

# Looking at the Budget of The State of Israel 2000

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## A RESTRICTIVE BUDGET FRAMEWORK

In 2000, the proposed state budget of Israel totals NIS 227.4 billion (in current prices), 1.7 percent larger in real terms than the 1999 budget proposal.

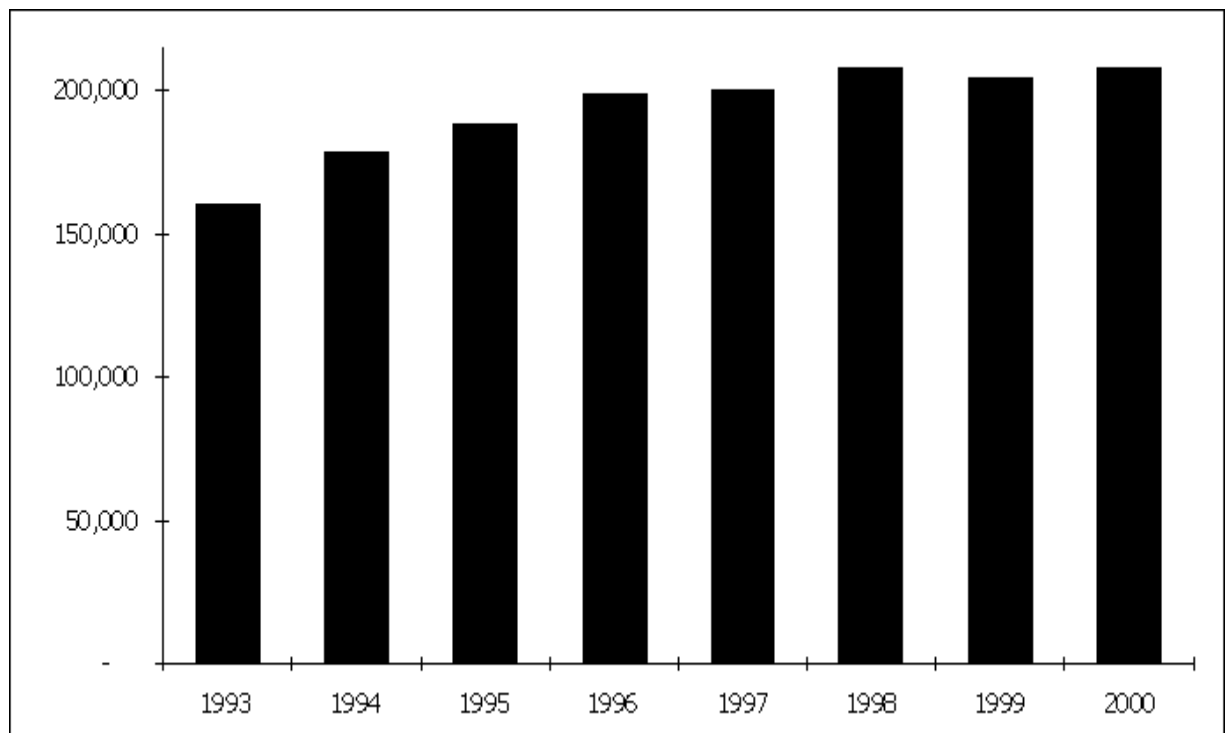
The Cabinet's budget proposal reflects a conservative and restrictive approach. Practically speaking, the 2000 budget is no different--in size and in most of its items--from the last budget of the previous government. As the graph below shows, the state budget has hardly increased since 1996.

The Cabinet tied its own hands the moment it approved a restrictive budget framework: the total budget deficit would not exceed 2.5 percent of Gross Domestic Product, the inflation target for 2000 would be 3-4 percent, and there would be no tax increases.

The outcome of these decisions is that there will be insufficient resources to tackle urgent needs: mitigating unemployment, improving the education system, and providing sufficient funding for the public health system.

### State Budget, 1996-2000

NIS millions, constant 1998 prices, deflated by the Consumer Price Index (annual average)



Source: Ministry of Finance, *Main Provisions of the Budget*, various years.

### **Share of the Budget in Gross Domestic Product (GDP)**

The Israel Ministry of Finance justifies the restrictive budget policy by claiming that "The level of the budget relative to product [...] is 46 percent today, much higher than in the countries that we wish to resemble [in terms of economic well-being]" (Finance Ministry Website, August 8, 1999).

The Finance Ministry is giving us only part of the picture. According to World Bank data, at least five Western European countries match or slightly surpass Israel's rate: Italy (49.5 percent), Belgium (48.1 percent), the Netherlands (48 percent), France (46.9 percent), and Sweden (46.1 percent). Other Western European countries have rates in the 41-42 percent range (World Bank Report for 1999; the figures are for 1996).

In Israel, 18 percent of the annual state budget goes for defense. If Israel's defense spending rested at a typical Western European level--say, 7 percent, as in the Netherlands--the share of government expenditure in GDP would fall to 40-41 percent, similar to that in most Western European countries.

## **MINISTRY OF EDUCATION -- LESS SPENDING PER PUPIL**

### **1. Decrease in the Per-Pupil Budget**

The Education Ministry budget for 2000 will be NIS 21 billion (current), hardly changed from 1999 in real terms.

