How the "Plan for the Recuperation of the Israeli Economy" Will Affect Women in Israel

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The Middle Class is the Main Loser

The "Plan for the Recuperation of the Israeli Economy" will have an adverse effect on the middle class, especially women.

The plan will be detrimental to the stability of the main employer of the middle class: the public service -- including the central government, local governments, and the public education, health and social welfare systems.

The biggest losers are women: this is because nearly half of Israeli women who work outside the home are employed in the public service. Women constitute no less than two-thirds of public service employees.

The "Recuperation Plan" will have a negative effect on the typical middle-class family, in which both spouses work. This effect will be reflected in salaries, pension arrangements, children's education and care for the elderly.

The plan will have negative effects on working women, both as breadwinners in the work force and as care workers in the home.

The damage will be especially grave in view of the lack of alternative job openings due to the continuing recession.

The Result: No More Economic Security for the Majority of Israelis

The proposed plan presents many of today's public service employees as redundant, as persons whose services we can do without. If the plan is approved, many middle-class families will have a hard time holding on to their present positions in society.

Middle-class Women Have the Most to Lose

Reducing Salaries

The Finance Ministry proposes lowering salaries in the public service sector, in accordance with the base salary, as follows:

Up to the average monthly wage (about NIS 7,000, or $1,460) -- 6.5%;
Up to twice the average monthly wage -- 11%;
Up to thrice the average monthly wage -- 16%;
Over thrice the average monthly wage -- 21%.

Two groups will bear most of the brunt: firstly, those with the typical public sector salaries: teachers, nurses, social workers, and clerical workers; and secondly, senior officials.

Employees whose base wages are no higher than the minimum wage (NIS 3,400 or $708) are exempt from the wage cuts.

During the debate on the national budget for fiscal 2002, the Adva Center recommended wage cuts for the highest paid officials in the public service sector. We now recommend that the present wage cuts be limited to those same officials, for the following reasons:

Firstly, a relatively small stratum of senior officials, most of them men, account for the lion's share of the public sector wage bill. According to our calculation, if ten percent of public service employees receive salaries at the level of three times the average wage (about NIS 21,000 or $4,375), they account for at least a third of all the monies given out as salaries in the public sector. Since employees earning the minimum wage, who constitute about a third of public sector employees, are exempt from the cut, it turns out that most of the money saved from wage cuts will come from senior officials. Reducing their salaries would suffice.

Secondly, even after the proposed cuts, the salary of a senior official earning three times the average wage (NIS 21,000) will still be three times higher than the salary of a long-tenured high school teacher (about NIS 6,000, or $1,250). In other words, the standard of living of the senior official will not be unreasonably affected, while even before the proposed cuts, the standard of living of the teacher, if she has to live on her own earnings, is not very high.

Thirdly, following the proposal to speed up implementation of a recently approved income tax reform giving significant tax breaks to persons in high income brackets, senior public officials can anticipate a monthly increase of at least NIS 2,000 ($420) in their take-home pay, while teachers can expect an increase in take-home pay of no more than NIS 140 ($30) a month.

Fourthly, the bargaining power of senior public officials is far greater than that of teachers, nurses and social workers: thus it is reasonable to anticipate that they will be able to prevent or reduce the proposed cuts in their salaries. Even if they fail to do so, it will probably not be long before they make up for their losses in one way or another.

Fifthly, women's salaries and working conditions are better in the public than in the private sector. The present cut threatens to increase the earnings gap between women and men in Israel.

Cuts in Fringe Benefits

In addition to salary cuts, the present economic plan includes reductions in fringe benefits, an important element of the income of many low-salaried public service employees.

Among the cuts is a reduction in the salary increment for on-the-job teachers' training.

Mass Firings

The proposed plan includes reducing the number of persons employed in the public services, including local government personnel, by 5 percent in 2003 and by another 3 percent in 2004. Add this to the reductions approved in the original 2003 budget and it amounts to thousands of employees.

Challenging the Unions

The Ministry of Finance proposes that salary cuts be imposed by any means possible, including legislation.

