regarded as a whole-of-community investment, and public asset, that is, provision of public education, comes to be seen merely as a cost to be borne by (reluctant) tax payers.

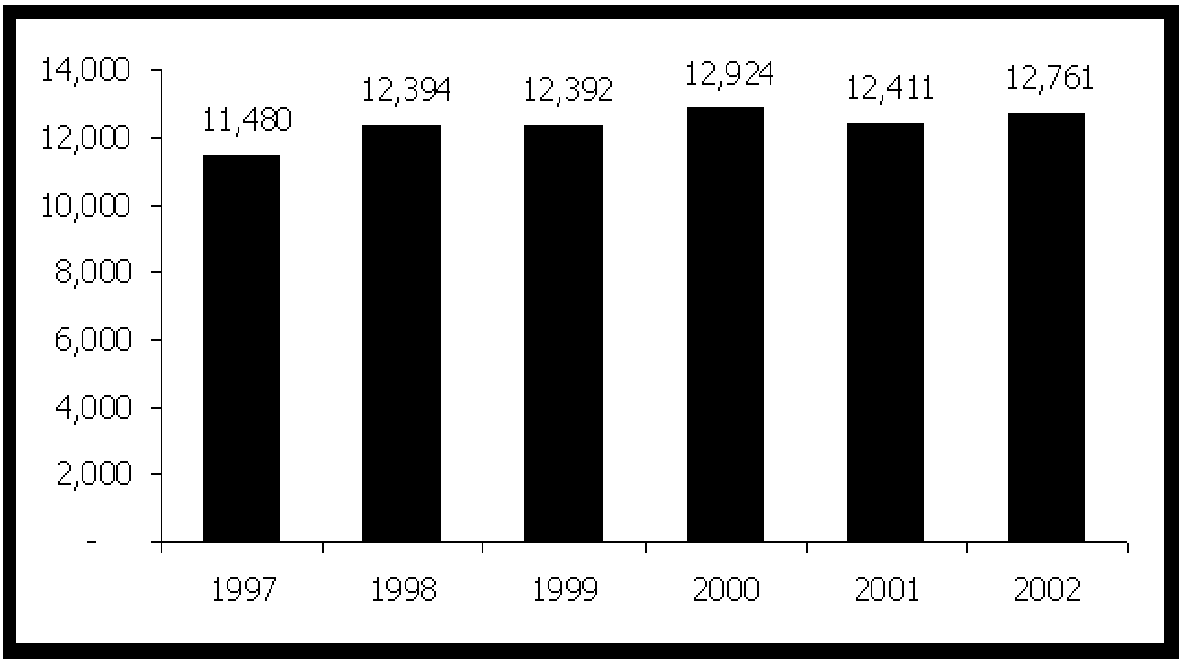
There is no mention in the Minister's press release of where the profit for the private investors is to come from. In London it has come from the sale of land deemed to be surplus for the creation of private housing estates. In Nova Scotia, Canada, it was through the closure of smaller schools and consolidation into larger units, in the face of community protest. As well, the private enterprises were able to set the terms and conditions of access to the schools - limiting hours and weeks for example, so that the buildings could be used for other purposes. In some instances evidence suggests that displays of pupils' work on walls, for example, was banned because it did not suit the private owners and operators.

One hopes that Israel's teachers' organizations too, will find a way to oppose the privatization of construction and maintenance of school buildings-another step down the slippery slope of privatization of Israel's public education system.

MINISTRY OF HEALTH

The Ministry of Health budget for 2002 is NIS 13.4 billion (in current prices, not including the direct budget of government hospitals and other revenue dependent expenditures). The development budget is NIS 202.3 million.

Figure 1. Ministry of Health Budget, 1997-2002
Not including development budget and revenue dependent expenditure.
NIS millions, 2000 prices



Source: Adva Center analysis of Ministry of Finance, *Budget Proposal for Fiscal Year 2002 and Explanatory Notes, Ministry of Health,* and Ministry of Finance, *Budget Provisions, Ministry of Health,* various years.

The Ministry's regular budget will be slightly larger than the 2001 budget in real terms. However, the development budget will be 50 percent smaller.

Funding of Services Covered by National Health Insurance

Ever since the National Health Insurance Law went into effect, the government has refused to create a mechanism for the adjustment of the cost of insured services. In 1998, when the health funds began to amass deficits, the government imposed new co-payments (by means of the Economic Arrangements Law). This reduced the health funds' deficits in 1999. In 2000, however, the deficits climbed again, from NIS 275 million to NIS 514 million (Yaakov Wittkowski, "Public Report on the Results of Health Funds' Activity for 2000").

The health funds-the public nonprofit organizations that deliver the services covered by national health insurance-have been persistently demanding the establishment of an adjustment mechanism. Three of the four funds-Clalit, Maccabi, and Meuhedet-petitioned the High Court of Justice to order the government to draw up an adjustment formula that would reflect the real costs of the services. In an interim ruling, the Court instructed the Ministers of Health and Finance to try to reach an agreement on an adjustment method.

In September 2001, the ministers did as instructed; the results are to be found in a written agreement (*Agreement between Ministers of Health and Finance,* September 5, 2001) that is reflected in the Health Ministry's budget book (Ministry of Finance, *Budget Proposal for Fiscal Year 2002 and Explanatory Notes, Ministry of Health*: October 2001: 64-65).

Generally speaking, the agreement gives the health system too little, too late, for the following reasons:

> 1) In 2002, a nonrecurrent increase will be added to the basic allocation. Although this is a laudable measure in itself, the increase comes to less than 1 percent of the cost of the insured services in 2001 (NIS 195 million, deflated by the average cost-of-health index in 2000) (ibid.).
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> 2) In 2002, the system will receive an increase of 1.75 percent of the cost of the services in 2001 (NIS 347 million, deflated by the average cost-of-health index in 2000) on account of the increase in expenses stemming from expected population growth and aging. However, the number of standard persons (persons standardized for the average expenditure in each age cohort) whom the health funds insure is expected to grow by 2.8 percent-1 percentage point more than the rate of compensation set forth. The financial implication of the difference between the two rates is a gap of NIS 200 million.
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> The agreement between the Ministers of Finance and Health stipulates an identical rate of increase (1.75 percent) in each of the next two years, 2003 and 2004, "for demographic changes and *in consideration of the required efficiencies"* (emphasis ours) (ibid.: 65). In other words, the health funds will be undercompensated for the increase in their workload; the Finance Ministry seems to expect them to provide the services they deliver today at lower cost. In this fashion, the Finance

Ministry is forcing the funds to take one of two actions: cut back on services or to fund them by charging higher co-payments.

Notably, the agreement includes a statistical method for use in computing compensation for population increase beyond the "expected" increase. This method too, will undercompensate the funds-if it compensates them at all-and will do so too late.

3) The agreement states that the funds will receive an extra NIS 146 million for new technologies in 2002. This rate of increase is *smaller* than the rate stipulated in previous years-less than 1 percent of the cost of the insured services (0.74 percent) (ibid.).

Additionally, in 2003 and 2004 the rate of increase for new technologies will be determined "in view of the budget capabilities of the economy and the government's priorities" (*Agreement*: 2). Thus, the accord establishes no permanent basis for cost adjustments on this account.

4) The agreement perpetuates the practice of budgeting by "safety net": it makes an additional NIS 200 million (in 2001 consumer prices) available to the health funds "against the health funds' meeting expenditure targets that will be determined in agreements between them and the government" (Ministry of Finance, *Budget Proposal for Fiscal Year 2002 and Explanatory Notes, Ministry of Health*: 65). The funds will be able to access an identical sum in 2003 and 2004-if they meet the terms set forth. Notably, the "safety net" in 2001 was NIS 280 million (in 2001 prices)-a larger sum than that cited in the new agreement. (See Adva Center, *Looking at the Budget of the State of Israel,* 2001: 15.)

Another "incentive" that the interministerial agreement offers the health funds is NIS 150 million (deflated by the average 2001 Consumer Price Index), "against the funds' lowering their cumulative deficit by a rate no less than 5 percent each year" (ibid.). To meet this condition, the health funds will have to reduce services-or increase the co-payments.

5) Finally, the agreement states that its success shall be examined before 2005 and conclusions shall be drawn (*Agreement*, 2001).

The Cost of National Health Insurance-Long-Term Perspective

The table below shows that the cost of national health insurance per standard person has been stable over the past five years, growing by less than 1 percent during that time.

No less important, the per capita cost was slightly *higher* in 1995, the year the National Health Insurance Law went into effect, than today: NIS 3,013 (memorandum from Deputy Director-General for Economics and Health Insurance, Ministry of Health, November 7, 2001).

The table below shows the trend in funding of the health services that all residents of Israel are assured under the National Health Insurance Law. Annual underadjustment of the cost of the package of services has resulted in erosion. Three factors in the annual increase in cost are undercompensated: (1) population growth; (2) population aging; (3) technological innovations. Consequently, the cost of national health insurance per standard person has not been growing but has remained more or less stable. Had the above factors been compensated appropriately, the cost per standard person would have *increased* from year to year.

Table 3. Cost of National Health Insurance Services Delivered by Health Funds, 1997-2002

Year	Cost in current prices (NIS millions)	Cost in 2000 prices (NIS millions)	Annual increase in cost (%)	Cost of services per standard adult
1997	15,358	17,630		2,936
1998	16,614	18,158	3.0%	2,934
1999	18,008	18,627	2.6%	2,925
2000	19,270	19,270	3.5%	2,931
2001	20,413	19,838	2.9%	2,938
2002	21,712	20,526	3.5%	2,958

Note: The cost per standard person in 2002 is based on an estimated 2.8 percent standardized population growth.

Source: Adva Center analysis of memorandum from Deputy Director-General for Economics and Health Insurance, Ministry of Health, November 7, 2001.

A long-term look at the increase for technological innovations shows that among all increases given thus far, the supplement for this field in 2002 will be the *smallest*.

Table 4. Increases in Funding of National Health Insurance for Technological Changes, 1996-2002
NIS millions, constant prices, deflated by 2001 Cost-of-Health Index

1996	No increase
1997	No increase
1998	177
1999	169
2000	270
2001	197
2002	150

Source: Deputy Director-General for Economics and Health Insurance, Ministry of Health, November 13, 2001

Sharap-Private Care in Public Hospitals

Sharap is the Hebrew acronym for *sherutim refui'im perati'im*-private medical services that are offered in several hospitals in Jerusalem for direct payment or as part of the supplemental insurance that health funds and private insurance companies offer.

The main services provided by Sharap relate to choice of surgeon and jumping the queue for surgery. Sharap has been offered for many years in three public hospitals in Jerusalem and for about five years in four government hospitals elsewhere (Ichilov, Assaf Harofe, Rambam, and Sheba). The other ten government hospitals and the eleven hospitals owned by Clalit Health Services do not offer Sharap.

In government hospitals, the availability of Sharap raises legal questions. In the hospitals in Jerusalem, which are privately owned, there is no such problem.

Only recently has the Ministry of Health turned its attention to the Sharap issue. In the meantime, as mentioned above, several government hospitals have introduced Sharap arrangements. Now the directors of a number of hospitals, backed by the heads of the Israel Medical Association, are pressuring the Ministry of Health to take a favorable view toward Sharap and to allow it to be implemented in additional hospitals. At the time of writing (November 2001), the Ministry of Health is waiting for an opinion from the Attorney General. Notably however, the present Minister of Health, Nissim Dahan, is inclined to favor Sharap and its expansion.

The players who favor expansion of Sharap are opposed by human rights organizations such as Kav Laoved and the Association for Civil Rights in Israel, patients' organizations such as Israel Health Consumers and the Alliance of Self-Help Organizations in Jerusalem. They share our view that public and private services should be kept separate, and that private services belong in private hospitals, not in hospitals built and run with public funds.

The reason for this is that wherever Sharap is practiced, those who can afford Sharap choose the most qualified physicians and move to the front of the queue for surgery and other procedures. The less well off have to settle for less qualified physicians and later appointments for surgery.

Practically speaking, Sharap gives senior doctors and affluent patients a public subsidy in the form of hospital facilities and equipment. If the hospitals had to charge full price for these services, and patients had to cover the full cost of the private care they receive, the charge would be much higher than the present fee under Sharap.

Thus, notwithstanding its name, Sharap service is not fully private. The state-all Israelis-covers most of the cost (training of doctors, construction of hospitals, and acquisition of equipment). For a relatively small additional charge, the affluent get private care which many Israelis simply cannot afford.

This is not the only problem with the Sharap arrangement. The moment public and private services intermingle under one institutional roof, there is a continual risk of "spillover" from the public domain into the private. Many patients have stories about doctors who contacted them and offered their private services in public hospitals. (For an example, see Ron Reznik, "A Kidney, a Car, or NIS 21,000 for Heart Surgery," *Ha'aretz,* June 8, 2001.) Patients treat these propositions as offers that cannot be refused. They are not always aware that they are entitled to the care they need even if they reject the offer, especially if the party making the offer is none other than the department head.

Will Sharap Eliminate "Black Medicine"?

The adherents of Sharap argue that it will "save public medicine" by preventing "black medicine"-under-handed payments for private surgery and queue jumping-and will prevent the outflux of doctors from hospitals in the afternoons (to private arrangements that will boost their income). The proponents of Sharap also argue that Sharap allows patients to choose their physicians.

We disagree. We believe that the institutionalization of Sharap in all hospitals will result in doctors choosing their patients and not vice versa. The calculus is simple: today, some 60 percent of health-fund members carry extra (supplemental or commercial) health insurance. They do so in order to be able to choose their surgeon. However, when there are so many insured and so few doctors chosen, obviously only some insured will get what they request. Practically speaking, it is the doctors who choose the patients they receive. Needless to say, those 40 percent of Israelis who carry no extra insurance will not benefit from even the ostensible "right to choose"; they will simply become second-class patients. As for "black medicine," there is no evidence that Sharap actually mitigates the practice. The investigators Ron Lachmann and Shlomo Noy found that it exists irrespective of the availability or non-availability of a Sharap arrangement (*White Coat, Black Stain: Black Medicine in Israel,* Ramot, 1998).

As for hospital physicians' absence during working hours, there is no evidence that Sharap will prevent their seeing private patients during working hours outside the hospitals (Chaim Shadmi, 1998, "Black-Under-the-Fingernails Test", *Ha'ir*, July 31).

Will Sharap Lead to Better Service?

Sharap will not revolutionize the level of medical care; it will merely deepen the chasm between the affluent and everyone else. If approved, Sharap will give patients who can afford it the same service that hospitals are supposed to give them under the National Health Insurance Law: no more, but also no less. In contrast, patients who cannot afford the Sharap fee will get poor medical service for the simple reason that the wealthy will attract the best doctors and reserve the most convenient time for care.

As for the health system at large, the expansion of Sharap will increase the share of households in funding the system and will reduce that of the government. That would be socially regressive, because it would place the funding burden on those in need of medical services instead of dividing it equally among all Israelis.

Mental Health

Most psychiatric services are not covered by National Health Insurance. Although the legislature had intended to include them when it passed the National Health Insurance Law, these services are still excluded and remain under the direct responsibility of the Ministry of Health.

The psychiatric services budget accounts for a small fraction-8 percent-of the total Health Ministry budget. Notably, however, in 2002 the allocation will be 10 percent higher than that in the 2001 budget, slightly over NIS 1 billion (in current prices).

Most of the allocation is earmarked for inpatient and outpatient services in hospitals. Only 21 percent is reserved for community services (those provided outside of hospitals), even though most chronic psychiatric patients live in the community and not in hospitals.

Only one percent of Israel's population visit psychiatric clinics each year, in contrast to 3.5 percent in other developed countries. Israel's low rate is due to a shortage of clinics and professional personnel positions (Prof. Eli Shamir, chairman of The National Forum of Families of the Mentally Disabled; November 9, 2001).