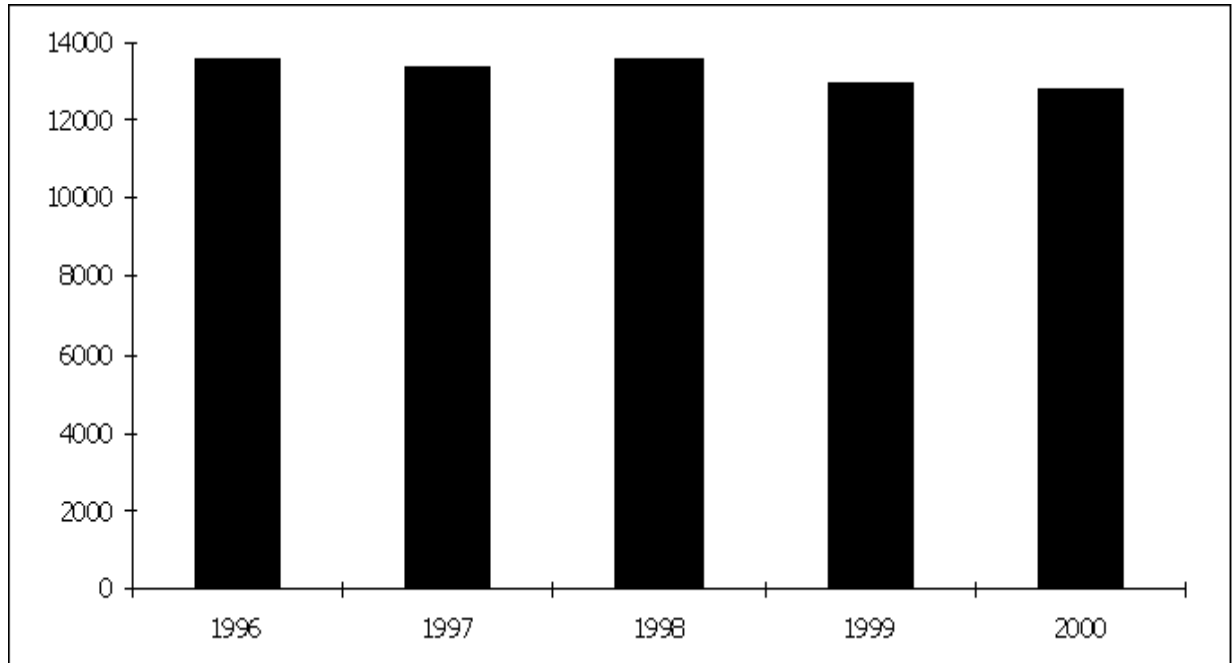
The Minister of Education did manage to avert a planned cutback of NIS 300 million in his ministry's budget but was unable to increase the budget by the NIS 1.5 billion he had set as his goal.

The education budget has been frozen for the past four years; its level in 2000 is identical, in real terms, to that of 1996. During those years, the number of school-age children increased by 7 percent. This means less money per child.

The graph below shows the Education Ministry budget in per-pupil terms and points to a decrease over the past two years, 1999 and 2000, after a plateau in 1996-1998.

## Education Ministry Budget, Per Pupil

NIS, constant 1998 prices, deflated by the Consumer Price Index



**Sources:** budget data--Ministry of Finance, *Provisions of the Budget*, Ministry of Education, Culture, and Sports, various years; enrollment data--computed from data in *Statistical Abstract of Israel* for the 5-17 age group.

### 1. The State Budget and Disparities in Resources among Schools

The education system needs a larger budget not only because the number of children is increasing but also because resource disparities among schools have been growing since the 1980s. On the one hand, some schools--those that manage to raise monies beyond the regular Education Ministry budget--are well-heeled. These are schools that benefit from "gray education," i.e., hours of instruction for which parents pay. It is estimated that one-third of Israeli schools belong to this category. Some of these schools also manage to attract philanthropic donations. These resource-intensive schools are also more adept than others at being included in projects or special programs initiated by the Ministry of Education. Furthermore, since most resource-intensive schools are situated in affluent municipal jurisdictions, they benefit from local budget injections. Finally, resource-intensive schools have more qualified teachers because they can afford to pay higher salaries. These schools are attended by most of the 33 percent of Israeli youngsters who complete high school with matriculation certificates that meet university entrance requirements.

At the other extreme are resource-poor schools, which have to operate within the standard Ministry of Education budget. These schools, situated in disadvantaged urban neighborhoods, Jewish development towns, and Arab localities, operate mostly with no increment from parents, no donations, few special Education Ministry

programs, no significant municipal aid, and a less-qualified teaching staff. These schools are attended by a majority of the 66 percent of young people who complete high school without receiving a matriculation certificate or graduate with one that fails to meet university entrance requirements.

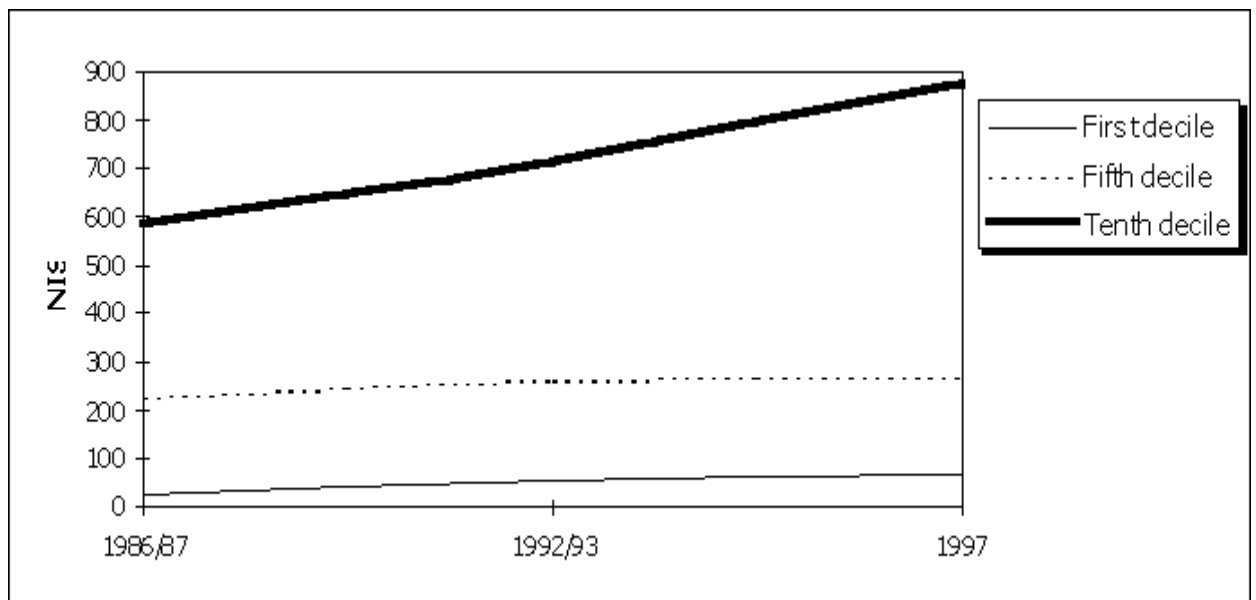
## 2. Erosion in the Education Budget Widens Social Disparities

The continuing erosion of the Education Ministry budget will inevitably widen disparities between high-income households, which can afford to enrich their children's schooling by means of "gray education," and households in the middle and low income deciles, which have to make do with whatever the education system provides.