The notion of reducing salaries by means of legislation constitutes a challenge to the very purpose of the unions: the present proposal involves negating the achievements registered by the unions over the years -- not by means of negotiation but rather by simply circumventing of the unions.

The majority of employed persons in Israel, especially low wage earners, are no longer unionized. The trade unions that still hold power represent mostly the middle class. Damaging these unions, foremost among them the public service workers' union, will have the effect of adding middle-class women to the masses of employed persons in Israel who are in constant danger of being fired, of having their salaries reduced and of having their fringe benefits cut by both private and public sector employers.

Cheapening the Price of Labor

The justification given for mass firings is "efficiency". In effect, what we are talking about is cheapening the price of labor, for the state apparatus and the public services will continue to function and will continue to employ men and women to run the apparatus and the services. Thus, it is reasonable to assume that a large proportion of the persons let go will return to their posts as employees of temporary help or outsourcing agencies. In either case, these employees -- or the persons hired in their places -- will receive lower salaries than their predecessors.

Moreover, those who return to their posts for less pay will have little hope of improving their positions: the Finance Ministry proposes changing the 2002 law that stipulates that employees from temporary agencies become employees of their place of employment at the end of 9 months: the Ministry proposes extending the period of temporary status to 2 years, and, in some cases, two and a half years.

Pensions

An important advantage enjoyed by the middle class is pension insurance. Affluent persons have independent means to tide them through old age, and the poor have to depend on social security. The middle class has work pensions to fall back on. But now the Finance Ministry threatens the security of the pension funds, in the following ways.

Firstly, the government plans to cease issuing special debentures to the new pension funds. Instead, it proposes channeling pension fund monies into the capital market. If the proposals are approved, pension fund monies will become dependent on the ups and downs of the market and on the investment capabilities of pension fund directorates, without the benefit of the government safety net we have today.

Secondly, pension fund members' monthly contributions to the fund will be increased by 2 percent, causing a 2 percent decrease in disposable income. Employers will contribute an additional 1 percent.

Increases in monthly contributions have been made in a number of other countries. The difference is that in Israel the extra paymhas been imposed on the emp, without employers having to pitch in.

While the proposal stipulates that employers pay an additional 1 percent of salaries in contributions to employees' pension funds, they will receive a 1 percent discount in social security contributions, so that the change involves no additional expenses for them. At the same time, however, it involves a loss of income for social security. Some employers will actually come out ahead: all employers are obliged to make social security contributions, but only some make pension fund contributions. Those whose employees are not covered by pension plans will pay 1 percent less.

Thirdly, if approved, the Finance Ministry's proposal will have the effect of nationalizing the pension funds (despite the Finance Ministry being the flag-bearer of privatization!), since the plan stipulates that the Finance Ministry appoint a director of its own choosing for the funds, through whom it will be able to influence the use of pension monies. This proposal violates the principle that pension funds, paid into by employers and employees, be controlled a body that includes representatives of the employees.

Fourthly, the Finance Ministry proposes increasing the retirement age by two years for men and seven years for women. This is to be done gradually, by four months a year. While this change is a good idea in itself, in view of the increase in life expectancy and the relative advantages of working, it will have negative consequences for a number of specific groups. It will make life difficult for Israelis nearing the present age of retirement who cannot find work. It will also make life harder for blue-collar workers, for whom increasing the retirement age is less desirable than for white-collar workers.

Also notable is the fact that the employment situation of women is different from that of men. After 54, the participation of women in the labor market decreases by about half, from 69 percent for the 25-54 group to 35 percent for the 55-64 age group. Only 5 percent of women are still employed after the age of 65. For men, the decrease in participation in the labor market is more moderate: after the age of 54, their participation decreases from 84 to 65 percent. Proportionately, more men -- 15 percent - continue to be employed after age 65.

Before increasing the retirement age, the employment situation of women nearing retirement needs to be changed. The small minority of women to be found in the labor force at age 60 and over bears evidence to the need for changes that will enable women to continue working up to the age of retirement.