Turnaround in Budgeting of Community Rehabilitation Services for the Mentally Disabled

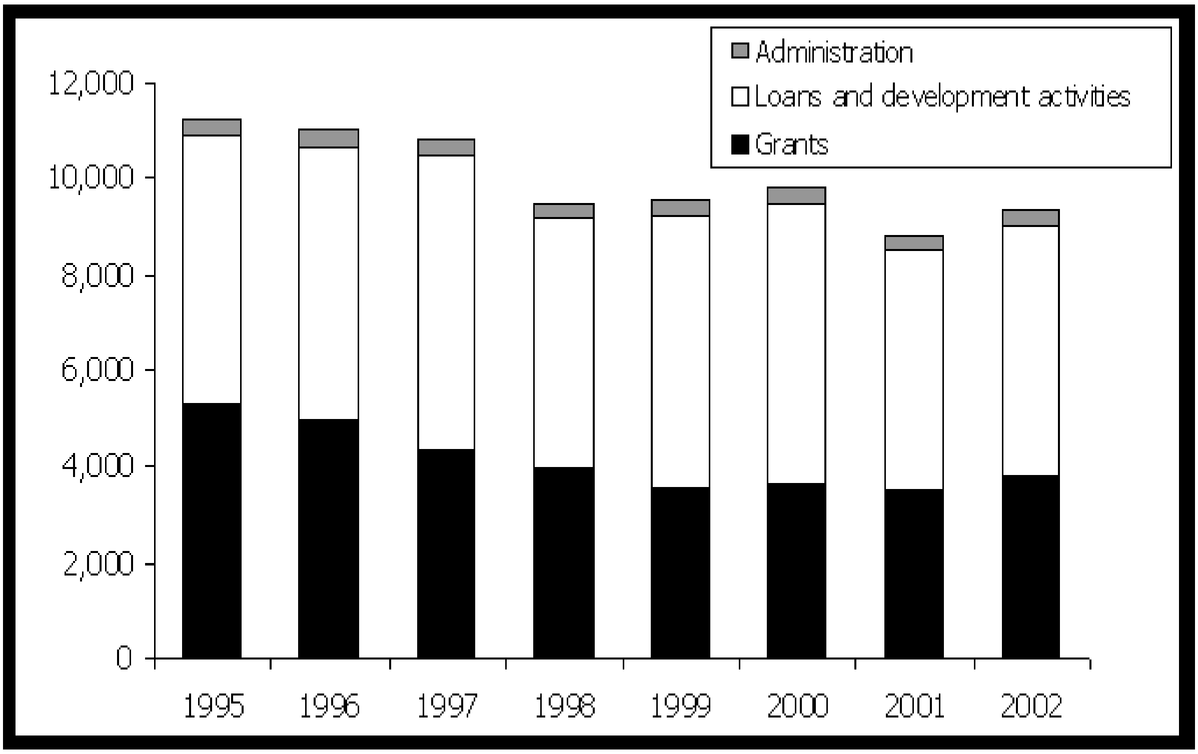
In 2001, a turnaround occurred in the budgeting of community rehabilitation services for the mentally disabled. Due to pressure from organizations of patients' families and a new law - The Community Rehabilitation Services for the Mentally Disabled Law (2000) - the Ministry of Health combined all funding for rehabilitation of the mentally ill into one budget line-"Program for Integration and Rehabilitation of the Mentally Ill in the Community." In 2002, this line will be budgeted at NIS 215 million.

At the beginning of 2001, the budget was NIS 120 million. Only NIS 37 million appeared under the heading "Program for Integration and Rehabilitation of the Mentally Ill in the Community"; the rest was scattered across other lines. To fund the new rehabilitation law, the budget was increased by NIS 60 million in the course of 2001, and another NIS 35 million is expected by the end of the year. In 2002, as stated, the "rehabilitation budget" will be identical to the final 2001 budget-NIS 215 million.

MINISTRY OF CONSTRUCTION AND HOUSING

The Ministry of Construction and Housing budget for 2002 is NIS 10.7 billion (current prices), including spending authorization for development items. This sum is 5.6 percent higher (in real terms) than the corresponding level in 2001; the increase comes to NIS 500 million (in 2000 prices). In 2002, as in past years, most of the budget will be earmarked for housing assistance, i.e., mortgages and rent subsidies.

Figure 2. Budget of the Ministry of Construction and Housing
NIS millions, 2000 prices



Source: Adva Center analysis of Ministry of Finance, *Budget Proposal for Fiscal Year 2002 and Explanatory Notes, Ministry of Construction and Housing;* and Ministry of Finance, *Budget Provisions, Ministry of Construction and Housing,* October 2001.

Mortgages

The government assists homebuyers by providing them with loans and grants. Eligibility is based on a point system: purchasers who amass few points receive a mortgage comprised solely of a loan; those who build up more points receive mortgages composed of loans and conditional grants. The size of the mortgage is determined by various criteria and by type of household, as the table below shows.

Table 5. Criteria for Determining Mortgage Size, by Type of Household (Non-Homeowners)

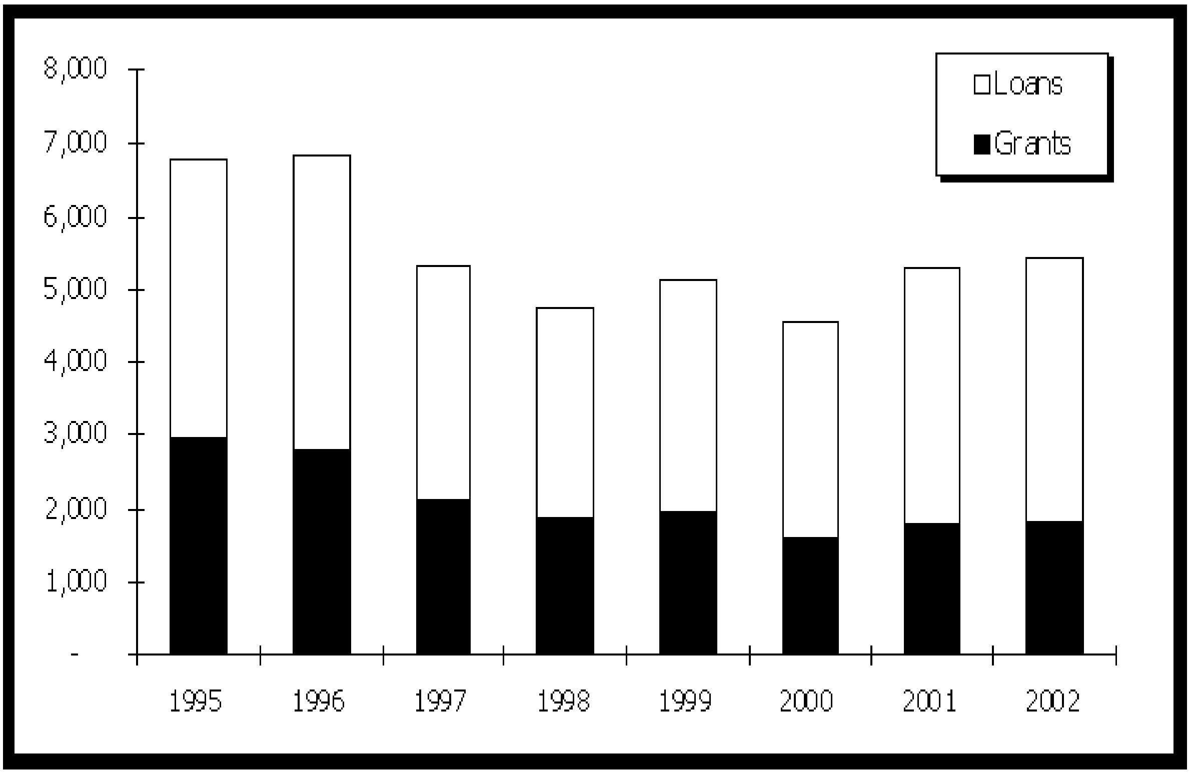
Type of Household	**Criteria for Determination of Mortgage Size**
Nonimmigrant young couple	Number of years married, number of children, number of spouses' siblings, months of regular army service of each spouse, location of dwelling
Immigrant young couple	Length of residency in Israel (years), family size, country of origin, months of army service of each spouse, location of dwelling
Unmarried nonimmigrant	Age, months of army service, location of dwelling
Unmarried immigrant	Age, months of army service, location of dwelling
Nonimmigrant single-parent family	Length of time of single parenthood, months of army service, location of dwelling
Immigrant single-parent family	Length of residency in Israel, months of army service, location of dwelling

Some of the criteria, including years married and number of children and siblings, are supposed to reflect the likelihood of the applicants' acquiring housing without government assistance. Since the government mortgage also serves as an instrument for the implementation of the government's settlement policy, households that buy dwellings in National Priority Areas receive more assistance. Households with fewer resources than other groups (such as recent immigrants and single-parent families) also get larger mortgages. Finally, every month of military or national service entitles a homebuyer to a 1 percent increase over the personal mortgage (i.e., the mortgage not including the supplement given to homebuyers in National Priority Areas).

The table above indicates that Arab couples do not receive government mortgages equal in size to those of Jewish couples, since (1) few of them serve in the army and (2) their localities are not defined as National Priority Areas.

Since the government assistance is provided to almost every eligible applicant who wishes to exercise his/her eligibility, the sums shown in the budget are actually estimates of the Ministry of Construction and Housing as to expected takeup in the coming year. The assistance budget for 2002 is NIS 5.4 billion (in current prices, including revenue dependent expenditure)-NIS 1.8 billion for grants and NIS 3.6 billion for loans-3 percent more than in 2001.

Figure 3. Performance of Housing Purchase Assistance Budget, 1995-2000
NIS millions, 2000 prices



Note: The data for 2001 and 2002 are *budget* data, not performance data.

Source: Adva Center analysis of Ministry of Finance, *Budget Proposal for Fiscal Year 2002 and Explanatory Notes, Ministry of Construction and Housing;* and Ministry of Finance, Accountant General, *Financial Statement,* various years.

The preceding graph shows how the performance of the housing purchase assistance budget changed between 1995 and 2000. As we see, the assistance expenditure decreased after 1996. The decline reflects the fact that most immigrants who came in the first half of the 1990s had already taken up their eligibility. However, it also reflects the erosion that has occurred in the real value of government mortgages. Despite an adjustment in August 1998, and despite the decline in housing prices since 1998, the share of the government mortgage in the total credit that homebuyers take (government mortgage plus supplemental loan from a mortgage bank) has been decreasing steadily. In 1994, government mortgages covered 38 percent of the total credit taken for home purchase; in 2000, this proportion declined to 25 percent (ibid.: 70).

The devaluation of the government mortgage, coupled with the increase (since 1998) in interest for some mortgage eligibles, has contributed to a decrease in takeup of government mortgages since 1996, as can be seen in the table below. The recession that began at the time of the second Intifadah in September 2000 has also played a role in the decline in the number of households that acquire housing with the assistance of a government mortgage.

The decrease in mortgage takeup might have been even steeper had it not been for the promotion of purchases by public housing tenants. In 1999, 926 tenants purchased their dwellings in this promotional campaign; in 2000, another 2,600 did so (Ministry of Construction and Housing, *Monthly Information,* August 2001: p. 7.)

Table 6. Takeup of Government Mortgages, 1996-2000

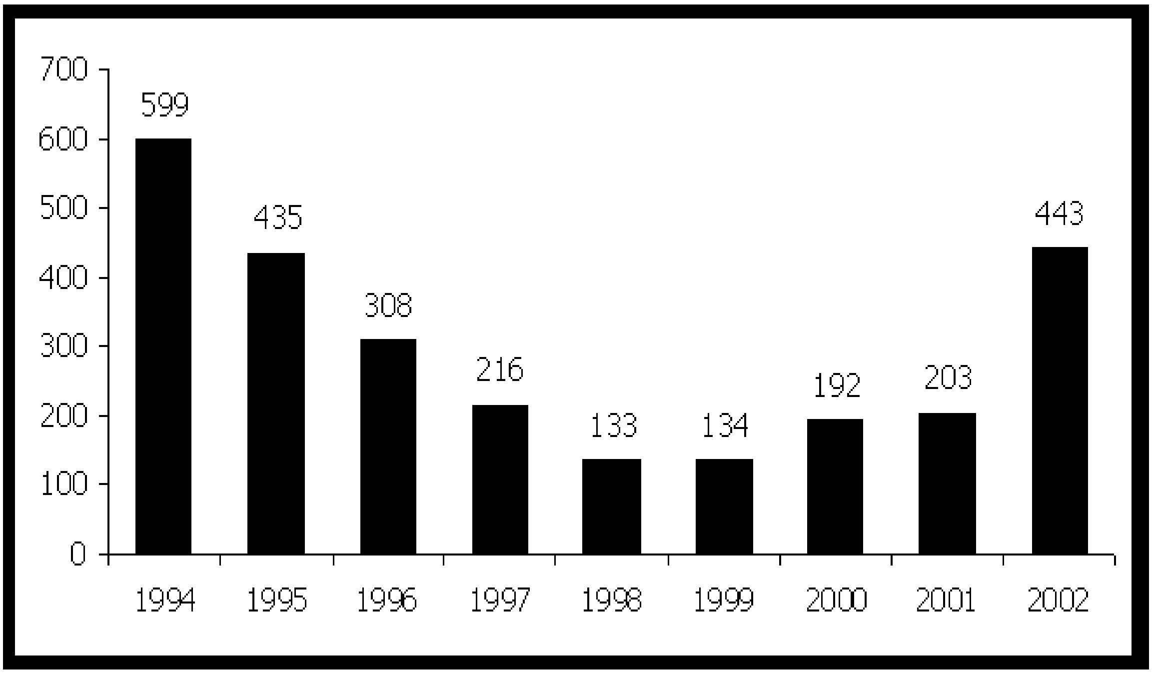
Year	**Takeup (households)**
1996	54,962
1997	45,578
1998	41,062
1999	40,241
2000	38,518

Source: Ministry of Construction and Housing, *Monthly Information,* August 2001, p. 33.

Mortgage Program for Ethiopian Immigrants

In 1993 (after Operation Solomon), the Ministry of Immigrant Absorption under Yair Tsaban put together a special mortgage plan for Ethiopian immigrants. The plan entitled them to a government mortgage of up to $110,000, enough to cover up to 99 percent of the dwelling price. The monthly payback was relatively low, and most of the loan was to eventually become a grant. Immigration from Ethiopia has so far continued and was approximately 3,300 people in 2001 (Ministry of Absorption, January 2001). Furthermore, the rate of takeup of government mortgages by Ethiopian immigrants is expected to be 2.3 times higher in 2001 than in 2000 (1,300 households as against 550 in the respective years). The Finance Ministry estimates that in 2002, 1,500 Ethiopian-origin households will take up government mortgages (ibid.). Accordingly, the allocation for Ethiopian immigrants' mortgages in 2002 is 118 percent higher than that in the 2001 draft budget, at NIS 465 million (in current prices).

Figure 4: Mortgage Budget for Ethiopian Immigrants, 1994-2002
NIS millions, 2000 prices



Source: Adva Center analysis of Ministry of Finance, *Budget Proposal for Fiscal Year 2002 and Explanatory Notes, Ministry of Construction and Housing,* October 2001*;* and Ministry of Finance, *Budget Provisions, Ministry of Construction and Housing,* various years.

Extra Assistance in Selected Localities

In June 2001, the Cabinet, wishing to stimulate the housing market (especially in National Priority Areas), announced a special promotion: extra assistance for Ministry of Construction and Housing eligibles who buy dwellings in selected localities. The list included seventeen localities and two Jerusalem neighborhoods: Pisgat Ze'ev and Har Homa. The localities are Or Akiva, Ariel, Ashdod, Beit Shemesh, Upper Beitar, Tiberias, Kokhav Yaakov, Karmiel, Migdal ha-'Emek, Upper Modi'in, Ma'ale Adummim, Giv'at Ze'ev, Nazareth, Upper Nazareth, Safed, Kiryat Shemona, and Harish. The operation was to last until mid-October 2001.

The localities chosen met three of the following five conditions: they had National Priority Area status; they were ranked in clusters 1-3 on the socioeconomic scale; they had a large stock of unsold dwellings; they contained land available for sale; they experienced a recession in the sale of dwellings because of the security situation (private communication from Dr. Chaim Pialkov, Ministry of Construction and Housing, November 12, 2001).

During the four-month promotion, purchasers in most localities were offered a further NIS 50,000 in assistance, half as a loan and half as a conditional grant. Homebuyers in Pisgat Ze'ev and Har Homa were offered an extra NIS 100,000, including half in the form of a conditional grant. Those in Beersheva and Ashkelon were offered an extra NIS 10,000 (homebuyers in these localities received supplemental assistance under the Negev Law) (details provided by the Tenanting Division, Ministry of Construction and Housing, November 9, 2001).

Preliminary data show that the promotion did induce more people to purchase housing with the assistance of government mortgages (Ministry of Construction and Housing, *Monthly Information*: p. 30). The promotion was extended to November and December, but the extra increment was reduced by 10 percent in November and 20 percent in December (Tenanting Division, Ministry of Construction and Housing, November 9, 2001).

The promotion also included an extra benefit: persons buying dwellings in National Priority localities and Jerusalem were given an additional NIS 50,000 loan at 4 percent subsidized interest.

The Negev Law

Since the Negev Law was enacted, Construction and Housing Ministry eligibles who are defined as non-homeowners and who buy a dwelling in the Negev have received a mortgage supplement of NIS 40,000-NIS 70,000 (since April 2001), half as a conditional grant. The Negev is defined to include Ashkelon and Kiryat Gat (Ministry of Construction and Housing, *Monthly Information*: 39).

Mortgage Programs for the Arab Sector

The five-year plan for the Arab sector provides a supplement for development in view of needs but makes no mention of the housing needs of young couples. Only one Arab locality, Nazareth, appears on the list of localities that qualify for increased locality assistance, and Nazareth appears on the list only because the Association for Civil Rights in Israel intervened.