The following graph, based on data from the Israel Central Bureau of Statistics *Family Expenditure Surveys* for 1986/87, 1992/93, and 1997, sheds light on the rising share of "gray education." The graph presents data on household outlays for "education services"--payments to education institutions ranging from day-care centers and preschools up to university. The graph shows that while the outlays of households in the first (lowest) and fifth (middle) income deciles increased slightly during this time, those in the tenth (uppermost) decile rose substantially. The data series is shown under the graph.

### Household Expenditure for Education Services First, Fifth, And Tenth Deciles, 1986-1997

NIS, constant 1998 prices (annual average)



Decile	1986/87	1992/93	1997
1 (lowest)	25.3	57.1	67.5
2	80.1	82.3	87.5
3	109.6	114.2	138.1
4	151.8	183.1	216.1
5	223.5	258.7	263.5
6	253.0	325.9	298.3
7	269.9	354.5	419.5
8	366.9	485.5	560.7
9	434.4	601.5	686.2
10 (highest)	586.2	710.7	874.8

**Sources:**

CBS, *Household Expenditure Survey, 1997, Initial Findings*, 1999.

CBS, *Household Expenditure Survey, 1992/93, Part B, General Summaries*, 1994.

CBS, *Household Expenditure Survey, 1986/87, Part A, General Summaries*, 1989.

One explanation for the widening disparity among the deciles is expenditure for higher education; enrollment in higher-education institutions is more common in the upper deciles and is on the rise. The recent establishment of private colleges has resulted in an increase in the average outlay for tuition in academic institutions. This is reflected in a jump in the average household expenditure for education services in the uppermost quintile (the two highest deciles) from 12 percent in 1992 to 19 percent in 1997 (CBS, *Household Expenditure Survey, 1992/93*, Table 1; *Household Expenditure Survey, 1997*, Table 1).

Another explanation for the gap is the large investment by upper-decile households in "gray education"--from parental payments to schools to bolster the basics to various kinds of enrichment opportunities. In view of the erosion of Education Ministry budgets, which are supposed to provide equal schooling for children from all social strata, upper-decile households are taking advantage of their superior personal financial resources to assure their children a richer education than that received by children whose parents have more modest incomes.

It should be noted that "gray education" is not private education, since it is based on the state education infrastructure. In "gray education," private money carves out a special preserve of sorts within the state framework. In other words, well-heeled

parents, under the patronage of the Ministry of Education, are using the state infrastructure to give their children a big advantage over other youngsters.

### **How to Cope with the Widening Gaps?**

The erosion of the education budget is liable to result in wider disparities, especially since the share of high-decile households in the Israeli income pie is growing. The uppermost deciles are using their rising income, *inter alia*, to give their children an advantage over other school children.

The way to halt the widening of resource gaps in education, and to narrow the existing disparities, is to increase *governmental* spending on education. A properly funded and equitable public education system is the best guarantee of a good education for the entire population, including the upper deciles. A public education system with a crumbling budget creates a breach through which private money can intrude--and in which upper-decile children can acquire an unfair advantage.

The increase in the education budget should be pledged to low-achieving schools and used to raise their level--in pedagogical, organizational, and budget terms--to an approximation of that of affluent schools. This should be done on a long-term basis, not through transitory programs and outside projects. Furthermore, the budget increase should be implemented in a way that will equip resource-starved schools with tools that resource-intensive schools have been obtaining by means of parents' money and private donations.

## **HEALTH SYSTEM-- EROSION OF FUNDING FOR PUBLIC HEALTH SERVICES**

### **1. The Widening Gap between Needs and Allocations for Public Health Services**

The public health system budget for 2000 augurs nothing new: the under-funding of public health services under the National Health Insurance Law is to continue, meaning that the burden on the consumers of health services--the patients--is not about to be eased and is likely to become more onerous.

What needs to be understood is that the most important decision in respect to the health system budget is the Cabinet resolution stipulating the cost of the package of insured health services. This is because various allocations--especially support for the insured services from the Finance Ministry--are derived from the cost of this package. (The Cabinet resolution on the cost of the total package of insured services is not presented to the Knesset for approval.)

In its meeting on September 7, 1999, the Cabinet ruled that the package of insured services in 2000 would cost NIS 17.555 billion (in 1998 prices). This sum represents a 3 percent increase relative to the corresponding figure in 1999, but the increment will not keep up with growing needs stemming from increases in the population at large

and in the proportion of the elderly population, along with changes in medical technology.

The 3 percent increase includes NIS 170 million earmarked for medicines and new treatments to be added to the package of insured services. Since this sum is far from sufficient, many life-saving drugs cannot be included.

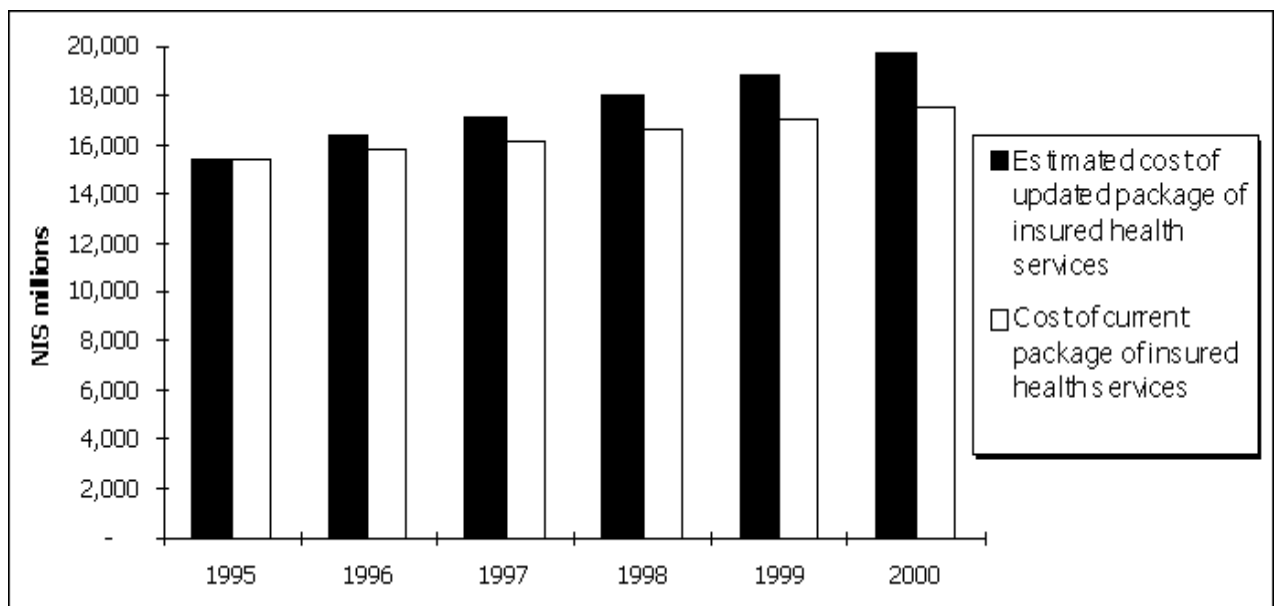
The graph below shows the cost of the package of insured services as stipulated by the Cabinet in 1995-2000 and compares this cost with the level that would be required if demographic changes as well as changes in medical technology were fully taken into account. The population data are age-adjusted. For changes in medical technology, the model is based on health experts' estimates that the cost of insured services should increase by 2-4 percent annually to keep pace with new technologies. We chose the lower limit of this range, 2 percent. The data series on which the graph is based is shown in the table under the graph.