Changing the age of retirement also involves changing the minimum age at which women are entitled to social security, from 60 to 67, and changing the absolute age at which women are entitled to social security (without income testing) from 65 to 70.

This change is extremely problematic, for, as we have seen, about a third of women are no longer in the labor force at age 55 and over. Those who have no pension insurance will be dependent on social security. Raising the age of retirement will leave many of these women without a means of subsistence for ten years. The same is true for men, of course, but in smaller measure.

Children's Education

In contrast to families in low-income brackets, middle class families can give their children a decent education, either because they live in neighborhoods with good schools, or because they can afford the services that make a difference -- private lessons or additional teaching hours in the school.

The present economic plan threatens to impact negatively on the ability of middle-class parents to give their children as good an education as their parents were able to give them.

The budget of the Ministry of Education, which has undergone erosion in recent years, was subject to two large cutbacks this year -- NIS 800 million, with the approval of the original national budget for fiscal 2003, and an additional NIS 400 million in the new economic plan. It is reasonable to expect that the result will be fewer teaching hours. Schools that wish to keep the school day as it is will have to ask parents to pay for the difference out of their own pockets. As it is, parents spend much more than they did in the past on their children's education: an average of 6.1 percent of the monthly expenditure of Israeli families goes towards education, compared with 3.8 percent 15 years ago. Families whose income places them in the seventh decile, for example, spend an average of NIS 600 a month on education, compared to about NIS 300 a month 15 years ago (in real terms). If these payments increase, middle-class families will find it increasingly difficult to afford them, especially in view of the proposals described above.

The cutbacks in education come at the expense of the long school day (without which, the average child returns home from school at noon). Mothers of small children can expect to find themselves torn between the demands of the workplace and the need to take care of children who come home early. Since most of the child care responsibility rests squarely on their shoulders, they will face the choice of either foregoing hours of work or paying a good part of their salaries for baby-sitters.

Nursing Care for the Elderly

During the 1990's, middle-class families were able to benefit from the "magic solution" found in Israel for nursing care for elderly persons, 73 percent of whom are women (Low-income families tend to take care of their own family members, and affluent families have no trouble paying for nursing care, whether at home or in institutions).

The "magic solution" came thanks to two recent developments. One, the Nursing Care Law of 1988, stipulates that the National Insurance Institute pay for nursing care for elderly persons in their homes for a given number of hours a week. The second development is the Israeli government's encouragement of the import of migrant labor from abroad, in the present case, women from the Philippines. Payments from the National Insurance Institute enable middle-class families to employ a Filipino nursing-care worker to live in with the elderly person and be on call 24 hours a day. Most of the salary bill is covered by National Insurance, with the difference between the salary and the National Insurance payments being covered by the families. On the one hand, this "magic solution" involves employing Filipino women under conditions unacceptable to Israeli women (due to salaries amounting to less than the minimum wage and to the live-in arrangement). On the other, this solution has helped the state solve the problem of the nursing-care needs of its aging citizens without having to develop new institutions.

The present economic plan threatens this "magic solution". It involves increasing National Insurance Institute payments to Israeli care workers and decreasing payments to migrant workers. Its declared purpose is to create employment opportunities for Israeli women and eliminate the need for migrant workers. In effect, the payment increments for Israeli nursing-care workers are not large enough to compensate families for the much higher cost of Israeli nursing-care workers. At the same time, families that continue to employ migrant workers will need to pay much more than they do today.

It is perhaps superfluous to mention who will be responsible for nursing care if the family cannot afford such services: the woman in the family.

Health

Middle-class families receive good health care services, thanks to the fact that they are able to afford the additional payments imposed on health care consumers in recent years. The present economic plan stipulates that the package of benefits under the National Health Insurance Law not be updated to include new developments in technology and new medications. As a result, families will have to pay for new medications out of their own pockets. Affluent families will have no problem, but middle-class families will find it more and more difficult to afford the increasing costs.

It should be added that women, whose life expectancy is higherthan that of men, suffer more from chronic ill; they are the ones who will be most affected by the change.