Adva Center repeats its recommendation: the government should scrap its policy of determining National Priority Areas in accordance with the political persuasions of the party in power. Instead, national priority should be based on the localities' socioeconomic profile. If this recommendation is adopted, the assistance budget of the Ministry of Construction and Housing, earmarked for National Priority Areas, could become an effective instrument in enhancing equality in the housing conditions of Israelis.

Rent Subsidies

Home ownership is the Israeli norm; in 1999, 69 percent of households countrywide lived in dwellings that they owned (Central Bureau of Statistics, *Household Expenditure Survey, 1999,* April 2001). Recent immigrants from the former Soviet Union, who received more assistance than Israeli-born eligibles for housing assistance, acquired housing at even higher rates. The rate of housing ownership rises commensurably with length of residence in the country-51 percent among immigrants who have been in Israel for three or four years and 90 percent among those who have been in Israel nine or ten years (Ministry of Finance, *Budget Proposal for Fiscal Year 2002 and Explanatory Notes, Ministry of Construction and Housing,* October 2001:

65). Ethiopian immigrants also receive increased assistance and had a high rate of home ownership.

Israelis who cannot afford the expense of homebuying or have not yet accumulated enough savings for this purpose-recent immigrants, by and large-can ask the government for rent assistance. In December 2000, 183,470 households received such assistance, 7 percent more than in 1999 (Ministry of Construction and Housing, *Monthly Information*: 41). Eighty percent of eligibles for this benefit were recent immigrants; the others included recipients of subsistence benefits and single mothers. The level of assistance is low relative to Israel rent levels: from NIS 100 to NIS 1,170 per month.

Table 7: Rent Subsidy Recipients, 1992-2000
Households

Year	Rent subsidy recipients	Thereof	
		Nonimmigrants	**Immigrants**
1992	144,238	24,632	119,606
1993	142,265	22,967	119,298
1994	142,296	25,102	117,194
1995	140,647	27,498	113,149
1996	143,701	29,889	113,812
1997	151,864	37,372	114,492
1998	163,051	33,577	129,474
1999	170,995	35,580	135,416
2000	183,466	37,381	146,085

Source: Ministry of Construction and Housing, *Monthly Information,* August 2001: 34.

As the table shows, the number of rent-subsidy recipients climbed in the second half of the 1990s. The upturn in the number of recent immigrants entitled to this benefit of course corresponds to levels of immigration. The increase in nonimmigrant recipients of the benefit may correspond to an upturn in the number of nonimmigrant households that receive subsistence benefits. That, in turn, is a function of the unemployment rate, among other factors.

The rent-subsidy budget for 2002 is NIS 1,582 billion (current prices), 18 percent more in real terms than the previous year's budget. Of this sum, NIS 1.193 billion (in current prices) is earmarked for recent immigrants (14 percent more than last year) and NIS 355 million (in current prices) is for nonimmigrants (35 percent more than in 2001). (The rest is earmarked for sliding-scale rent in public housing and sheltered housing for the elderly, at NIS 9 million and NIS 24 million, respectively.)

Immigrants are eligible for five years of declining rent subsidy after they immigrate; single-parent families are eligible for a sixth year (Ministry of Finance, *Budget Proposal for Fiscal Year 2002, Ministry of Construction and Housing,* October 2001: 85-86).

Nonimmigrant young couples who do not own dwellings are eligible for the rent subsidy if they have 1,400 points or more. As stated, the number of points is a function of the number of years a couple has been married, the number of children they have and number of siblings of each spouse. Households that receive subsistence benefits are also eligible for the rent subsidy (ibid.: 86).

Non-homeowning households that receive subsistence benefits are eligible for a rent subsidy without any additional test. Such households are eligible whether they receive the full benefit or an "income supplement" due to low wages. In such cases, eligible households may have higher incomes than ineligible households. To correct this distortion, the Ministry of Construction and Housing proposed that automatic eligibility be replaced by a standard income test for all households that apply for the subsidy. Such a change may increase the number of eligible households. In contrast, officials at the Finance Ministry proposed doing away with the automatic linkage of subsistence benefits to rent subsidy and subjecting the recipients of the benefit, but not the population at large, to an income test. This would reduce the number of eligibles for rent subsidy. In August 2000, the Cabinet decided in favor of the Finance Ministry's view. Its decision appears in the budget book of the Ministry of Construction and Housing for the years 2000 and 2001. For the time being, the ministry has not taken steps to implement the decision.

Budgets for Arab Citizens

Persons who have not served in the army are eligible for only 62.5 percent of the homebuying assistance given to couples who have done full service (Adva Center, *The 2000 State Budget and Israel's Arab Citizens,* 1999: 6). Practically speaking, this yardstick creates two different mortgage tracks, one for Jews and one for Arabs, since very few Arabs serve in the Israel Defence Forces. Furthermore, in groups that do enlist-Druze, Bedouin, and a small minority of Muslims-only the men serve. Thus, these homebuying couples are eligible for only half of the supplement given to Jewish couples in which both spouses are army veterans.

Therefore, it is not surprising that Arab households are underrepresented among households that take up their eligibility for government housing loans. Furthermore, while most Jewish households that exercise their mortgage eligibility do so within two years of having married, it takes Arab families longer-five to ten years in 30 percent of cases and ten years or more in another 31 percent (ibid.: 7). An Adva Center study for the year 2000 showed that Jewish and Arab localities have different mortgage takeup rates: 2.2 percent and 1.4 percent, respectively (Etti Konur, *Takeup of Government Mortgages by District, Locality, and Selected Groups: 2000*, Adva Center, September 2001: 6).

These figures point to the urgent need to create a special program to help young Arab couples purchase housing. Such a program should include, as a point of departure, the equalization of housing loans for persons who have not served in the army. Surprisingly, the *Multiannual Plan for Development of Arab-Sector Localities,* unveiled by the government in October 2000, contains no such proposal.

The Ministry sets aside a special budget for construction of public institutions, Project Renewal, and infrastructure development in Arab, Bedouin, Druze and Circassian communities. This budget amounts to NIS 96.7 million in 2002 (regular expenditure in current prices), an increase of 218.5 percent relative to 2001, and NIS 232 million (spending authorization in current prices), up 70 percent. According to the *Multiannual Plan for Development of Arab-Sector Localities,* NIS 70 million will be spent on development of public institutions and NIS 37 million on infrastructure development in existing neighborhoods (Ministry of Finance, *Budget Proposal for Fiscal Year 2002, Ministry of Construction and Housing,* October 2001: 98).

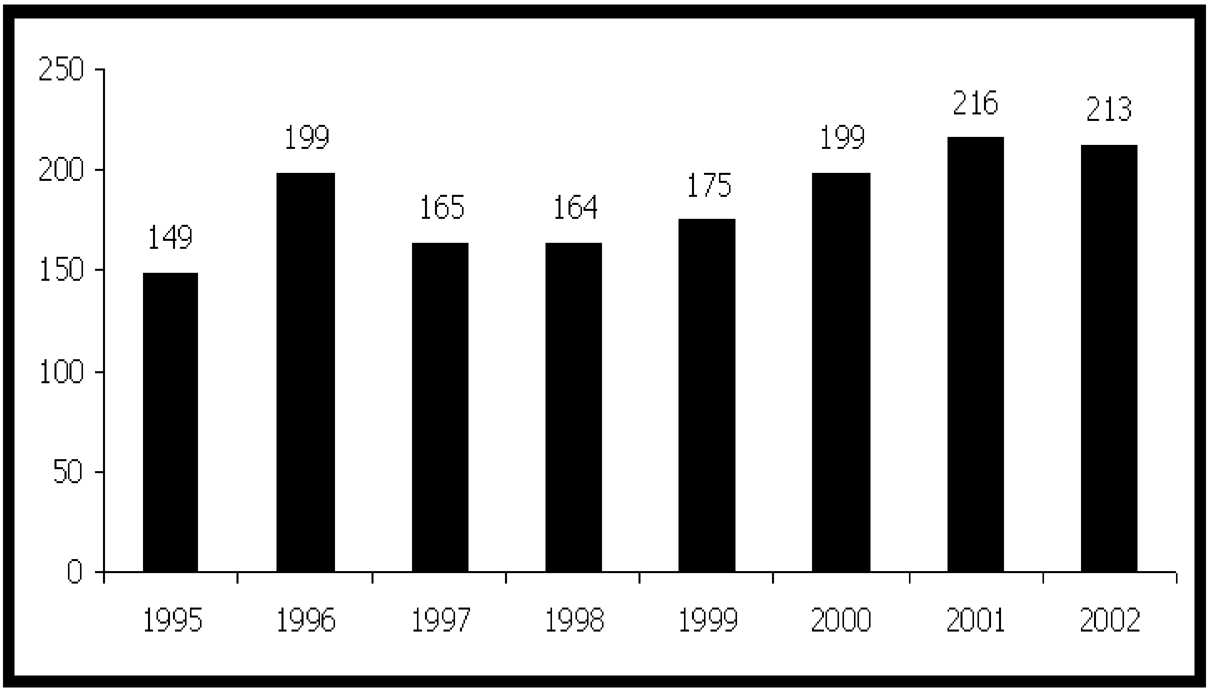
Finally, according to the Budget Book, NIS 3.3 million was allocated during 2001 to complete and construct public institutions in Negev Bedouin localities, and "the extent of activity in 2002 is expected to resemble that in 2001" (ibid.).

MINISTRY OF THE ENVIRONMENT

The 2002 budget of the Ministry of the Environment is NIS 223.4 million (in current prices) plus NIS 14.2 million in revenue dependent expenditure. The 2002 budget is 1.6 percent lower than the 2001 budget.

Apart from a nonrecurrent hike in 1996 (originating in an increase for transport and burial of solid waste and for subsidization of industrial enterprises' investments in the quality of the environmental quality -- an increase that was largely wiped out the next year), the Ministry's budget had been rising until 2001. The 2002 budget brings this welcome trend to a halt.

Figure 5. Budget of the Ministry of the Environment, 1995-2002
NIS millions, 2000 prices



Note: the Finance Ministry has agreed to transfer additional sums to the Ministry of the Environment; these sums are not included here because they do not belong to the budget base and no decision about their use has been made.

Source: Adva Center analysis of Ministry of Finance, *Budget Provisions, Ministry of the Environment, 1995-2001;* Ministry of Finance, *Budget Provisions, Ministry of the Environment, 2002.*

Changes in the Budget

Most lines in the Ministry's budget are being cut by 1-3 percent in real terms. Two items will receive increased funding.

(1) The only meaningful increase is NIS 11 million for revitalization of watercourses.

(2) A second increase, at NIS 2.4 million, will allow the Regulation and Enforcement Division to increase its staff by 10 percent.

There is also an NIS 15 million increase in spending authorization for "Professional Projects." The title of this line is vague because no decision about the essence of these projects has been made.

The most obvious cutbacks are the following:

(1) The budget of the Hazardous Materials Division has been cut because of a decrease in the budget for toxic waste treatment at the Ramat Hovav site.

(2) The budget of the Marine Pollution Prevention Fund, budgeted in the form of revenue dependent expenditure (derived from polluters' fees), was cut from NIS 10 million in 2001 to NIS 6 million in 2002.

(3) The grant budget for local governments and statutory entities was cut by NIS 2 million due to the completion of several environmental projects.

Environmental problems have festered due to years of neglect.

The environmental issue has received inadequate attention for many years; environmental considerations have hardly figured in Israel's decision making process. For example, it has been policy to prefer private over public transport and, in public transport, to prefer buses over railroads. (See below, "Interurban Transport Infrastructure.")

In recent years, however, environmental issues have begun to force their way onto the public agenda, mainly due to the efforts of Green organizations. In many developed countries, especially those in Western Europe, the environmental cause has been gathering momentum and become one of the most meaningful issues on the public agenda.

To deal with Israel's environmental concerns comprehensively, all policymakers in the fields of planning, development, and production have to revise their way of thinking. The Ministry of the Environment cannot do it alone. However, the Ministry's function is to spearhead the promotion of environmental action, place it on the government's agenda, so that it becomes part of the decision making processes.

What the Ministry of the Environment Does

The Ministry of the Environment does several things that require large budgets- rehabilitation and treatment of deactivated waste disposal sites as well as development and upgrading of active sites. For the most part, however, it inspects, enforces, and promotes environmental regulations and laws. Although most of these activities are not budget intensive, their importance for the quality of life of the public at large is vast.

Below are several examples of actions that require government funding but are getting very little.

Environmental Education

Environmental education is important at all ages. Environmental education in preschools and higher levels helps young people to develop an environmental awareness that may affect their behavior patterns later in life. To promote environmental education, it is necessary to prepare school curricula and train teachers.

It is also necessary to encourage institutes of higher learning to include environmental studies in their teaching and research programs.

To promote causes such as hygiene maintenance, separation of waste, and use of public transport, comprehensive information efforts and enhancement of public awareness are needed. The success of programs such as the collection of plastic bottles shows that the public is eager to participate in environmental projects.

The 2002 budget for education and information is NIS 5 million (in current prices). Between 1995 and 2002, it totaled less than NIS 28 million (in 2000 prices).

Research and Development

Environmental R&D is important for two reasons:

> 1) If more data are gathered and analyzed, decision-making will become more effective, and appropriate legislation and standards will be easier to promote. More extensive information will encourage correct environmental economic considerations in future development plans.
>
> 2) R&D can further the development of new and environment-friendly technologies that permit more efficient use of energy, recycling of waste, lower recycling costs, and the development of methods to reduce pollution caused by the use of obsolete technologies.

Support for the development of technology may also be economically valuable. Global demand for environment-friendly technologies and more efficient energy use is immense and rapidly expanding. The Israeli economy, with its comparative advantage in high-tech, may move itself ahead by redirecting and pledging resources to advanced environmental R&D.

The 2002 budget allocates NIS 3 million for environmental impact statements and studies.

Inspection and Enforcement

The Ministry of the Environment inspects and carries out enforcement measures against polluters of water, soil, air and the sea. It also issues licenses, performs inspection, and enforces laws vis-a-vis major radiation and noise polluters; entities that use, generate and sell hazardous materials, etc. In many cases, responsibility for inspection and enforcement belongs to other government ministries, including, but not limited to, Transport, Interior, and Health.

Air Pollution

Israel's environment standards are based mainly on recommendations of the World Health Organization and cover twenty-one gases and particulates that pollute the air.

Most of Israel's air-quality standards are reasonable and approximate those of environmentally advanced countries. However, a few new standards are needed (Flickstein, et al., "Air Quality," in Yoram Avnimelech, *National Priorities in Environmental Quality in Israel,* Samuel Neeman Institute, June 1999):

1) minute particulates-PM 2.5 (the United States introduced a standard of this type in 1997);

2) a specific standard for NO_2;

3) standards for organic compounds, mainly benzene, teluene, and xylene.

A nationwide passive monitoring system for air quality became operative last year and is supposed to eliminate inadequacies in air monitoring and quality of testing and to present the public with its findings.

Air pollution caused by vehicular emissions is Israel's main environmental problem. The quality of Israel's gasoline and diesel fuel, two of the main culprits, is rather poor. Studies have shown strong links between vehicle air pollution and severe hazards to public health, especially pediatric pulmonary diseases (see Eileen Fletcher, *Road Transport, Environment, and Equity in Israel,* Adva Center, January 1999). According to recent reports, the Knesset Constitution Committee approved hefty fines for polluting vehicles. To date, enforcement of regulations concerning vehicle exhaust systems and catalytic converters is nil. Inspection of the vehicle licensing garages needs to be toughened so that they will perform the relevant tests. This aspect of regulation comes under the jurisdiction of the Ministry of Transport.

The 2002 budget for national passive monitoring of air quality is NIS 7 million.

Hazardous Materials

Treatment of hazardous materials is fragmented among **twelve** different government offices (Ministry of the Environment, *Environmental Quality in Israel, Annual Report*, 1998: 22)-a situation that impedes coordination and standardized and systematic regulation and enforcement.

The Ministry of the Environment regulates handlers of hazardous materials, issues permits for such handling, and places teams in the field to deal with incidents involving these substances. The Ministry has also established a National Center for the Study of Hazardous Materials.

Problems involving hazardous materials may occur at various stages: in production, storage, and treatment of waste generated as part of the manufacturing process, on the one hand, and when hazardous materials are transported, on the other.

In respect to production and storage, regulation is needed to ensure that industrial users of hazardous materials apply advance technologies and treat the resulting hazardous waste in house, in order to reduce the danger that arises when they are transported to waste disposal sites. As for transport, safety should be regulated and enforced when roads are used, and advanced technologies should be applied to pinpoint leaks in underground pipes used for transport of wastes.

The 2002 budget for the Hazardous Materials Division and the National Center for Study of Hazardous Materials is NIS 11.4 million, plus NIS 0.1 million in revenue dependent expenditure.

The Mediterranean Sea and Coast

The Ministry of the Environment is responsible for the prevention of marine and coastal pollution. Most of the Ministry's activity is financed by the Prevention of Marine Pollution Fund. The fund gets its resources from fees charged to marine vessels and fuel terminals, fines for marine pollution offenses and reimbursement of expenses for cleaning up pollution.