The graph points to a widening gap between the cost of the insured health services, as stipulated by the Cabinet, and the cost that fully reflects demographic changes and the impact of improved medical technology.

### Cost of Insured Health Services, 1995-2000

#### Cost as Stipulated in Government Resolutions vs. Cost Reflecting Population Growth and Changes in Medical Technology

(NIS millions, deflated by the Health Price Index for 1998)





	1995	1996	1997	1998	1999	2000
Cost as stipulated by the Cabinet	15,441	15,798	16,144	16,614	17,045	17,555
Cost reflecting changes in demography and in medical technology	15,441	16,316	17,127	17,965	18,806	19,680

**Sources:**

Cost of insured health services according to government resolutions: calculated from data obtained from the Ministry of Health.

Population of insured: Gabi Bin-Nun and Shuki Greenblatt, *Distribution of Insured among Health Funds Before and After Passage of the State Health Insurance Law*, Table 9, Jerusalem: Ministry of Health.

**Computation of cost reflecting population growth and technological changes:**

\* The estimate of the requisite cost was computed by weighting the percent increase in standardized insured persons and the annual percent increase required because of technological improvements in medical services. In the estimation of health experts, technological changes warrant an annual increase of 2-4 percent in the cost of the package of insured health services. For the purpose of this computation, we chose the lower limit of this range, 2 percent.

\* Notably, there need not be a linear relationship between population increase and annual growth of the budget. Over a lengthy period of time, however, the budget should reflect population growth if it is to maintain health services at a given level.

**2. Erosion in Finance Ministry Funding**

The cost of the package of insured health services effectively determines the level of Finance Ministry support: that support has been declining steadily since 1995, and the 2000 budget proposal portends more of the same.

By means of the Economic Arrangements Bill, the Cabinet proposes to have high-income earners pay health tax on income up to five times the national average wage instead of four times thus far. In contrast to the common-sense impression, the increase will not channel additional resources into the health system, since the total cost of the package of services has already been set. The added revenue that the Finance Ministry expects to receive by raising the health-tax ceiling will merely reduce its own subsidy for the insured services.

Not only has the level of Finance Ministry support been declining, but the Cabinet also proposes to halve the allocation for the health funds' "safety net"--the subsidy that the Finance Ministry provides the health funds in compensation for under-funding. Even this support is not guaranteed; the Finance Ministry conditions its

transfer to the health funds on actions by the funds that it defines as "efficiency measures."

A final point: the new Administration has not kept its promise to eliminate the co-payments that the previous Administration introduced for visits to outpatient clinics and diagnostic tests; nor has it rescinded the increase in the prices of medicines. The Economic Arrangements Bill for 2000 abolishes only the quarterly payment for specialist physicians at the health funds' community clinics; the other payments, including the increased charges for medicines, will remain in effect.

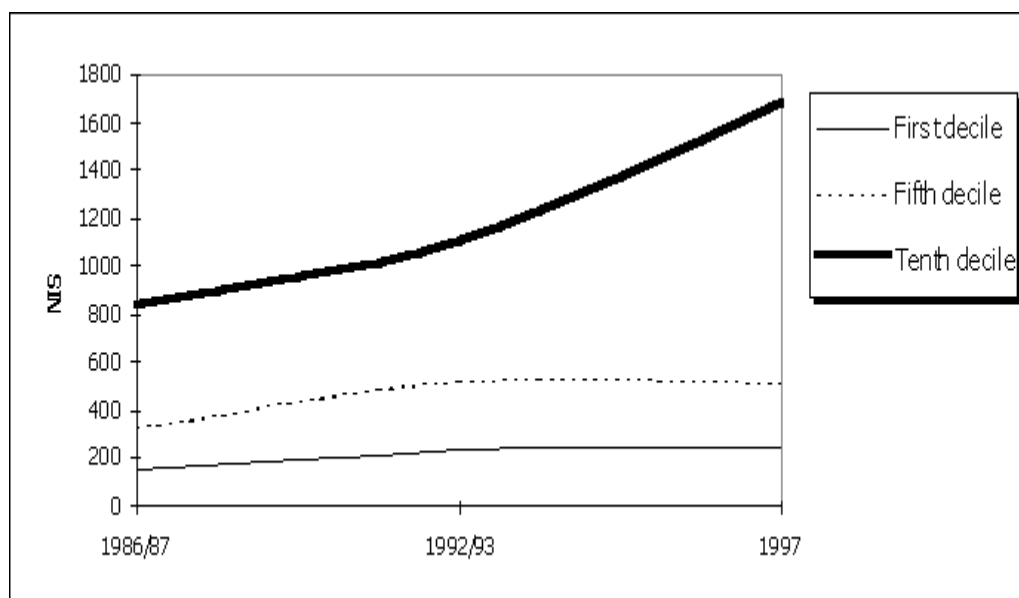
### **3. Eroding Budget for Public Health Services Widens Social Gaps**

The continued erosion in the resources allocated to the public health services, including the Finance Ministry's declining subsidy, cannot but lead to a widening of gaps between those in high income deciles, who can afford the new payments imposed and can purchase supplemental insurance and private services, and those in the middle and low deciles, who are struggling to meet the new payments and, in the main, have to make do with the basic package of services that the state health system offers.