Low-Income Families Were Not "Neglected"

While the major target of the "Plan for the Recuperation of the Israeli Economy" is the middle-class, the plan does not entirely "neglect" low-income families. It manages to sprinkle salt on the wounds inflicted by the original 2003 budget. Following are some of the new stipulations:

* Two major setbacks are reserved for recipients of allowances from the National Insurance Institute. Firstly, no allowance is to be updated in accordance with the cost of living or the average wage until the year 2007. This means that the allowances will remain at the level of January 1, 2001 (The across-the-board cut of 4 percent in allowances, implemented in July 2002, will remain in force). Now, women constitute the majority among recipients of allowances from the National Insurance Institute: 56 percent of recipients of old age pensions are women, along with 65 percent of persons

of retirement age receiving income support and 65 percent of working age persons receiving income support.

Moreover, in 2007, the allowances paid by the National Insurance Institute will no longer be linked to the average wage, but instead will be linked to the cost of living index. This means that the allowances will erode.

* Another change is reserved for large families: the Finance Ministry proposes reducing the enlarged child allowance, given for the third and subsequent children.

* A stipulation aimed at low-income families: increasing the cost of public transportation, as a result of the lowering of government subsidies to bus companies.

* Another stipulation will affect the ability of low-income families to purchase their own homes. The Finance ministry proposes eliminating all grants to persons entitled to government mortgages (including solo mothers). Government mortgages are given on a sliding scale, and those entitled to larger sums receive a mortgage comprised of a loan, which needs to be repaid with interest, and a grant, which does not need to be repaid, providing the recipient complies with all the conditions. The outcome of the new stipulation will be larger monthly mortgage payments, which low-income families will not be able to afford.

* Finally, the Finance Ministry proposes imposing health fees on housewives. Prior to the enactment of the National Health Insurance Law, which went into effect in 1995, health fund membership was for the whole family and married women were not required to pay health taxes. The National Health Insurance Law required women in the labor force to pay a certain percentage of their income in health taxes, just like men. In contrast, housewives, whose work is unpaid, were exempt. Now the Ministry of Finance proposes "equating" the situation of the housewife with that of the woman who works for a salary (without equating the remuneration for work, of course). It is not clear how the Finance Ministry intends to implement the proposal. Will the husband be asked to pay the health tax for his wife? Or will this be the responsibility of the husband's employer?

The Economic Plan Does Not Neglect High-Income Families Either

Speeding up the Income Tax Cut

In 2002, the Knesset approved an income tax cut. The cut was to be implemented gradually, over a period of five years, beginning in 2003. The present plan involves speeding up implementation of the cut so that it is completed in 2005. The Minister of Finance contends that the tax breaks benefit everyone. However, low-income persons, many of whom are women, will not receiving any increment in their income. Persons earning the average wage (about NIS 7,000) will receive a small monthly increment. The big winners are high-income persons, as can be seen in the following table. Most of them are men.

Strangely enough, while the Minister of Finance contends that the "coffers are empty", and therefore it is necessary to reduce wages and fire workers, among whom females are the majority -- it turns out that there is enough money to give tax breaks to the affluent: NIS 2.5 are reserved for that purpose.

Salary (NIS)	**Monthly Increment due to Tax Break**
10,000	301
15,000	839
25,000	2,062
50,000	3,394
100,000	3,894
200,000	4,894

No Money in the Public Coffers? Of Course There Is!

When he presented the proposed budget cuts in March 2003, the Minister of Finance contended, "There is no money in the public coffers". A quick look reveals that there is:

NIS 2.5 billion to finance tax breaks for high-income persons;
NIS 1.5 billion to finance reductions in social security payments for employers;
NIS 1 billion for over-funding of settlements in the occupied territories in two areas only: public financing of home construction and central government allocations to local governments.

In addition, one finds NIS 2-3 billion that the Finance Ministry failed to cut from the defense budget, and billions (we do not how many) collectable from profits on capital investments, had this part of the tax reform been speeded up.