Most legislation concerning the prevention of marine pollution is based on international treaties signed by Israel. However, Israel has not yet joined or ratified several important treaties because of disputes among various government offices. In this respect, Israel lags behind Western Europe and other developed countries (Prof. Yuval Cohen, "Marine and Coastal Areas," in Prof. Yoram Avnimelech, *National Priorities in Environmental Quality in Israel,* Position Paper, June 1999).

One of the main problems in marine pollution is the use of rivers for the discharge of chemicals into the Mediterranean. The Kishon River is a conspicuous case in point. Enforcement is problematic because responsibility for regulating the discharge of chemical waste into watercourses is fragmented among several agencies. Furthermore, agreed indicators that may serve as professional benchmarks in regard to marine discharge of effluent are lacking. Finally, regular monitoring needs to be expanded to make it possible to solve pollution and coastal damage problems effectively, make correct decisions concerning planning and development goals, and introduce legislative and administrative tools that will confront the problems appropriately and promote effective and correct policies on regulation and enforcement.

The Marine Pollution Prevention Fund is budgeted at NIS 6.2 million in revenue-dependent expenditure.

Groundwater

Israel's groundwater is susceptible to microbial pollution. Since groundwater is exposed to this hazard, treatment, inspection, and monitoring are needed. Development of tools for real time inspection of water quality is extremely important.

In addition to the need to situate wells far from sources of pollution, regulation is needed to spare groundwater from pollution due to waste disposal, agricultural effluent, pesticides, fuel residues, etc. Large fuel tanks, underground or on the surface, pose an additional risk to groundwater. The outdated technologies used in manufacturing these tanks make them highly susceptible to leakage. Leakage from such containers, which due to the absence of leak detection systems, may continue for lengthy periods of time before it is discovered, can inflict irreversible damage on groundwater.

The 2002 budget for the Water Pollution Prevention Division is NIS 17.5 million, a 300 percent increase over 2001.

Radiation

The Ministry of the Environment is involved in passive and active monitoring of sources of ionizing and non-ionizing radiation. The Ministry acts on the basis of international standards for electromagnetic radiation and is responsible for control and enforcement in these fields. The Ministry also licenses activities related to the discharge of electromagnetic radiation.

The budget for radiation control in 2002 is NIS 0.9 million in revenue-dependent expenditure, the revenue coming from radiation permit fees.

Economic Measures to Protect the Environment

The most efficient way to prevent environmental damage and encourage environmental protection by businesses is the application of economic measures.

Economic measures can act in two directions: an economic "stick," e.g., a fine against polluters, and an economic "carrot," i.e., support, such as grants or *short-term* subsidies, for companies that adopt more environmentally friendly ways of doing business.

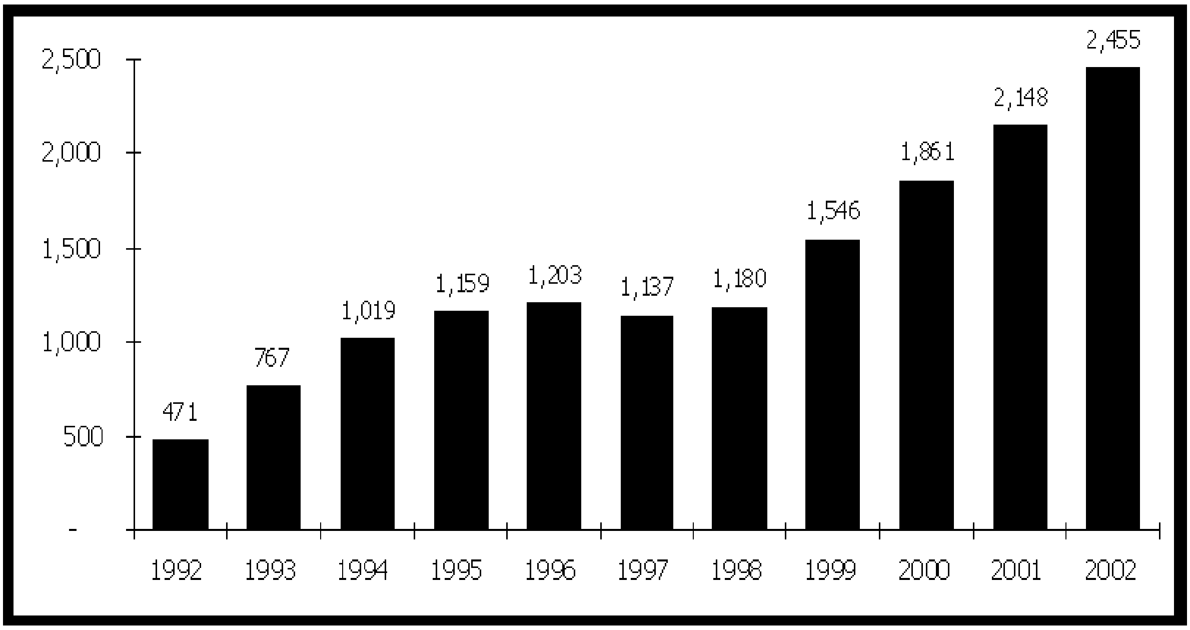
Over the past decade, several Western European countries have begun to impose *environment taxes.* Such a tax may be set, for example, commensurate with the level of pollution that a given polluter generates. This is one way to assimilate the costs of environmental damage into the prices of final products. In some countries, revenues from these fines are used to reduce income taxes.

This type of taxation helps to reduce destructive activities such as discharge of pollutants that harm the population and the environment and encourages investment in environmentally friendly technologies.

INTERURBAN TRANSPORT INFRASTRUCTURE

The development budget for interurban transport infrastructure (roads and railroads) is NIS 2.579 billion in 2002 (in current prices). The 2002 budget is 14 percent larger in real terms than the 2001 budget and marks the continuation of an uptrend that began in 1999, after several years of standstill.

Figure 6: Development Budget for Interurban Transport Infrastructure, 1992-2002
NIS millions, 2000 prices, deflated by the Roadbuilding Inputs Price Index



Source: Adva Center analysis of: 1992-1996-Ministry of Finance, *Budget Provisions, Ministry of Construction and Housing*; 1997-1999-*Budget Provisions, Ministry of National Infrastructures*; 2000-2001-*Budget Provisions, Ministry of Transport*; 2002-Ministry of Finance, *Budget Proposal for Fiscal Year 2002, Ministry of Transport.*

The Ministry of Finance views infrastructure investment as a way to achieve higher economic growth in the long term. Despite the increases noted above, however, the 2002 interurban infrastructure budget amounts to no more than 0.54 percent of the projected 2002 Gross Domestic Product (according to the Finance Ministry's growth estimate)-not much more than the levels of 0.48 percent in the 2001 budget and 0.41 in the 2000 budget. Thus, despite the public declarations to the contrary, the 2002 budget does not signal a meaningful change in policy.

Table 8. Gross Domestic Product and the Interurban Transport Infrastructure Budget, 2000-2002
NIS millions, current prices

	2000	2001	2002
GDP	458,204	460,495	478,915
Budget	1,861	2,202	2,579
Rate	0.41%	0.48%	0.54%

Note: The GDP estimates for 2001 and 2002 were computed on the basis on the Finance Ministry forecasts.

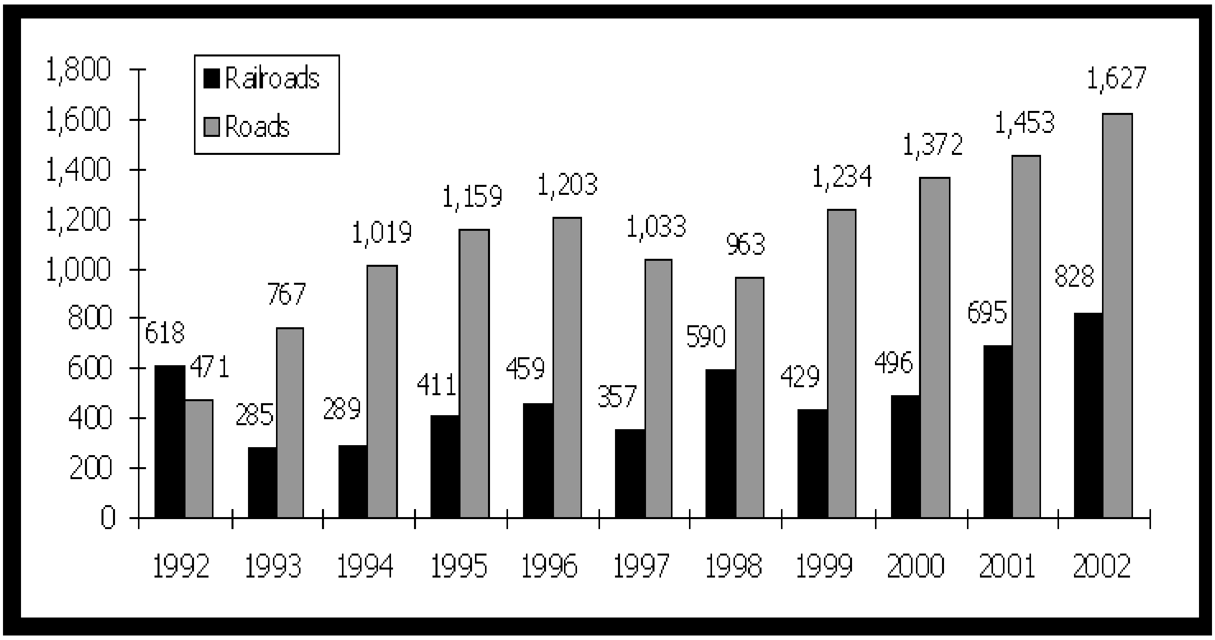
Source: Adva Center analysis of Bank of Israel, Office of the Prime Minister, and Ministry of Finance, *National Budget for 2002-2005,* Table 2; Ministry of Finance, *Budget Provisions, Ministry of Transport,* 2000 and 2001; and Ministry of Finance, *Budget Proposal for Fiscal Year 2002, Ministry of Transport.*

In terms of its road system, Israel lags far behind the world's most advanced countries. Traffic congestion (kilometers traveled per kilometer of road) far exceeds the Western standard. The resulting hardship will only worsen as the population rapidly grows and the motorization level (vehicles per capita), which is still low by international standards, rises. Israel's rail system is even farther behind, due to years of scanty investment and decades of policies that preferred bus transport over rail transport. Finally, Israel's large towns, foremost metropolitan Tel Aviv, lack mass-transit systems.

Interurban Roadbuilding vs. Railroads

The 2002 development budget for interurban transport infrastructure has two main components: NIS 1.709 billion for interurban roadbuilding and NIS 870 million for railroad development. The graph below illustrates how these budget lines have changed between 1992 and 2002. The trends in roadbuilding and railroad building were similar during that time, except for 1992 and 1998. The preference of road over rail transport is reflected in the ratio of investments between the two. Except for the two years mentioned above, railroad investment was stable at 28-38 percent of roadbuilding investment. Some improvement occurred in the 2001 and 2002 budgets, as large investments in rolling stock (cars and locomotives) boosted railroad investment to 48 percent and 51 percent of roadbuilding investment. These investments are projected to continue next year as well.

Figure 7. Interurban Roadbuilding Budget vs. Railroad Development Budget, 1992-2001
NIS millions, constant 2000 prices, deflated by the Roadbuilding Inputs Price Index



Source: Adva Center analysis of the following: 1992-1996-Ministry of Finance, *Budget Provisions, Ministry of Construction and Housing;* 1997-1999-Ministry of Finance, *Budget Provisions, Ministry of National Infrastructures;* 1992-1999-Israel Railways, Finance Division; 2000-2001-Ministry of Finance, *Budget Provisions, Ministry of Transport;* 2002-Ministry of Finance, *Budget Proposal for Fiscal Year 2002, Ministry of Transport.*

Many Western governments have long favored the development of railroads rather than roads for reasons of efficiency, conservation of resources and land, and environmental preservation.

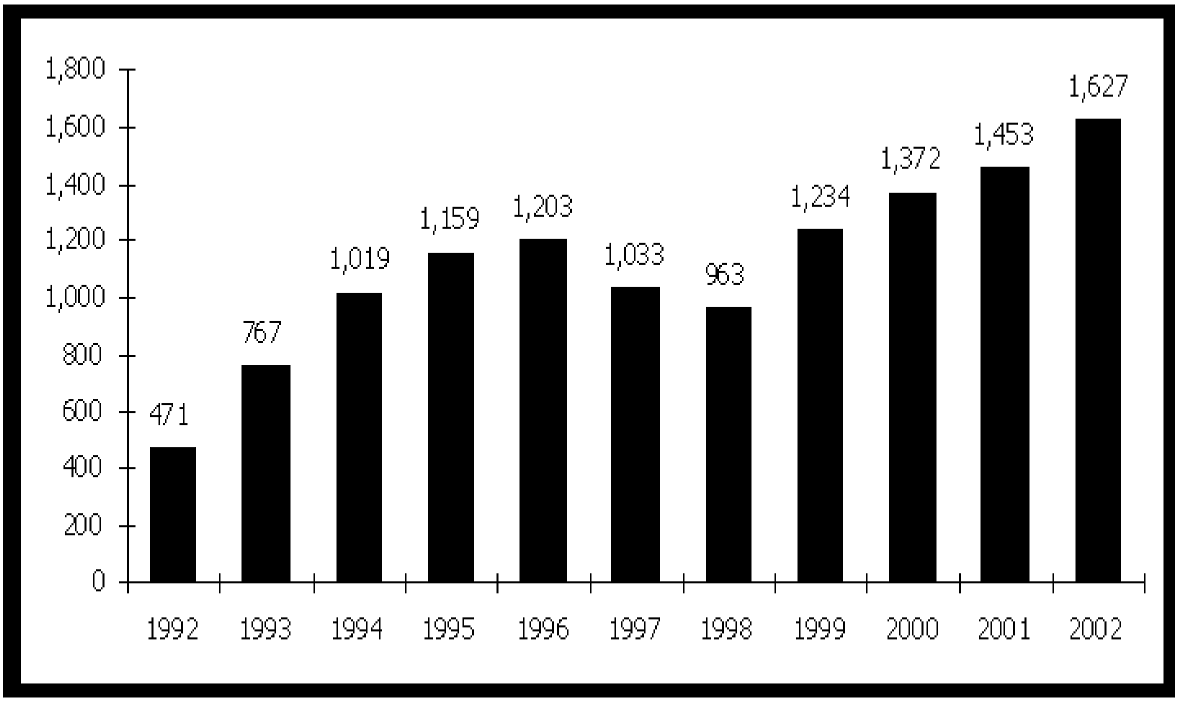
In Israel, governments continue to promote the old policy of roadbuilding and enhancing travel by private car or bus. Only in the past year or two has railroad investment increased, but not to an extent that would change priorities significantly. The single largest government transport project is the Cross-Israel Highway (Route 6); the government has no intention of creating a national trunk rail line.

Development Budget for Interurban Roads

The 2002 budget marks the continuation of an uptrend in interurban road investment that began in 1999 after half a decade of standstill. The 2002 budget enlarges this expenditure item by 12 percent in real terms.

Figure 12 shows the development budget of the Public Works Department for interurban roads in 1992-2001. The graph shows an increase in 1992-1996, a decrease in the two subsequent years, and another upturn starting in 1999.