The following graph, based on data from the CBS *Household Expenditure Surveys* for 1986/87, 1992/93, and 1997, gives an idea of the rising share of supplemental insurance and outlays for private medicine. The graph presents statistics on households' health outlays--health tax, supplemental insurance, and private expenditure for dental care and other health services. The graph shows that while the health outlays of households in the first (lowest) and the fifth (middle) income deciles increased slightly during this period, outlays in the tenth (highest) decile grew substantially. The data series is shown under the graph.

## Household Expenditure for Health Services First, Fifth, and Tenth Deciles, 1986-1997

NIS, constant 1998 prices (annual average)



Decile	1986/87	1992/93	1997
1	152	234	247
2	202	376	407
3	270	391	405
4	299	474	463
5	329	521	516
6	422	588	674
7	455	684	759
8	510	773	920
9	612	916	1,073
10	835	1,100	1,680

**Sources:**

CBS, *Household Expenditure Survey, 1997, Initial Findings, 1999.*

CBS, *Household Expenditure Survey, 1992/93, Part B, General Summaries, 1994.*  
CBS, *Household Expenditure Survey, 1986/87, Part A, General Summaries, 1989.*

The increase in expenditure by households in the uppermost decile reflects, among other things, the health tax that was introduced as part of the National Health Insurance Law. The upper deciles pay more in health tax today than they used to pay in health fund membership dues, while the lower deciles pay less. The graph also reflects a trend that research findings corroborate: high-income earners are increasingly inclined to buy supplemental and private insurance while middle- and low-income earners continue to make do with the basic package.\*

\*Bramli-Greenberg, Shuli, and Revital Gross, 1999, *Supplemental and Commercial Health Insurance 1998: Policy Changes, Financial Changes, and Consumers' Behavior*, Jerusalem: Brookdale Institute.

Thus, the graph points to the substantial advantage that upper-decile households are steadily acquiring, relative to those beneath them on the income scale, in respect to health services. By augmenting the existing public health infrastructure with their own resources, these households are securing high-quality health services. In contrast, households in the middle and low deciles are forced to settle for the basic services of the public health system, for which funding is steadily eroding.

The protracted erosion in the cost of the package of insured health services portends a widening of gaps. As declining budgets are increasingly propped up by co-payments, well-heeled patients are acquiring a significant advantage over counterparts with middle and low income.

### **Two Sides of the National Health Insurance Law**

The data on household health expenditure illuminate the two sides of the National Health Insurance Law. On the one hand, today's health tax is more just than the membership dues previously charged, since the upper deciles are paying more than in the past and the lower deciles are paying less. On the other hand, funding for the package of insured health services has been slipping, thereby giving ingress to alternatives based on private money--supplemental insurance, for example--in which the upper deciles have an edge.

### **How to Cope with the Widening Gaps?**

The erosion in funding the package of insured health services is threatening to widen disparities, especially in view of the expanding slice of Israel's income pie that goes to the upper deciles. The upper deciles are using their rising income, *inter alia*, to purchase health services on a higher level than the basic package.

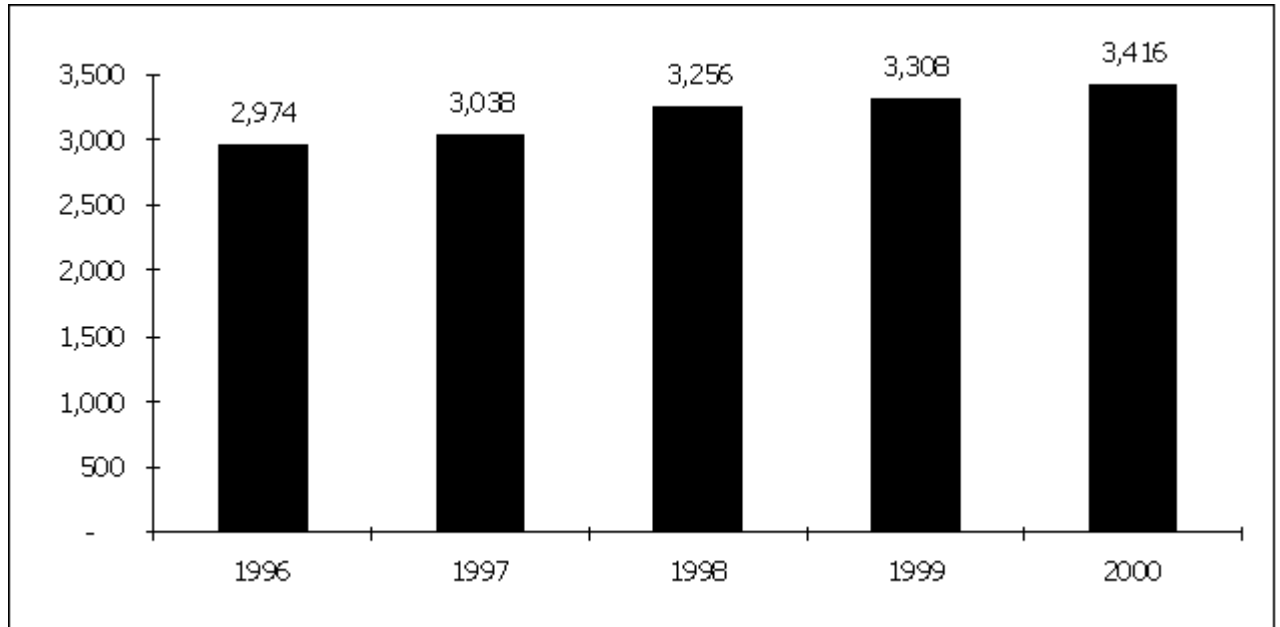
The way to arrest the widening of health disparities and to narrow the gaps that have already formed is to increase *governmental* spending for health. A properly funded and equitable public health system is the best guarantee of adequate health services for the entire population, including members of the upper deciles. A public health system that suffers from budget slippage will erode the level of health services for low-decile households. Ultimately, too, investment in the public health system reduces rather than increases the national expenditure on health.