Figure 8: Development Budget for Interurban Transport Infrastructure 1992-2002
NIS millions, 2000 prices, deflated by the Roadbuilding Inputs Price Index



Source: Adva Center analysis of the following: 1992-1996-Ministry of Finance, *Budget Provisions, Ministry of Construction and Housing*; 1997-1999-*Budget Provisions, Ministry of National Infrastructures*; 2000-2001-*Budget Provisions, Ministry of Transport*; 2002-Ministry of Finance, *Budget Proposal for Fiscal Year 2002, Ministry of Transport.*

Interurban Roadbuilding in 2002: Distribution by Districts and Sectors

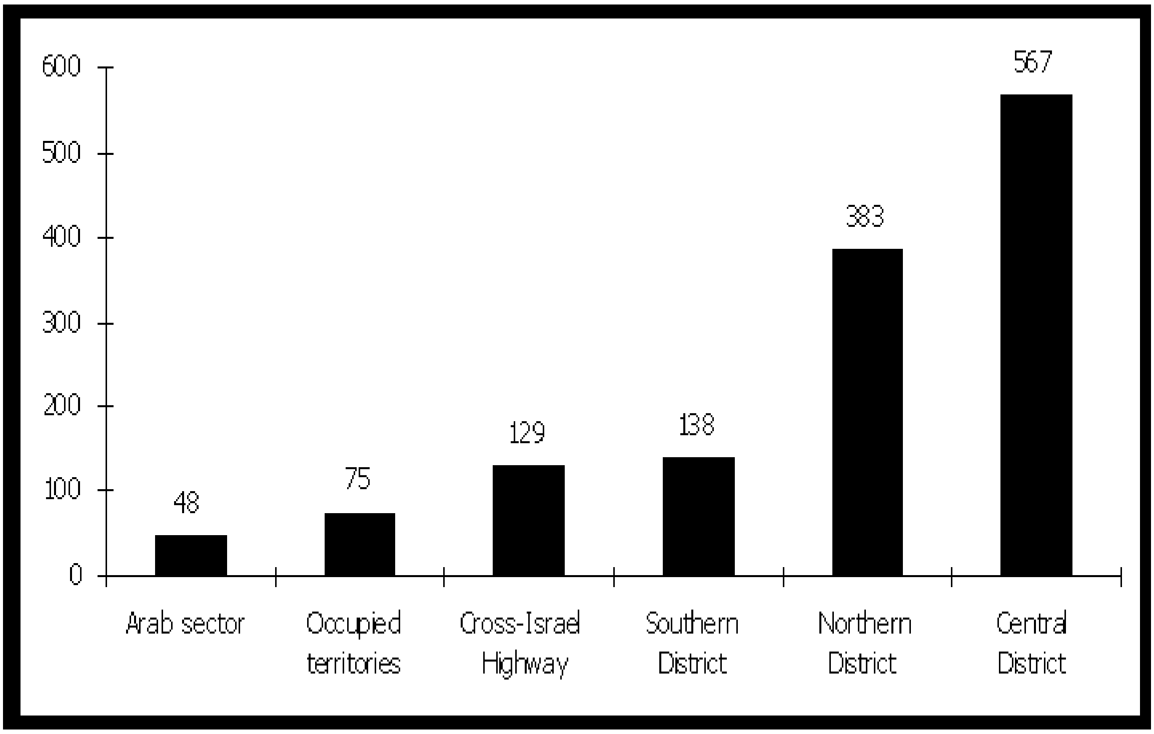
The graph below shows the internal breakdown of the Public Works Department budget for interurban roadbuilding in 2002. The largest sum is allocated to the Central District; the second largest to the Northern District.

Since the Cross-Israel Highway is being built by the B.O.T. method-private construction and investment-it is not supposed to burden the state budget. However, it still entails an NIS 129 million budget allocation, almost as large as the investment budget for the entire Southern District. This sum is meant for continued acquisition of land and removal of infrastructures along the route.

In the occupied territories, the interurban roadbuilding budget is lower in 2002 than in previous years but does not reflect the total expenditure because it excludes roadbuilding investments by the Ministry of Defense.

NIS 48 million is earmarked for interurban roadbuilding in the Arab sector.

Figure 9. Public Works Department, 2002 Interurban Roadbuilding Budget
NIS millions, constant 2000 prices, deflated by the Roadbuilding Inputs Price Index



Note: The figures do not include budgets for planning, promotion, right of way, and reserves.

Source: Adva Center analysis of Ministry of Finance, *Budget Proposal for Fiscal Year 2002, Ministry of Transport.*

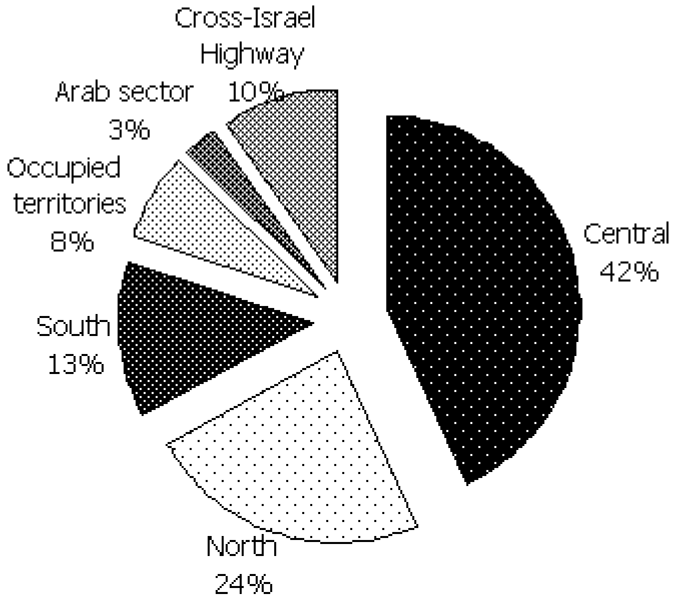
The pie chart below shows the internal breakdown of interurban roadbuilding budgets in 1992-2002 by districts. (The figures for the Cross-Israel Highway and the Arab sector pertain to 1994-2002 only.)

The Central District received the largest share (42 percent). The Northern District got slightly more than half of the Central District's portion, and the Southern District received less than one third of the Central District allocation.

Eight percent of the interurban roadbuilding budget was invested in the occupied territories. Notably, however, actual roadbuilding in the area is much more extensive than this because some of the cost is covered by the Defense Ministry budget. The Arab sector received only 3 percent of the total budget.

The Cross-Israel Highway is being built using the B.O.T. method (Build, Operate, Transfer), which has been described as a way to absolve the state budget of the burden of financing infrastructure construction. Even so, it claimed about 10 percent of the investment.

Figure 10. Interurban Roadbuilding Budget, Distribution by Sectors and Districts, 1992-2002



Source: Adva Center analysis of the following: 1992-1996-Ministry of Finance, *Budget Provisions, Ministry of Construction and Housing*; 1997-1999-*Budget Provisions, Ministry of National Infrastructures*; 2000-2001-*Budget Provisions, Ministry of Transport*; 2002-Ministry of Finance, *Budget Proposal for Fiscal Year 2002, Ministry of Transport.*

Trends in District-Level Budgets

The table below shows how the investment budgets for the various districts have changed since 1994. Notably, the comparison is of limited validity because it is overly sensitive when the sums are small and because a base year is used. However, it sheds light on the emphases in roadbuilding policy.

Table 9. Interurban Roadbuilding Budget, Distribution by Districts, 1994-2002
Index, 1994=100

	1994	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Total	100	93	94	90	85	103	123	133	140
Central	100	84	93	93	83	109	141	139	143
Northern	100	90	84	89	87	108	120	131	171
Southern	100	113	97	80	42	39	39	70	79
Territories	100	110	149	124	337	337	371	420	226

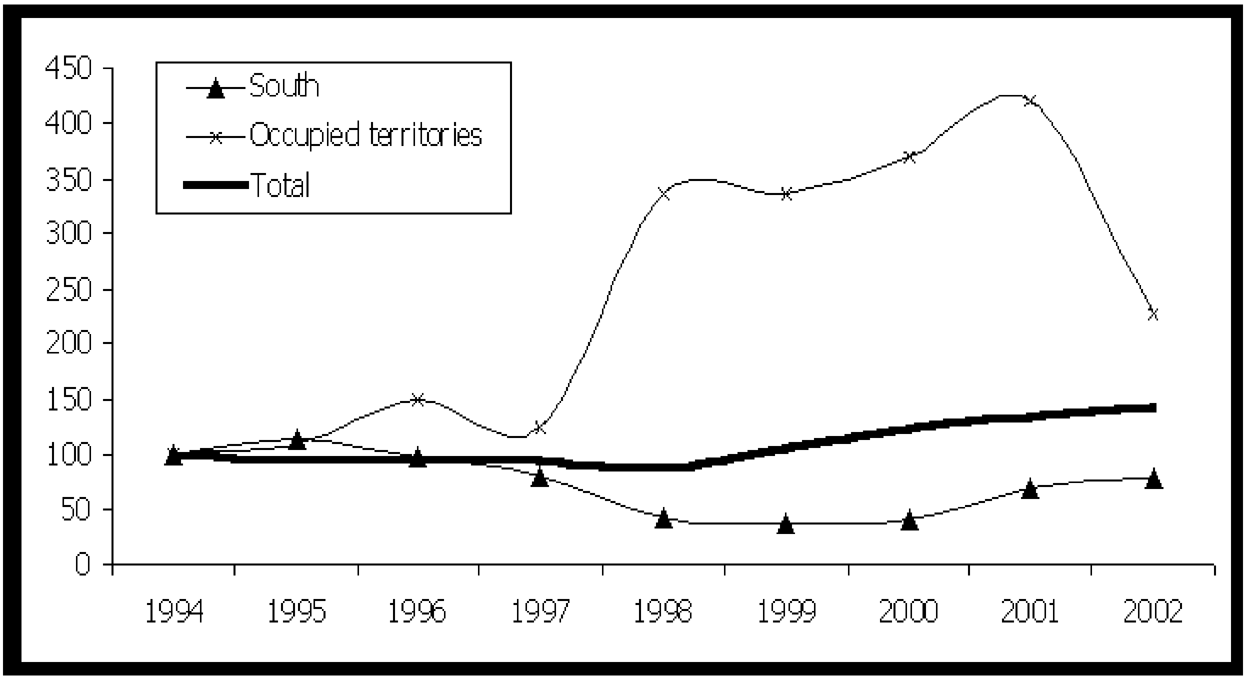
Note: The total is for the above four districts only.

Source: Adva Center analysis of the following: 1994-1996-Ministry of Finance, *Budget Provisions, Ministry of Construction and Housing*; 1997-1999-*Budget Provisions, Ministry of National Infrastructures*; 2000-2001-*Budget Provisions, Ministry of Transport*; 2002-Ministry of Finance, *Budget Proposal for Fiscal Year 2002, Ministry of Transport.*

The table shows how badly the Southern District has been underbudgeted since 1997, especially since interurban transport infrastructures had been lagging in this district previously. It also shows how the occupied territories have been favored over the years-a bias that is perpetuated in the 2002 budget, even though this budget is smaller than in previous years.

The graph below presents these indicators for two districts only-the occupied territories and the South-and shows the countrywide average for comparison purposes. This manner of presentation underscores the preference of the occupied territories and the underbudgeting of the Southern District.

Figure 11. Trends in Public Works Department Development Budgets for Interurban Roads, 1994-2002
Total, Southern District and Occupied Territories. Indices, 1994=100



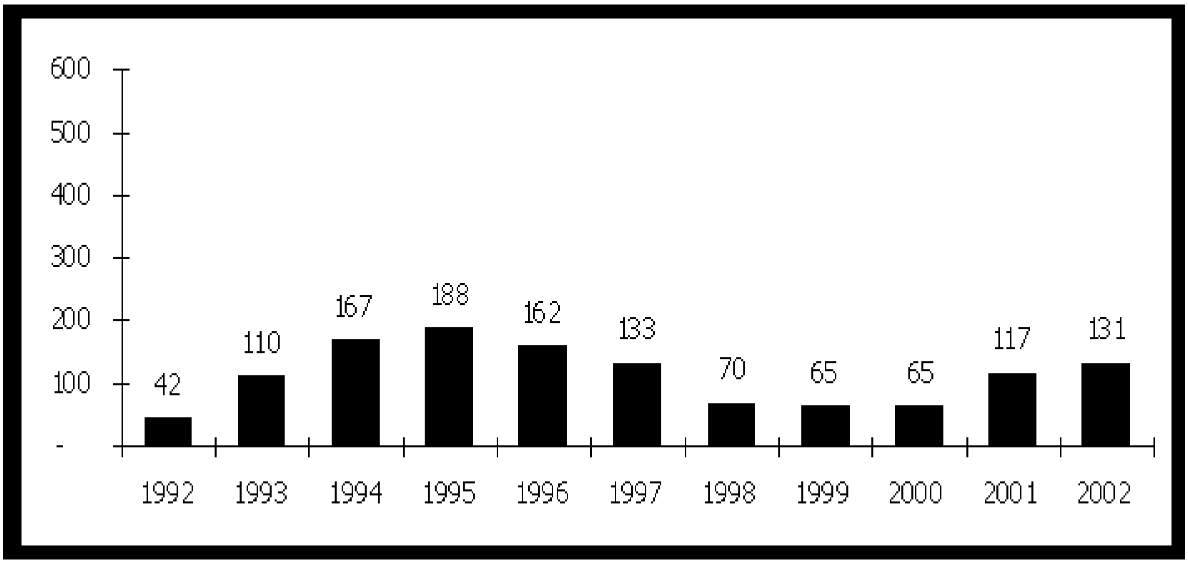
Below we examine the interurban roadbuilding budget trends in two districts and one sector-Southern District, the territories, and the Arab Sector-in greater detail.

Southern District

The 2002 interurban roadbuilding investment budget is NIS 138 million (in current prices), 12 percent larger in real terms than the 2001 budget.

The south experienced its heyday in roadbuilding in 1992-1995, when investment climbed by a factor of 4.5. It was a time of immigrant absorption, and masses of immigrants were referred to the Southern District. Consequently, homebuilding investment in the south was also brisk in the first half of the 1990s. A downtrend began in 1996 and continued through 2000. The trend reversed direction in 2001, when the budget was doubled. The 2000 budget also increased over 2001, but more slowly. In real terms, the 2002 investment budget still lags behind the mid-1990s level.

Figure 12. Interurban Roadbuilding Budget, Southern District, 1992-2002
NIS millions, constant 2000 prices, deflated by the Roadbuilding Inputs Price Index



Source: Adva Center analysis of the following: 1992-1996-Ministry of Finance, *Budget Provisions, Ministry of Construction and Housing*; 1997-1999-*Budget Provisions, Ministry of National Infrastructures*; 2000-2001-*Budget Provisions, Ministry of Transport*; 2002-Ministry of Finance, *Budget Proposal for Fiscal Year 2002, Ministry of Transport.*

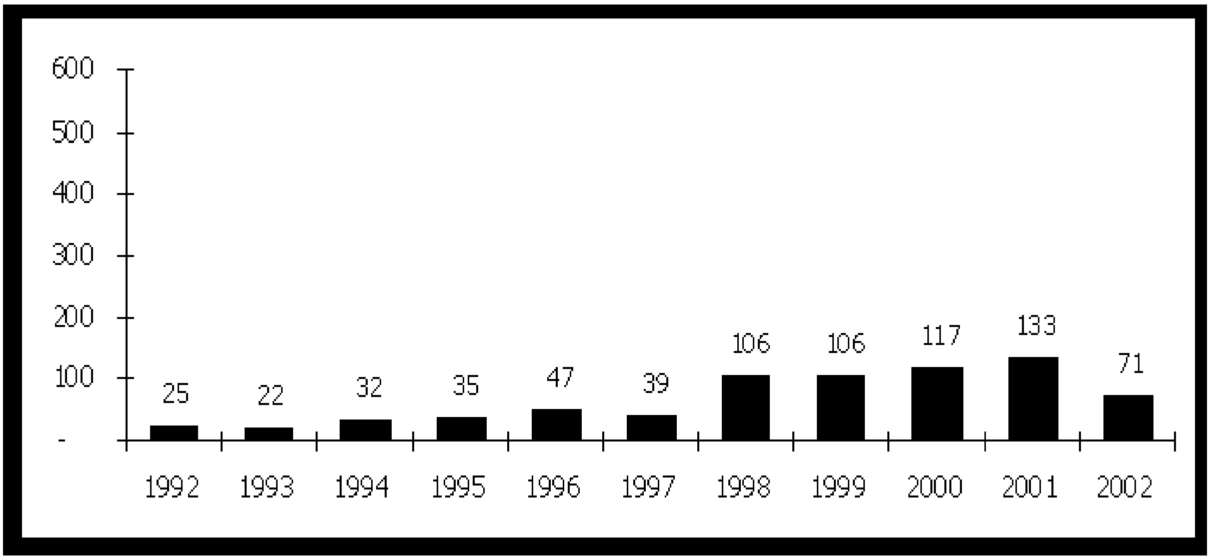
The Occupied Territories

The 2002 budget for interurban roadbuilding in the occupied territories, not including bypass roads and not including funding from the Defense Ministry, is NIS 75 million (in current prices), slightly more than half of the 2001 budget.

Over the past decade, roadbuilding investments in the territories increased at two main points in time: by 56 percent between 1992 and 1997 and by 172 percent in 1998. Investment continued to climb afterwards and peaked in 2001. The 2002 budget is smaller because several projects were completed in 2001.

The steep increase in 1998 traces to a series of new projects that, for the most part, began in the course of 1997 and appeared in the budget books in subsequent years. Notably, the additional increase in 2000-2001 does not originate in this factor but rather in a budget supplement for the completion of projects previously begun, except for the Eastern Loop Highway. The eastern loop project, designed to reinforce Israeli control of Eastern Jerusalem, is involved in controversy for reasons including the need to expropriate land in the eastern sector. For the time being, the project has been partly suspended.