### **MINISTRY OF LABOR AND SOCIAL AFFAIRS**

The Ministry of Labor and Social Affairs budget for 2000 is NIS 3.7 billion (in current prices)--slightly higher in real terms than in 1999. Among the budgets of the social ministries, the Labor and Social Affairs Ministry budget stands out for having neither eroded nor stagnated between 1996 and 2000. The Ministry budget increased by 15 percent during those years, with the most significant growth--7 percent--occurring in 1998.

## Budget of the Ministry of Labor and Social Affairs, 1996-2000

(Constant 1998 prices, NIS millions)



**Source:** Ministry of Finance, *Budget Provisions, Ministry of Labor and Social Affairs*, various years.

### 1. The Vocational Training Division Budget Does Not Reflect the Increase in Unemployment

Despite the 15 percent increase in the Ministry's total budget between 1996 and 2000, the budget of the Vocational Training Division, the second-largest division in the Ministry, grew by only 10 percent during these years (see table below)--while the number of jobseekers climbed by 37 percent (a figure that does not reflect the full extent of unemployment).

The Vocational Training Division is one of the government's main tools in tackling the increase in unemployment. Nevertheless, the Division budget will be NIS 742 million in 2000 (current prices)--almost unchanged from 1999.

	1996	1997	1998	1999	2000
Jobseekers	100.0	124.7	136.2	135.5	137.6
Vocational Training Division budget	100.0	99.8	105.2	110.5	110.1

**Source:** *Statistical Abstract of Israel*, various years; Ministry of Finance, *Budget Provisions*, Ministry of Labor and Social Affairs, various years.

## 2. More Children--No Increase in Day-Care Centers

The Women's Employment Division of the Ministry of Labor and Social Affairs is tasked, in the main, with subsidizing day-care and family-care centers. In 2000, the Women's Division budget will be NIS 329 million in 2000 (current prices), up by 10 percent in real terms from 1999. This follows a lag in the Division budget in 1996-1999--a 5 percent increase while the population of children aged 0-4 grew by 7.4 percent (CBS, *Statistical Abstract of Israel*, various years).

In 1998, the system of day-care and family-care centers was serving some 74,000 children, 12 percent of the 0-4 age group.

### **An Experiment That May Have an Adverse Effect on Thousands of Families**

The Labor and Social Affairs Ministry budget for 2000 includes a small allocation--NIS 0.5 million--for an experiment entitled "Reform for Integrating the Chronically Unemployed into the Workforce." The underlying assumptions of this reform threaten to undermine Israel's income-maintenance system.

The inspiration behind the experiment comes from a conservative policy that several Western countries have adopted, the aim of which is to reduce transfer payments (social insurance allocations), especially for income maintenance. The idea is that the state should cease to guarantee a minimum income to citizens who find it difficult to function in the labor market, making them responsible for their own well-being - for better or for worse.

The best known model is the Wisconsin model, under which recipients of Aid to Families with Dependent Children are steered into the labor market by private placement agencies. Participants are eligible for government assistance for 5 years. Afterwards, the aid is terminated and the clients are expected to make do on their wages only.

The Wisconsin model attracted attention when President Clinton decided to abolish the federal AFDC program, in what was called "the worst thing President Clinton has done" (Peter Adelman, *Atlantic Monthly*, March 1997). The "success" of the Wisconsin model is guaranteed *ab initio*; the purpose of the experiment is

to reduce income-maintenance payments, and payments are indeed terminated. The model has attracted considerable criticism: according to follow-up data, most placements are in low-wage temporary jobs that do not assure a reasonable income in the long term. In many cases, the participants earn less from their labor than they had from income maintenance and related benefits. Consequently, the clientele of public kitchens and welfare organizations has been growing. There are fears that when the experiment ends--five years down the line--thousands of people will be left without income from work *and* without income maintenance benefits (Institute for Wisconsin's Future, June 1998).

### **Who's at Fault for Unemployment? The Unemployed!**

The new Cabinet appears to be pursuing its predecessor's policy of slashing unemployment compensation payments: the current proposal includes reducing the maximum term for such payments from 138 days to 100 days for unemployed persons up to age 35 and from 175 days to 138 for unemployed persons with three or more dependents.

The Economic Arrangements Bill for 2000 justifies this policy by defining it as "reducing abuse of eligibility for unemployment compensation." Thus, the Executive points an accusing finger at the unemployed instead of probing its own actions--since, after all, as an important economic player, it shares the responsibility for the high level of unemployment.

Governments around the world have been taking practical initiatives to mitigate unemployment--from the French initiative to introduce a 35-hour workweek to the German initiative to train young people for work in sophisticated industries. Israeli governments prefer to save money by lowering unemployment compensation payments and blaming the unemployed for their own joblessness.

### **Finance Ministry Shirks its Obligations to Cover the Unemployment Division Deficit**

The first clause in the Economic Arrangements Bill for 2000 urges the Knesset to allow the government to cover the deficit of the Unemployment Division of the National Insurance Institute (Social Security) by transferring the appropriate sum from the Child-Allowance Division, which has a current surplus.

This proposal, which Finance Ministry officials have aired repeatedly in recent years, undermines the operating principles and the very autonomy of the National Insurance Institute. Most benefits that the Institute pays are based on the principle of insurance, i.e., the total national insurance contribution, remitted by workers and employers, is divided into various sublines--child allowances, old-age pensions, and so on. Each subline is autonomous and meant to pay for a specific benefit.

The Finance Ministry proposes to infringe upon the spirit of the National Insurance Law by placing all collections in one basket, in disregard of the divisional distinctions. This intention, if endorsed by the Knesset, will endanger the long-term stability of each separate benefit. Furthermore, the aggregation of all benefits will



transform national insurance contributions into an ordinary tax, such as income tax, instead of an insurance premium for specific purposes.

### **Legal Ghetto for Foreign Workers**

The lengthiest section in the Economic Arrangements Bill for 2000 is a bill concerning foreign workers ("Amendments to the Foreign Workers [Unlawful Employment] Law, 5751-1991"). This proposal, originally presented to the Knesset Labor and Social Affairs Committee as a separate bill, met with objections and has resurfaced now as part of the Arrangements Bill.