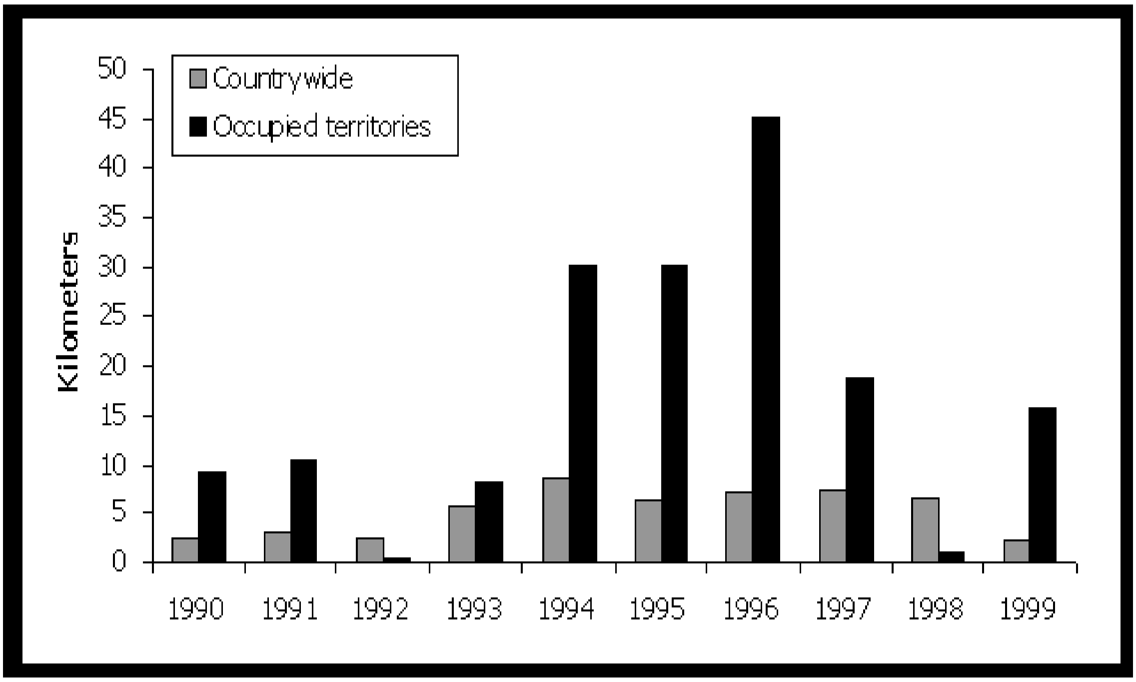
Figure 13. Interurban Roadbuilding Budget, Occupied Territories, 1992-2002
Not including bypass roads and Defense Ministry budgets
NIS millions, constant 2000 prices, deflated by the Roadbuilding Inputs Price Index



Source: Adva Center analysis of the following: 1992-1996-Ministry of Finance, *Budget Provisions, Ministry of Construction and Housing*; 1997-1999-*Budget Provisions, Ministry of National Infrastructures*; 2000-2001-*Budget Provisions, Ministry of Transport*; 2002-Ministry of Finance, *Budget Proposal for Fiscal Year 2002, Ministry of Transport*

The longstanding preference of the occupied territories is especially conspicuous when one uses the criterion of roadbuilding per 100,000 inhabitants (in the territories-Jews only). The graph below compares this ratio countrywide to that in the occupied territories and illuminates the preferential treatment given to the territories in all years except for 1992 and 1998. Investment was especially large in 1994-1996, following the Oslo agreement.

Figure 14. Construction of New Roads Relative to Population Size, 1990-1999
(Km. of road per 100,000 inhabitants)



Note: These investments are not reflected in the PWD budget, possibly because they are funded in part by the Ministry of Defense.

Source: Adva Center analysis of Central Bureau of Statistics, *Housing and Housing Conditions in Israel, 1990-1999,* p. 33

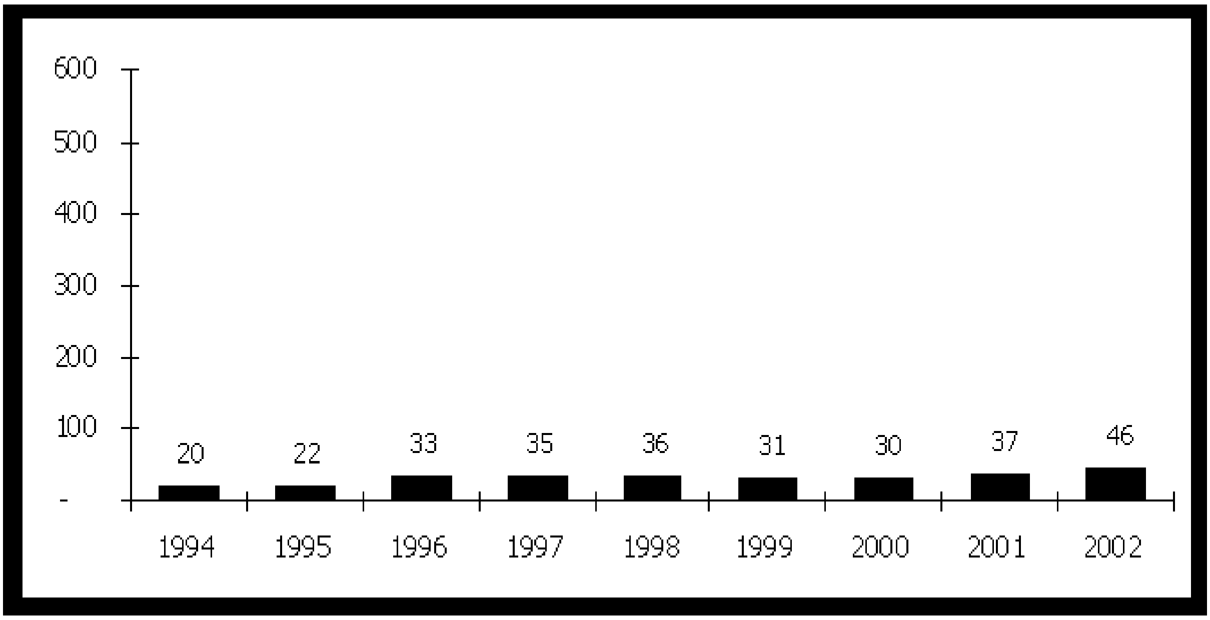
Arab Sector

The 2002 budget for construction of interurban roads specific to the Arab sector is NIS 48 million (in current prices).

Between 1996 and 2000, the annual budget ranged from of NIS 30 million to NIS 40 million. The 2002 budget is slightly higher.

The Arab sector has been disadvantaged over these years not only by the very low level of investments specifically earmarked for it but also by scanty roadbuilding budgets in the Northern and Southern Districts.

Figure 15. Interurban Roadbuilding Budget, Arab Sector, 1994-2002
NIS millions, constant 2000 prices, deflated by the Roadbuilding Inputs Price Index



Source: Adva Center analysis of the following: 1994-1996-Ministry of Finance, *Budget Provisions, Ministry of Construction and Housing*; 1997-1999-*Budget Provisions, Ministry of National Infrastructures*; 2000-2001-*Budget Provisions, Ministry of Transport*; 2002-Ministry of Finance, *Budget Proposal for Fiscal Year 2002, Ministry of Transport*

Israel Railways

Many Western countries favor the development of railroads over roadbuilding for reasons of efficiency, conservation of resources and land and environmental preservation. In Israel, rail transport is seriously lagging behind because the authorities have long preferred roads over railroads and buses over trains.

The opponents of railroad investment argue, among other things, that Israel lacks the critical mass of rail passengers that would justify the investments required to update rail transport.

The table below shows Israel Railway ridership in 1997-2000 and an estimate for 2001. The data disprove the argument about lack of critical mass and show that the ridership limits are to do lack of supply rather than the absence of demand. The vigorous growth rates attest to the potential for future growth of rail use and the centrality that the railroad can and should command in Israel's transport system, if decision makers give it the budgeting that it deserves.

Table 10. Israel Railways-Annual Ridership and Growth Rates, 1997-2001

	1997	**1998**	**1999**	**2000**	**2001**
Ridership	5,569,317	6,381,746	8,784,957	12,698,321	15,802,000
Growth rate	9%	15%	38%	45%	24%

Source: Adva Center analysis of data for 1997-2001, culled from the Israel Railways Web site. The 2001 figure is from Ministry of Finance, *Budget Proposal for Fiscal Year 2002, Ministry of Transport.*

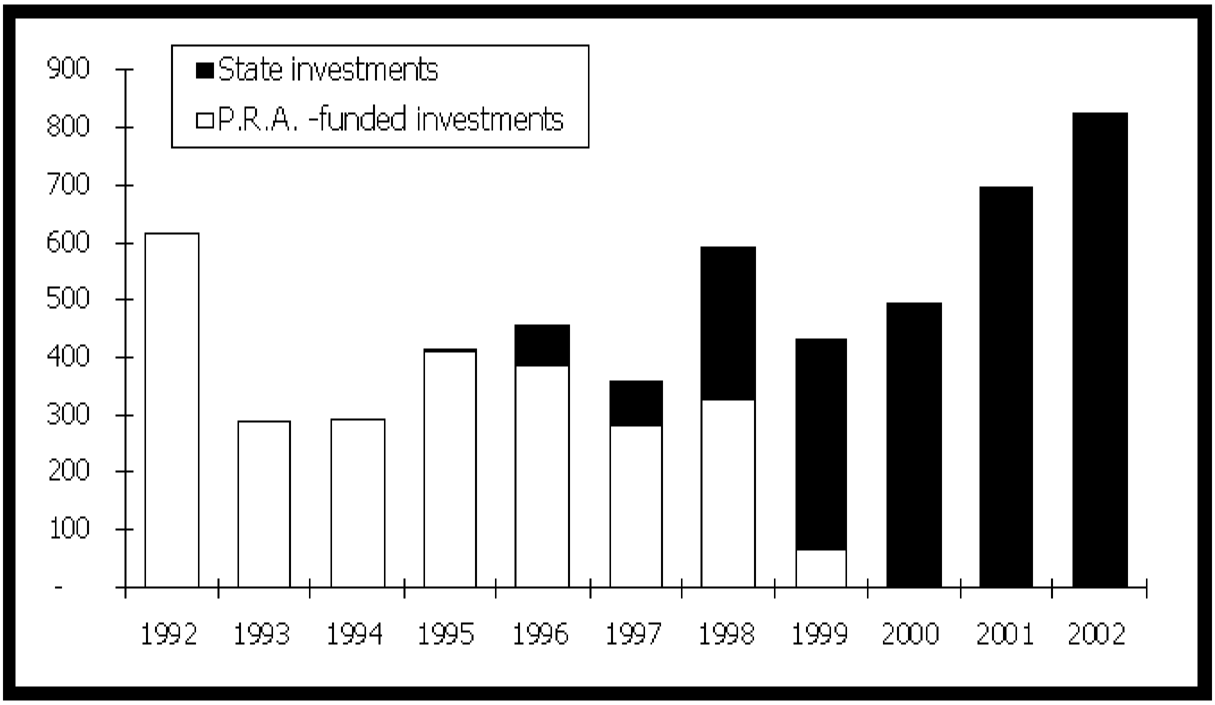
Railroad Development Budget

The 2002 budget for rail transport development is NIS 870 million (after subtraction of a planned payback of debt to the Ports and Railroads Authority on account of past investments). This budget, 19 percent higher than the 2001 budget, marks the continuation of the uptrend that began in 2000. In the 1990s, railroad investments had their ups and downs but the total investment was too small to change Israel's transport priorities.

The 2002 budget proposal includes an investment of NIS 222 million in rolling stock, part of a NIS 700 million investment that began with the 2001 budget and will continue in 2003.

The railroad investment budget includes NIS 8.5 million for progress toward the construction of a Kefar Sava-Tel Aviv line using the B.O.T. method.

Figure 16. Railroad Infrastructure Development Budgets, 1992-2001
NIS millions, constant 2000 prices, deflated by the Roadbuilding Inputs Price Index



Notes:

1, The large budget in 1992 traces to purchases of rolling stock and related equipment.

2. To prevent double recording, the data on state-funded investments in the graph do not include the payback of debts to the Ports and Railroads Authority

3. P.R.A.-Ports and Railroads Authority

Source: Adva Center analysis of 1992-1999-Israel Railways, Finance Division; 2000-2001-Ministry of Finance, *Budget Provisions, Ministry of Transport*

Government Transit Subsidies

The government influences the level of public transit and its use not only by providing budgets for roadbuilding and railroad construction but also by subsidizing passenger fares. The subsidy is divided up as follows:

a. **Bus subsidy:** The Ministry of Transport subsidizes passenger fares directly for the population at large and additionally for special population groups including the elderly, soldiers, teenagers and children. These subsidies, meant to serve public transit users, also serve the bus companies, mainly because businesses seldom lower the prices of their products by the full extent of the subsidy. In addition to its subsidization of fares, the government subsidizes the bus companies directly for the purchase of new buses. Finally, the government participates in repaying debts that the Egged and Dan bus companies incurred due to the financial crisis they suffered in the 1980s.

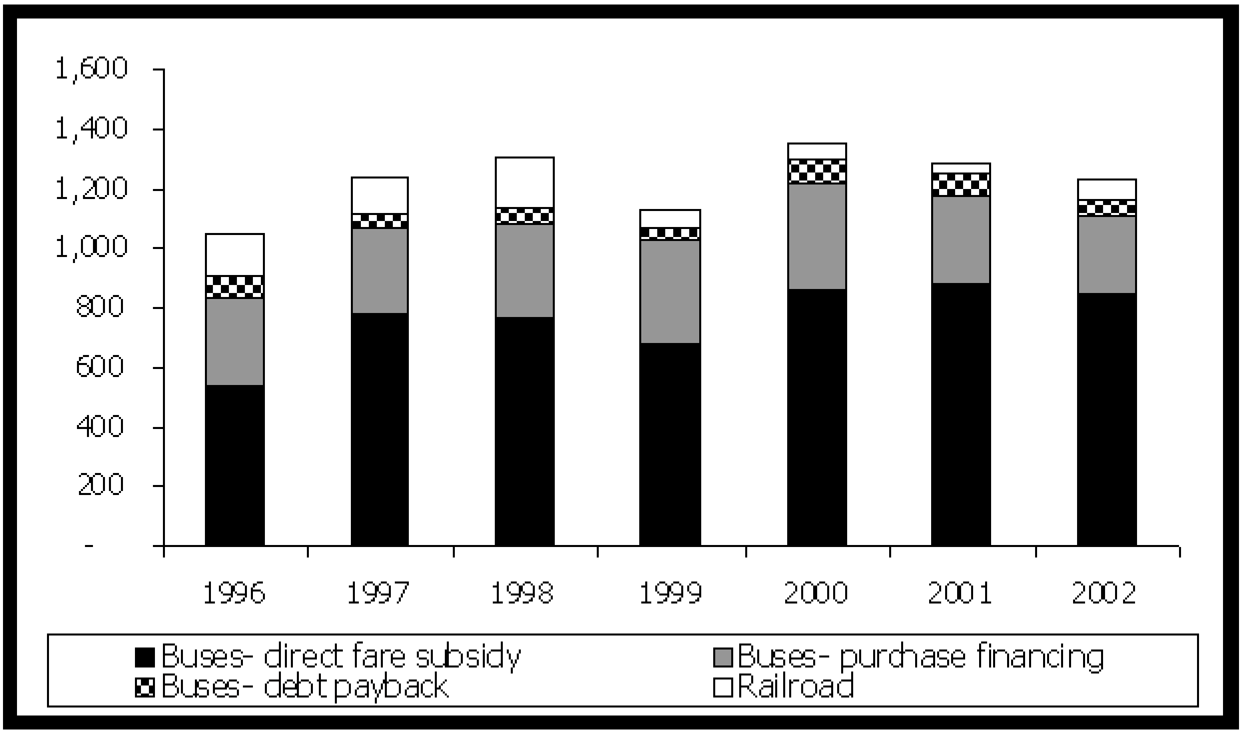
b. **Railroad subsidy:** The Ministry of Transport also supports railroad use by subsidizing passenger fares and by covering part of the Israel Railways deficit.

Bus Subsidy vs. Railroad Subsidy

A comparison of the ratio of bus subsidies to rail subsidies provides additional evidence of the preference of bus transport to rail. The 2002 budget includes a subsidy of NIS 1.22 billion for public bus transport-73 percent for direct subsidy of fares, 23 percent to subsidize the purchase of buses and 4 percent for payback of debts. In contrast, the railroad subsidy is only NIS 72.5 million.

In the 1996-2002 period, total subsidies increased markedly between 1996 and 1998. In 1999, total subsidies declined by 14 percent real terms because the railroad subsidy was slashed by about two-thirds that year. There was a 21 percent increase in 2000 relative to 1999 because bus subsidies grew vigorously while railroad subsidies were unchanged. The 2001 budget reduced public transport subsidies by 5 percent and the 2002 budget does the same.

Figure 17. Bus and Rail Subsidies, 1996-2002
NIS millions, 2000 prices, deflated by the Consumer Price Index



Source: Adva Center analysis of Ministry of Finance, *Budget Provisions, Basic Commodity and Farm Production Subsidies,* 1996-2001; Ministry of Finance, *Budget Proposal for Fiscal Year 2002, Basic Commodity and Farm Production Subsidies*

The table below shows the railroad subsidy budget as a percent of the bus subsidy budget. The comparison is problematic due to the vast differences between bus ridership and rail ridership. The differences in subsidy levels, however, actually influence the disparities in ridership and distort the utility that passengers gain by using the two alternatives, because the bus operators can provide better service and derive greater economic benefit from operating lines. This aside, the table shows the decrease in railroad subsidies (both in absolute terms and relative to the share of buses) in 1999-2001, even though train ridership increased rapidly during those years. The 2002 budget improves the ratio but leaves it far short of the 1998 level.