Ostensibly, the bill aims to ensure foreign workers' rights in fields such as health insurance, pension, and living conditions. Its effect, however, is to create a special and separate legal framework for foreign workers, despite the existence of protective legislation pertaining to all workers in Israel. Instead of acknowledging the presence of hundreds of thousands of foreign workers and upholding their rights by enforcing existing statutes, the government is taking action to create a legal ghetto, in which foreign workers will be separated off from Israeli workers. Three civil rights organizations - the Kav La-Oved Workers' Hotline, the Association for Civil Rights in Israel, and Physicians for Human Rights - have presented the Knesset Labor and Social Affairs Committee with formal objections in this vein.

The bill concerning foreign workers is conceptually reminiscent of the Free Export Processing Zone Law. The FEPZ Law is meant to allow foreign investors to create a territorial enclave in which Israelis would work without full protection of domestic labor laws. While the FEPZ law creates a territorial legal ghetto, the proposed amendment to the Foreign Workers Law threatens to create a personal one.

The first casualties of the Foreign Workers Bill will be foreign workers. Eventually, however, Israeli workers will be harmed as well, since the formalized existence of a separate, weak, and isolated category of workers will eventually undermine their status as well.

The Knesset should defeat this proposal, inserted in the Economic Arrangements Bill, and demand that the laws applying to Israeli workers be fully applied to foreign workers as well. Instead of passing a separate law for foreign workers, the Knesset should insist on the enforcement of existing laws vis-a-vis all workers in the country.

### **MINISTRY OF CONSTRUCTION AND HOUSING**

The Ministry of Construction and Housing budget for 2000 is NIS 10 billion (in current prices, including spending authorization for investment), virtually unchanged from 1999. Most of the Ministry's budget is used for assistance for homebuyers and rent support.

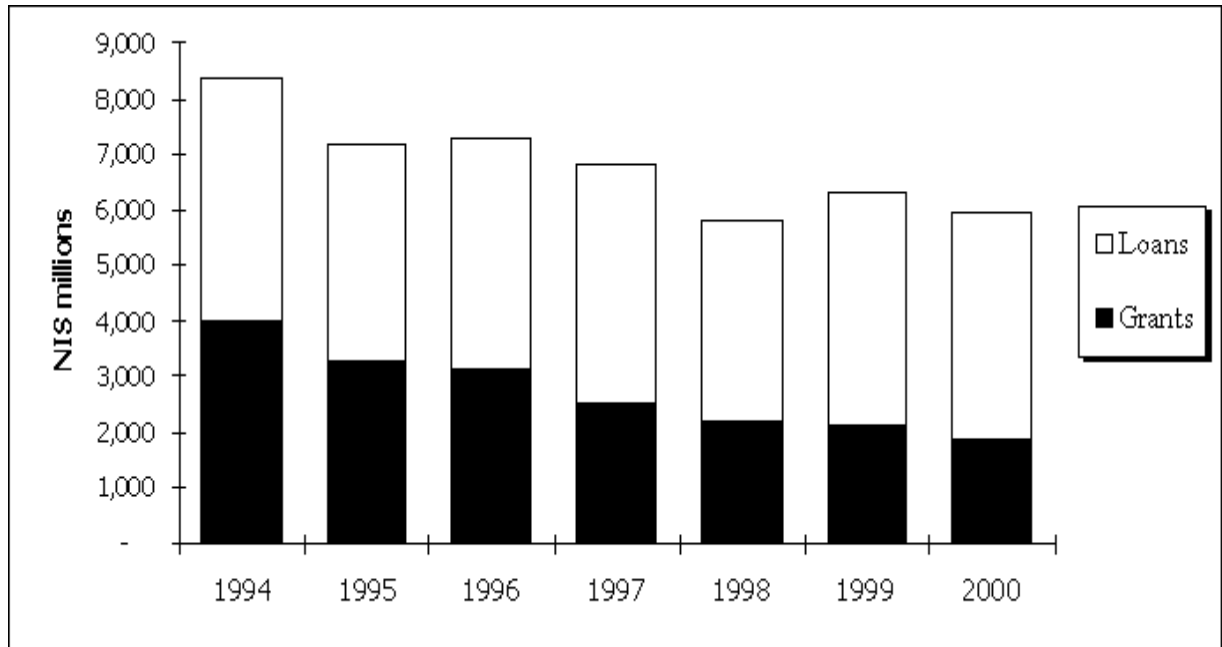
#### **1. Assistance for Homebuyers**

Assistance for homebuyers is provided in the form of homebuyers' loans and grants, given under the following criteria: number of years married, number of siblings of both spouses, number of children, and location of the dwelling being purchased. Since the assistance is given to all eligibles who apply for it, the sums appearing in the

budget proposal reflect the Ministry's estimate of expected housing assistance takeup over the coming year.

### Homebuyers' Assistance Budget, 1994-2000

NIS millions, constant 1998 prices



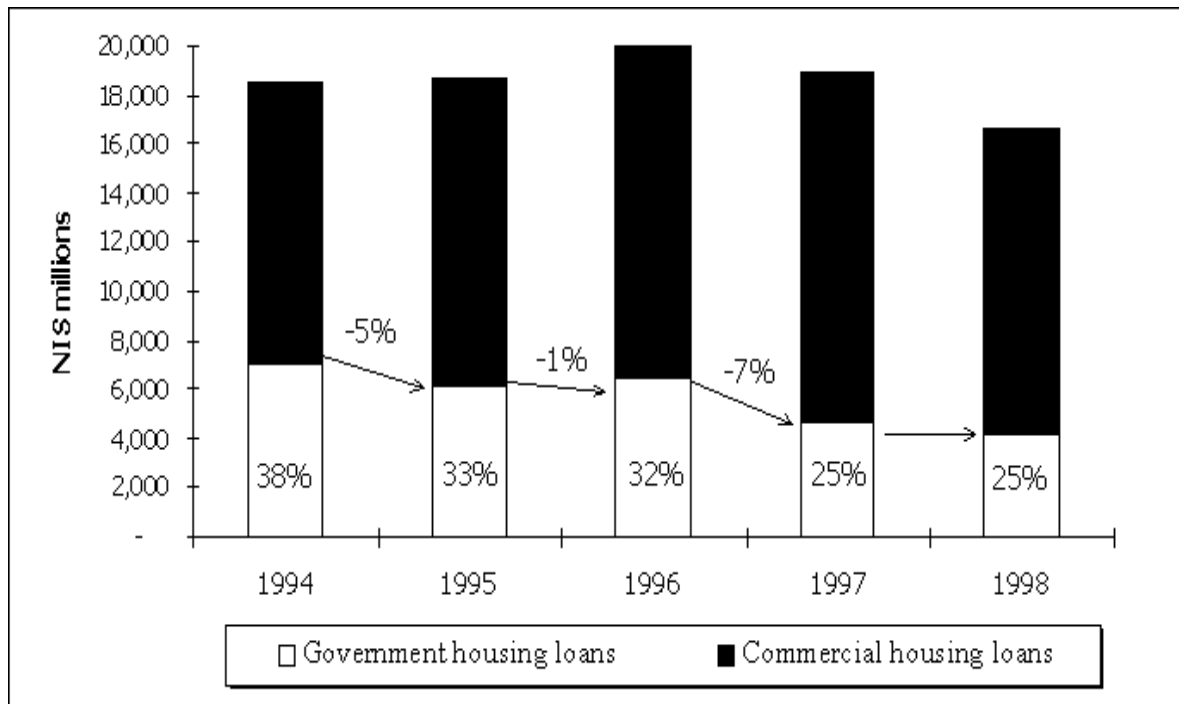
**Source:** Ministry of Finance, *Budget Provisions, Ministry of Construction and Housing*, various years.