Table 11. Railroad Subsidy Budget as Percent of Bus Subsidy Budget

1996	**1997**	**1998**	**1999**	**2000**	**2001**
15.8%	11.2%	14.9%	5.4%	4.7%	3.1%

Source: Adva Center analysis of Ministry of Finance, *Budget Provisions, Basic Commodity and Farm Production Subsidies,* various years.

Infrastructure Investment Methods that "Bypass the Budget"

To avoid budget overruns and deficits, Great Britain has developed two ways of funding infrastructure investments that reduce the direct budget burden: B.O.T. and P.F.I. Under both methods, the private sector makes the investment and recoups it within a predetermined period of time-usually twenty to thirty years.

1. B.O.T. (Build, Operate, Transfer)-In this method, the franchisee (the party that tenders the winning bid) builds the infrastructure, operates it for a predetermined period, and then transfers the infrastructure to the state. The franchisee earns revenue by charging user fees (toll) during the operating period.

This method is being used to construct the Cross-Israel Highway and, according to plans, will be used for the Carmel Tunnel and additional transport projects.

Advantages:

- The state need not finance the investment from its budget.

- The project is built and operated by a private entity (the party that tenders the winning bid).

Drawbacks:

- A project built in this manner has to be profitable to lure the private sector. It is probably inappropriate for projects such as subways, which are rarely profitable.

- When the infrastructure in question has no alternative, a distortion comes about because only the affluent can afford the user fee, thus aggravating social inequality.

- The state almost always has to finance various parts of the project at a significant budget cost. (See discussion of the Cross-Israel Highway, above.)

- The state has to guarantee the profitability of the project. For example, Israel has promised the Cross-Israel Highway franchisee to cover the gap of up to 85 percent of projected revenue in the event that revenue falls short of that threshold.

2. **P.F.I. (Private Finance Initiative)**-In this method, the winning bidder builds the infrastructure and receives an annual rent from the state during a predetermined period. This method may be likened to a long-term loan from the private sector to the government. Today, Israel is thinking of using this method to build transport infrastructure, classrooms, etc.

Advantages:

- P.F.I. allows the state to build projects at no immediate cost to its budget.

- Since rent is paid to the franchisee by the state, not by the public (by means of a user fee), sectorial distortions in use of infrastructures are avoided.

Drawbacks:

- The private sector pays higher interest for its capital than the government pays. Therefore, the state pays a higher annual rent than it would have to pay on a similar investment of its own.

- If this method is used for a large number of projects, the budget may come under pressure in the long term due to the need to pay rent on many projects concurrently. In fact, this method is tantamount to a pledge against the state budget at the expense of future generations.

- The franchisees may be tempted to use the infrastructure in ways that deviate from the government's intentions. (See examples in our chapter on Education.)

MINISTRY OF LABOR AND SOCIAL AFFAIRS

The 2002 budget of the Ministry of Labor and Social Affairs is NIS 4.3 billion (in current prices), 4 percent larger than the 2001 budget in real terms. The Ministry's budget increased by 27 percent in real terms between 1997 and 2001.

The Israeli economy has experienced a severe slump over the last five years. The number of households supported by municipal welfare services has been rising steadily. Many households find themselves in the current cycle of poverty because breadwinners, mainly in traditional industries, have lost their jobs. Along with them are single-parent households, large families and Arab households. The 2002 budget offers nothing to ameliorate their situation.

Women's Employment Division

The Women's Employment Division deals mainly with subsidizing daycare centers and family day care for children. Its budget for 2002 is NIS 407 million (in current prices), 10 percent higher in real terms than in 2001, an increase for the third straight year.

In 2001, 79,500 children attended 1,650 daycare and family-care centers nationwide. Most of them (82 percent) were children of working women; 14,000 (18 percent) were referred by municipal welfare departments as "children at risk" (Ministry of Finance, *Budget Proposal for Fiscal Year 2002 and Explanatory Notes, Ministry of Labor and Social Affairs*: 66).

In the 1991-2001 decade, the child-care population climbed by 33 percent, from 60,000 to 79,500 (see table below). Most of the newly enrolled are children of working mothers. The proportion of "welfare children" referred to care increased by only 17 percent during the decade, from 12,000 to 14,000. The rate of subsidy for referred children hardly changed during that time; about 30 percent of the Women's Employment Division budget in 1991-2001 was earmarked for the subsidization of "welfare children."

Table 12. Children in Daycare Centers and Family Day Care Run by Women's Organizations in Israel, 1991-2001

Year	Total	Thereof	
		Children of working mothers	"Welfare children"
1991	60,000	48,000	12,000
1992	62,000	50,000	12,000
1993	66,000	54,000	12,000
1994	68,000	54,000	14,000
1995	69,500	56,000	13,500
1996	70,400	57,000	13,400
1997	72,000	59,000	13,000
1998	74,000	61,000	13,000
1999	76,000	62,000	14,000
2000	78,000	64,000	14,000
2001	79,500	65,500	14,000

Source: Ministry of Finance, *Budget Proposal for Fiscal Year 2002 and Explanatory Notes, Ministry of Labor and Social Affairs*: October 2001: 66

As stated above, in Israel, daycare centers are run by women's and relilgious organizations-Na'amat, WIZO, *Emunah*, *Shas* and Chabad. The Women's Employment Division subsidizes these organizations commensurate with the enrollment at each center. Many daycare centers are located in buildings that were renovated for this use. In recent years, the Ministry of Construction and Housing has built additional centers at its own initiative.

Now that the state is building daycare centers and choosing the organizations that will have the privilege of running them, some of the women's organizations feel that they are losing out. Under the new arrangement, each of the abovementioned organizations considers itself the future operator of every new center. In several cases, organizations that were not awarded the management of this or that facility took the Ministry of

Labor and Social Affairs to court. To prevent such lawsuits in the future, the Cabinet established an interministerial committee under David Brodet to propose rules for the selection of operators for publicly built daycare centers. In view of the committee's recommendations, the Cabinet decided that in 2002, on a trial basis, operators of new daycare centers will be chosen on the basis of competitive bidding (Cabinet Resolution 678, September 2, 2001). At the present writing, criteria for choice of winning bidders have not been made public.

Daycare Centers and Family Day Care in Arab Communities

Between July and September 1997, the Ministry of Labor and Social Affairs conducted a survey among users of daycare centers and family day care. The surveyed population included mothers of children aged 0-4 and of children who formerly attended family day care. The results of the survey show that an overwhelming majority of mothers (95 percent) were Jewish and only 5 percent were Arab (Osnat Fichtelberg and Ruth Zinn, *Survey of Users of Daycare and Family Care Centers for Early Childhood,* Personnel Planning Authority, August 1998). Data from the Personnel Planning Authority show that most children (90 percent) in the 0-4 age group who were enrolled in Ministry-sponsored care settings were enrolled in daycare centers; the rest were in family day care (Personnel Planning Authority, *The Labor Market in Israel in Recent Months*, April 2000). In contrast, a majority of Arab children attended family-care settings.

In 1997, only nine of the daycare centers that qualified for a Ministry of Labor and Social Affairs badge were in the Arab sector. This is due to the Ministry's policy of encouraging the opening of family-care centers, as opposed to daycare centers, in the Arab sector.

The disparity between the Jewish and Arab sectors traces to two main factors (personal communication with Mrs. Nabila Espanoli, director of Al-Tufula, November 15, 2001). First, to obtain a subsidy from the Ministry of Labor and Social Affairs, the daycare center badges from the Ministry. Apart from financial support, the badges bestow professional support for the caregivers. Badges are awarded under very strict conditions that entail large investments by the operator-sums that no one in the Arab sector can afford. Family day care, in contrast, is inexpensive and easy to set up. This is why such settings are established in the Arab sector, alongside unregulated daycare centers.

Second, in localities where the Ministry of Construction and Housing builds projects of 1,000 dwelling units or more, the Ministry is required to build a daycare center. Since there are no projects of this magnitude in the Arab sector, most daycare centers built by the Ministry are in the Jewish sector.

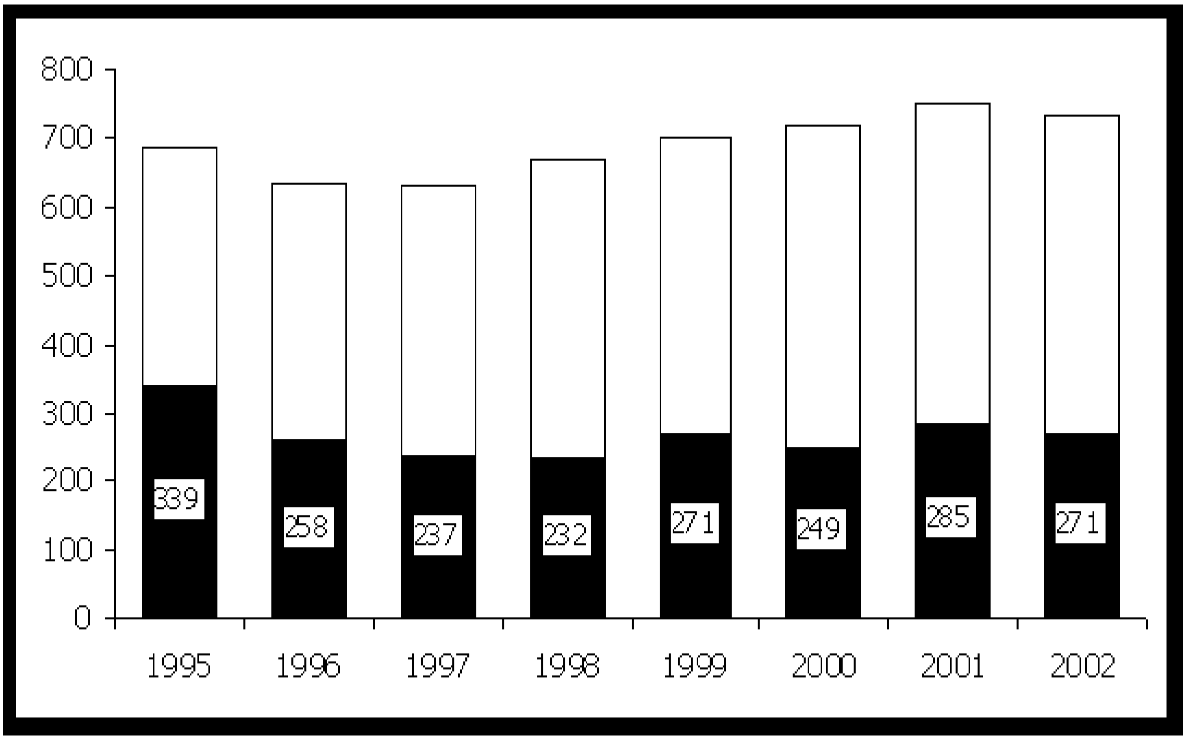
Apart from the small number of daycare centers in the Arab sector, there are differences in caregivers' training. Caregivers in daycare centers are required to take 700 hours of training; those in family day care receive only 220 hours. Consequently, family-care settings provide inferior preschool education.

Vocational Training

The Vocational Training Division budget for 2002 is NIS 797.1 million (in current prices), 2.5 percent smaller than the 2001 budget in real terms. The Ministry of Labor and Social Affairs uses this budget to provide unemployed adults with vocational training so that they may return to the labor market.

The Ministry runs two types of training programs for adults: training for adult jobseekers and retraining for degree holders. A third type of program, for recent immigrants, was abolished in 1997. The graph below shows that the adult training budget declined from NIS 339 million in 1995 to NIS 271 million in 2002-a 20 percent decrease in real terms-precisely as the number of jobseekers soared from 108,000 (1995) to 165,000 (2000).

Figure 18. Adult Training Budget as Share of the Vocational Training Division Budget, 1995-2002
NIS millions, 2000 prices



Source: Adva Center analysis of Ministry of Finance, *Budget Provisions, Ministry of Labor and Social Affairs,* various years; and Ministry of Finance, *Budget Proposal for Fiscal Year 2002 and Explanatory Notes, Ministry of Labor and Social Affairs.*

Vocational Training in the Arab Sector

Relatively few Arabs participate in vocational training. In 1996, only 11 percent of jobseekers who took part in any course sponsored by the Ministry of Labor and Social Affairs were Arabs. In 1998, this fraction rose slightly, to 14 percent.

In 2002 the government resolved to implement a five-year plan for the Arab sector. According to the plan, the Ministry of Labor and Social Affairs was to budget NIS 20 million in 2002 (in current prices) to increase the number of Arab participants in vocational training courses. However, this increase is mentioned only in the introduction to the Ministry's budget and not in the budget lines (Ministry of Finance, *Budget Proposal for Fiscal Year 2002 and Explanatory Notes, Ministry of Labor and Social Affairs:* 44).

Follow Up of Graduates of Vocational Training Courses

The Personnel Planning Authority, an agency of the Ministry of Labor and Social Affairs, conducts follow-up surveys among graduates of vocational training courses. The data gathered on alumni between 1996 and 1998 served as a basis for a study on the factors that affect the graduates' employment and wages. The research population included about 10,000 women and men who had completed courses sponsored by the Vocational Training Division (Avner Ahituv, Yonatan Eyal, and Lee Cohen, *Analysis of Changes in Employment and Wages of Unemployed in Israel after Vocational Training,* Ministry of Labor and Social Affairs, Personnel Planning Authority, August 2001).

The table below shows that participation in the courses corresponds to the traditional gender dichotomy in the labor market. Most women took courses in "women's work"-secretarial training (23.6 percent), child care (20.1 percent), and travel agents' training (12.3 percent)-whereas most men were concentrated in "men's" courses: electricity and electronics (30 percent), metal (15.4 percent) and construction (12 percent).

Table 13. Participation in Vocational Training Courses, by Types of Training and Sex, 1997-1998

Type of course	Men	Women
Secretarial training	3.4	23.6
Child caregiving	0.3	20.1
Tourism	9.0	12.3
Clothing and footwear	0.7	8.7
Paramedical training	0.2	7.2
Computers	8.6	5.4
Hairdressing and cosmetics	0.4	5.2
Printing photography	2.4	4.6

Electricity and electronics	30.0	3.8
Drafting	1.4	3.2
Metal	15.4	0.8
Carpentry and lumber	4.6	0.8
Construction	12.0	0.0
Motor vehicle	8.3	0.0

Source: Avner Ahituv, Yonatan Eyal, and Lee Cohen, *Analysis of Changes in Employment and Wages of Unemployed in Israel after Vocational Training,* Ministry of Labor and Social Affairs, Personnel Planning Authority, August 2001

As for the graduates' participation in the labor force, one-third of the men (33.4 percent) worked in the occupation for which they were trained as opposed to one-fourth (26.3 percent) of the women (see Table 14). The proportions of men and women who worked in some other occupation were similar: 36.1 percent and 32.3 percent, respectively. Many women (41.4 percent) did not work at all; 27.8 percent were in the labor force but unemployed and 13.6 percent were not in the labor force at all (i.e., they were not looking for a job). The percentage of men who were not working was 30.5.

Table 14. Labor-Force Participation after Vocational Training, by Sex, 1997-1998
Percent

Employment after course	**Men**	**Women**
Working in occupation	33.4	26.3
Working in another occupation	36.1	32.3
Unemployed	23.8	27.8
Not in labor force	6.7	13.6
Total	100.0	100.0

Source: Avner Ahituv, Yonatan Eyal, and Lee Cohen, *Analysis of Changes in Employment and Wages of Unemployed in Israel after Vocational Training,* Ministry of Labor and Social Affairs, Personnel Planning Authority, August 2001

The table below shows that, on average, graduates of vocational courses earned less than they did before the course, and men earned more than women both before and after the training. The average wage of women was 66 percent of men's wages before the course and 70 percent of men's wages after. Thus, vocational training does not narrow wage equality between women and men; indications are that inequality actually increases.

Table 15. Average Wage before and after Training, by Sex, 1997-1998
NIS, 1998 prices

	Men	**Women**	**Women's wage/men's wage**
Before training	3,875	2,564	66%
After training	3,485	2,440	70%

Source: Avner Ahituv, Yonatan Eyal, and Lee Cohen, *Analysis of Changes in Employment and Wages of Unemployed in Israel after Vocational Training,* Ministry of Labor and Social Affairs, Personnel Planning Authority, August 2001

Combating Violence against Women

The Ministry of Labor and Social Affairs funds three types of caregiving institutions for women victims of violence: battered women's shelters, rape crisis centers, and domestic violence prevention centers.

These institutions were budgeted at NIS 24.8 million in 2001, 8 percent more in real terms than in the 2000 budget. The 2002 budget proposal does not itemize the sums earmarked for each type of institution mentioned above. However, study of the budget lines in which they are included shows that the allocation in 2002 will be larger than that in 2001.

a. Domestic Violence Prevention Centers

Israel's domestic violence prevention centers were established in the early 1990s by the Personal and Family Welfare Service of the Ministry of Labor and Social Affairs, to create a caregiving response for entire families.

In 2001, the budget for these centers was NIS 9.4 million, 37 percent larger than the 2000 budget in real terms, marking the second straight year of significant increase. The budget of the centers for 2002 has not yet been made public, but the budget of the Personal and Family Welfare Service, through which the centers are funded, increased by about 11 percent in real terms.

Today there are thirty domestic violence prevention centers nationwide. In 2000, they cared for about 3,500 families and children who experienced violence. The Personal and Family Welfare Service, which regulates the centers, is preparing to open additional centers in ten small localities: Daliat al-Karmil, Yerka, Kafr Kara, Kiryat Motzkin, Tirat Hacarmel, Nesher, Migdal ha-'Emek, Beit Shemesh, and Matte

Binyamin Regional Council. According to the national inspector for domestic violence, Tsipi Nahshon-Glick, some of these centers may be opened after a delay due to a strike at the Ministry of Labor and Social Affairs.

"Safe Houses"

"Safe houses," one of the services provided by domestic violence prevention centers, are intended for women who have not turned to battered women's shelters and are not at serious risk to life. (The apartments are not guarded.)

Between 1997 and 1999, the National Insurance Institute funded a NIS 690,000 pilot project of safe houses for battered women in nine localities nationwide. In 2002, the safe houses will be budgeted by the domestic violence prevention centers of the Ministry of Labor and Social Affairs, as the Ben-Shalom Committee (an interministerial committee that examined ways of tackling the problem of domestic violence) recommended. The budget for this service in 2002 is NIS 700,000 (in current prices).

A National Insurance research team monitored the safe house project from August 1997 to December 1999. During that time, 387 women and 492 children were referred to the houses and 173 women (45 percent of applicants) and 335 children (68 percent) were admitted. The authors of the study recommended the establishment of clusters of apartments near each violence prevention center, an increase in the number of apartments available to Arab and *Haredi* women, and orientation for women in advance of their return to the community (Haya Amzeleg-Bahr and Hagit Hacohen Wolf, *Safe Houses for Woman at Risk and Their Children,* National Insurance Institute, September 2001).

b. Service for Women and Girls in Distress

The Ministry of Labor and Social Affairs subsidizes battered women's shelters and rape crisis centers through the Service for Women and Girls in Distress. In 2002, the budget of the service is NIS 35 million (in current prices), 37 percent larger than the 2001 budget in real terms.

Battered Women's Shelters

Battered women's shelters are run by various organizations and associations. Their operating expenses are subsidized in accordance with a package of expenditures that the Ministry has put together. This package reflects the costs for the stay of a woman and two children in different types of shelters (emergency, large, medium, small). From 1997 to 2001, government budgeting of the shelters was based on 75 percent coverage of the package. The operators of the shelters claimed that the package was unrealistic and that the rate of coverage should be increased to 100 percent. The Ministry expressed its willingness to raise the rate, and indeed, the package was upgraded in the course of 2001 and all shelters were defined as emergency facilities (as if they were able to receive women around the clock). Furthermore, the Ministry undertook in 2002 to cover 100 percent of expenses.

Rape Crisis Centers

Israel has thirteen rape crisis centers: three in Jerusalem, two in Haifa, and one apiece in Tel Aviv, Ra'anana, Beersheva, Eilat, Nazareth, Yoav Regional Council, and Kiryat Shemona. The centers in Jerusalem and Haifa have separate hotlines for Arab women. In 2002, the centers received 17,500 calls nationwide.

Starting in 2000, at the recommendation of an interministerial committee, the Ministry of Labor and Social Affairs defined the crisis centers as service providers, like other Ministry-supported entities. Thus, the budget for these centers was increased considerably: from NIS 340,000 in 1999 to NIS 2.5 million in 2000. The subsidy budget for the crisis centers decreased slightly in 2001, to NIS 2.3 million, and is projected to remain at this level (in real terms) in 2002.

Welfare Reform

The Ministry of Labor and Social Affairs has responded to the increase in unemployment and the number of subsistence benefit recipients by adopting a method that several Western countries developed to return benefit recipients to the labor force. The Ministry budget for 2002 contains NIS 20 million in regular expenditure and an additional NIS 80 million in spending authorization for Israel's welfare reform. The guidelines for the implementation of the program were developed by a committee under the former director-general of the National Insurance Institute, Yossi Tamir ("Committee for Reform of Care for Unemployed Persons on Long-Term Subsistence Benefits," otherwise known as the Tamir Committee). However, as we show below, even before the Tamir Committee completed its work, the Ministry of Finance rushed to propose cutbacks in the subsistence benefit. By so doing, the Finance Ministry followed the American lead; the "Wisconsin Works" plan was preceded by a decision by President Clinton to abolish a subsistence benefit. (For a broader discussion, see Shlomo Swirski, Ami Frankel and Barbara Swirski, "Income Maintenance in Israel: from Welfare Benefits to Subsistence Benefits and from Subsistence Benefits to "Welfare Reform," Adva Center, 2001.)

The Tamir Committee Report

In August 2001, the Tamir Committee presented the Minister of Labor and Social Affairs with an interim report containing guidelines for a pilot project designed to reduce the number of households that receive subsistence benefits. The report was preceded by decisions of a Ministerial Committee for Coordination, Administration, and State Control (March 2000) and Cabinet resolutions concerning the 2001 state budget. The report includes a majority opinion and several minority opinions.

Main Recommendations of the Majority Report

a. Four pilot employment centers-one-stop centers where the jobless may obtain all requisite services-are to be established in four different localities. The centers are to provide the following options: participation in the labor force ("temporary pilot work," sheltered labor, and "service labor," i.e., compulsory volunteering), completion of basic schooling, vocational training and encouragement in jobseeking. Every applicant is to be assigned a case manager and given an action plan to help him/her make the transition to work. Referral to the center is designed to be "an offer that cannot be refused," i.e., those who refuse to take part in the program are to lose their benefits.

b. Three of the centers are to be run by outside agencies (businesses or nonprofit organizations); one is to be operated by the Government Employment Service. Each center is to be managed under a different method. Persons referred to the centers are required to participate in the pilot project or will lose their benefits. Persons who participate in the pilot project are to continue to receive benefits with no time limit.

c. The target population is not to be limited to long-term recipients of subsistence benefits; it is to include all working-age people who are not in the labor force (all recipients of subsistence benefits plus recipients of unemployment compensation, alimony payments from the National Insurance Institute, and disability benefits), including persons who under current rules need not pass an employment test: those defined as "unplaceable" and mothers of young children. However, the first to be referred to the pilot project are to be the long-term jobless who are defined as "unplaceable."

d. The committee is of the opinion that the tests used to determine eligibility for subsistence benefits should not be changed.

While the Committee Deliberates, the Finance Ministry Wields the Axe

The Tamir Committee recommendations were meant to help the Cabinet make decisions by providing guidelines. However, the Cabinet pre-empted the committee by making up its mind before it received the recommendations. In fact, the actions that mattered were taken not in the Tamir Committee's chambers but in the offices of the Finance Ministry Budget Division. As the committee deliberated the alternatives, weighed the options, and phrased its recommendations, the Budget Division officials drew up proposals for cutbacks in the subsistence benefit system. The proposals were presented to the Cabinet, which approved them and built them into the 2002 state budget.

In August 2000 (before the Tamir committee presented its report, as noted) the Cabinet made the following decisions on the basis of the Finance Ministry recommendations:

Cabinet Resolution 2195-starting in August 2001, persons receiving subsistence benefits for more than three consecutive months shall be required to participate in a job training program as a precondition for receiving continued benefits.

Cabinet Resolution 2197-the laws, regulations, and procedures related to exemptions and discounts on housing, education, and the municipal property tax shall be revised so that subsistence benefit recipients are no longer automatically eligible for them.

Cabinet Resolution 2198-the Israeli welfare reform plan shall be run by nongovernmental agencies under government supervision.

The 2002 state budget augments these Cabinet resolutions with several proposals for cutbacks in expenditure for subsistence benefits, at no less than NIS 150 million (see breakdown below).

The Cabinet resolutions and the cutbacks in the 2002 budget indicate that the Tamir Committee was only part of a comprehensive scheme. Practically speaking, the committee served the Cabinet as a fig leaf for measures that would poke holes in the safety net that the Israeli welfare state has provided thus far. As the committee created the appearance of seriously discussing the formulation of a program for recipients of subsistence benefits, the Finance Ministry took actions that would slash the budget and revoke related benefits. The Tamir Committee was given an exalted mandate: to help recipients of subsistence benefits to join the labor force under better conditions than the market and their own credentials could provide and, thereby, to enhance their well-being. However, the Cabinet and the Finance Ministry had a much more prosaic goal: to reduce the budget expenditure that the Income Maintenance Law entails.

The main difficulty in regard to the Israeli welfare reform plan is probably related to the state of the domestic economy. Needless to say, any meaningful attempt to train, school, support, encourage, and assist people who find it difficult to break into the labor market should be viewed favorably. However, we doubt that it is at all possible, under current economic conditions, to place recipients of subsistence benefits in truly viable employment situations. Importantly, the temporary achievements in implementing welfare reform programs abroad stemmed primarily from vigorous economic growth in those localities, which made it possible to find jobs for poorly schooled and largely unskilled individuals. In contrast, Israel's labor market cannot find employment for more than 200,000 rank-and-file jobless, not to mention many other Israelis who would like to work but have despaired and, for this reason, do not appear in the official unemployment statistics.

Remarks on the Tamir Committee Recommendations

a. The Employment Service Will Be Compromised-Probably with no Gain to Subsistence Benefit Recipients

The Tamir Committee report indicates that its members did not have a clear definition of the population that they wished to assist. Most members believed it correct to "relate equally to all population groups of working age, irrespective of the type of benefit [they receive]" (p. 18). (However, they did believe that the first participants in the pilot project should be recipients of subsistence benefits who are defined today as unplaceable in the labor market.)

In contrast, Dr. Johnny Gal, in a minority opinion, stated that the target population should be "recipients of subsistence benefits who have been out of the labor market for a lengthy period of time" (p. 45). He added that the pilot venture should focus on those who are "able-bodied, not involved in caregiving roles, and reasonably likely to fit into the labor market" (p. 45).

There is a vast difference between these two target populations. Subsistence benefit recipients who have long been outside the labor market need special, generous long-term assistance and guidance programs. The Employment Service in its present format is not geared to offer such programs. Thus, a government initiative to develop programs of that nature should be welcomed. However, alongside the stated goal that prompted the government to appoint the Tamir Committee-helping members of this group to join the labor force-there was evidently an additional unstated goal: to dismantle or privatize the Employment Service. This may explain the inclusion of a broader target population, the jobless at large.

The Government Employment Service has long been in need of thorough reform. However, one doubts that the proposed measures will bring about such a reform. In fact, at the end of the process described above, the Employment Service may be dismantled or privatizated *and* the long-term recipients of subsistence benefits will not receive the assistance and guidance programs that they need. After all, every "success" in placing someone in the labor market will suffice to "prove" that private entities can outperform the Government Employment Service. Since the primary motive of the Cabinet and the Finance Ministry is to slash the social service budget, a rather small number of such "successes," in a brief period of time, will suffice to elicit calls for the closure of the Employment Service. Closing or privatizing the service will not help the long-term recipients of subsistence benefits; for them, true success requires protracted and patient caregiving that may be interrupted by crises and involve several entries into and exits from the labor force. One cannot expect pro-profit private entrepreneurs to display the patience necessary for such caregiving.

In another reflection of the lack of a clearly defined target group, the Tamir Committee report is vague about the type of "improvement" that the employment centers should create. One possibility is that the center will give participants a "gentle push" into the labor market, so that they may crowd out "foreign workers" in jobs that require little vocational skill and pay poorly. ("The success of the pilot project will be influenced by economic growth and greater employment opportunities, and *by swift action to reduce the importation of foreign workers*"-italics ours, p. 10). This possibility would be suitable for much of the general population of the jobless, those with fewer than twelve years of schooling. Another possibility is that the employment centers will develop the participants' human capital by providing basic schooling and vocational training. This may be of greater utility to the long-term jobless. However, those are two very different goals, and one cannot reconcile them just by declaring that an appropriate program for each participant should be devised.

The Tamir Committee should have concentrated solely on developing an assistance and guidance mechanism for one group only: long-term recipients of subsistence benefits. The committee should have defined the pilot venture as a way of investing in people who have not managed to find their place in the labor market. The committee should not have legitimized, by refraining from defining its target population clearly and stipulating the services that this population should receive, the possible use of the project to dismantle the Government Employment Service without the concurrent development of meaningful alternative ways to help the jobless.

b. The Tamir Committee Paves the Way for an Assault on Single Mothers

The Tamir Committee did not content itself with recommending the establishment of "employment centers"; it also chose to attack one of the main groups of subsistence benefit recipients. The committee recommended the inclusion of *mothers of children between the ages of three and seven* in the target population of the pilot project. Today, single mothers who have a child or children *under the age of seven* need not pass an employment test. In other words, the committee, by its own actions, has prepared the ground for the introduction of an employment test for single mothers of young children-despite its own explicit recommendation that "the pilot venture not include examination of the possibility of modifying the method used to compute the [subsistence] benefit" (p. 10).

Dr. Johnny Gal, in his minority opinion, stated that mothers of children under age seven should not be included in the pilot venture (unless they "volunteer"). According to a contrasting minority opinion, that of the Finance Ministry representatives, *all* mothers who receive subsistence benefits should be included in the experiment, irrespective of their children's age.

Today, the terms of eligibility for subsistence benefits take into account the caregiving role of single mothers. The pressure to subject these mothers to an employment test is evidence of a contemptuous attitude toward the value of mothers' caregiving work. In other words, the committee is unwilling to "subsidize" mothers' caregiving work but is willing to subsidize their entry to the labor market so that other women (daycare providers, kindergarten teachers, and babysitters) may care for the mothers' children in their stead.

APPENDIX: METHODOLOGY

Definitions, Sources, and Methods of Calculation

1. Government ministries' budgets have two components: regular budget and investment budget. The regular budget is used for ministries' ongoing activities; the investment budget is used for building and procurements.

Usually we take only the regular budget into consideration and overlook the investment budget, unless otherwise stated.

2. The analyses pertain to net allocations for government expenditure, i.e., the total allocation of each and every ministry. In cases of revenue-dependent expenditure, i.e., revenue from an outside agency or another government ministry; this is indicated in the text.

3. Since 1992, the fiscal year has corresponded to the calendar year (January-December). Until 1990, the fiscal year was from April 1 to March 31 of the following year. In 1991, the transition year, a nine-month budget (April-December) was approved. To facilitate comparisons with previous years, the 1991 budget was converted into full-year terms in a linear manner.

4. Data are in constant 2000 prices unless otherwise stated. Data for 2002 are based on estimated prices.

5. Inter-year comparisons are expressed in constant prices deflated by the Consumer Price, unless stated otherwise.

6. The sources of budget data are as follows:

a) The budget proposal (draft budget) that the Ministry of Finance presents to the Knesset in the last week of October each year. The budget proposal is composed of *Main Provisions of the Budget* and *Budget Proposal and Explanatory Remarks. Main Provisions of the Budget* presents the government's general program and the main programs of each ministry, without detail at the divisional and departmental levels. The *Budget Proposal and Explanatory Remarks* booklets provide details and explanatory notes on the activities of each and every division.

b) The *Budget Provisions* booklet of each ministry. The booklets, published by the Ministry of Finance about two months after the Knesset approves the budget, include itemization at the divisional and departmental levels.

This publication is based, in respect to 2002, on *Main Provisions of the Budget* and the *Budget Proposal and Explanatory Notes* booklets for

2002; in respect to previous years, it is based on the *Budget Provisions* booklets for the respective years.

c) Publications from head offices and/or divisions of individual ministries.

d) Information from various ministry officials.

7. The state budget is merely a working plan. It undergoes many changes - in the Knesset during the budget debate, as a result of political power plays after the budget has been approved, or due to national or economic constraints that the government encounters. In many cases, the data in the *Budget Provisions* booklets do not correspond to sums actually spent.

The Ministry of Finance does not publish regular budget updates. The main way to monitor changes by perusing the *Financial Statement of the Accountant General*, published in June. Budget performance reports include main items only, not lines and sublines.

Because we know that such changes occur, we do our best to cross-reference information from various sources. Furthermore, we emphasize trends that span several years, and these generally come into clear focus even when there are deviations from the budget in this or that year.

On behalf of the public's right to know, we demand that the Ministry of Finance and other ministries publish regular updates and detailed performance reports, so that the public can monitor government policy and spending more closely. Freedom and transparency of information are basic fundamentals of democratic governance.