**Note:** Includes budget lines 4209, 4210, 7009, 7010, and 7011.

The graph above shows changes in the homebuyers' assistance budget in 1994-2000 and indicates that the total budget for assistance in homebuying has been decreasing. Although the decline reflects the fact that a majority of recent immigrants have already exercised their eligibility, it may also trace to the erosion that has occurred in the real value of government housing loans. Despite an upward adjustment in August 1998, these loans continues to account for a declining share of the total credit that homebuyers must take to consummate their purchases. In 1994, government housing loans accounted for 38 percent of the total credit (government loan plus commercial bank loan) needed to purchase a dwelling. This share fell to only 25 percent in 1997 and remained at that level in 1998. The declining level of government housing purchase assistance means that homebuyers who lack sufficient capital for a down-payment and collateral for bank loans are unable to purchase a home.

The graph below presents the figures.

## Homebuyers' Credit--Governmental and Commercial Housing Loans, 1994-1998



**Source:** Ministry of Finance, *Budget Proposal for Fiscal Year 2000*, Ministry of Construction and Housing, p. 85.

The Ministry of Construction and Housing offers additional assistance to homebuyers who purchase homes in "national priority" areas. The aid is given partly as a loan and partly as a grant. This supplemental assistance ranges from NIS 80,000 in Class A National Priority Areas to NIS 30,000-NIS 60,000 in Class B areas. The supplemental assistance budget for homebuying in national priority areas will be NIS 865 million in 2000 (current prices)--9 percent less in real terms than the sum budgeted in 1999. Notably, homebuyers in national priority areas also receive development grants from the government.

Adva Center recommends that the new government rescind the current policy, in which national priority areas are determined in accordance with the ruling party's political leanings, and, instead, base national priority on localities' socioeconomic profile. If this recommendation is adopted, the budget of the Ministry of Construction and Housing for assistance to national priority areas could become an effective tool for increasing housing equality.

## 2. Rent Support

Another form of government housing assistance is rent support, given in the form of participation grants. Eligible for this assistance are recent immigrants, low-income young couples and those with high eligibility rankings (more than 1,600 points), and persons who live on income maintenance or on an allowance for absence of earning ability.

The rent support budget for 2000 is NIS 1,286 million (current prices), 7 percent higher than in the 1999 budget proposal. The table below shows the rent support budget in 1999 and 2000.

### Budget for Rent Participation Grants, 1999-2000

NIS millions, constant 1998 prices

	1999	2000	Percent change
Total	1,127.6	1,208.6	7%
Recent immigrants	774.2	935.8	21%
Non-immigrants	324.4	242.1	-25%
Other*	29.0	30.6	6%

**Source:** Ministry of Finance, *Budget Provisions, Ministry of Construction and Housing, 1999; State Budget Proposal for Fiscal Year 2000.*

**Note:** "Other" includes a budget for sliding-scale rent in public housing and a budget for sheltered housing for the elderly.

As the table shows, the increase in the rent-support budget was propelled by a 21 percent increase in grants for recent immigrants, whereas the grant budgets for non-immigrants decreased by nearly the same rate.

#### **Worsening of Terms for Young Couples and Single-Parent Families**

The Cabinet proposes to revise the rent-support criteria for non-immigrant young couples and single-parent families who do not receive the National Insurance basic-needs allowance. The underlying idea is that a household that gets by without income maintenance support does not need rent support either. Accordingly, an income test is to be introduced on top of existing eligibility criteria.

While it is certainly justified to withhold rent support from the better-off, the current recommendation would also withhold this support from many low-income households.

#### **Interurban Transport Infrastructure**

In 2000, the main area that will benefit from a larger budget allocation is transport infrastructure. The most significant part of this increase--NIS 350 million (in 2000 prices)-- is to be earmarked for the investment budget of the Public Works Department (PWD).

Increasing the transport infrastructure budget is one of the most important means the government is taking to stimulate growth and employment. This action stands out favorably in view of the stagnation and erosion that characterize other parts of the 2000 budget proposal.

The increase in the transport infrastructure budget should be examined in view of two considerations:

*First--how the increment will be divided between motor transport (cars and buses) and rail transport.* Rail transport is considered preferable to motor transport for several reasons, including safety, environmental quality, land use, and fuel conservation. Rail transport development also creates steady employment, unlike motor transport development, which creates temporary jobs that may be filled chiefly by foreign workers.

Israeli governments have traditionally encouraged motor transport. Investment budgets for transport infrastructure have been used primarily to expand the highway system, leaving little for railroads. In Western European countries such as the Netherlands, in contrast, investment budgets for railroads have been larger than those for roadbuilding. In the Netherlands, upkeep of public transport (i.e., operating subsidies) has also received a large share of the budget.

The overdevelopment of the road system and the neglect of rail transport in Israel are exacerbating dependency on motor transport and, perforce, the problems of congestion, air pollution, and safety. Moreover, the preference of roads is helping to widen social disparities, since ownership and use of motor vehicles rise commensurate with income.

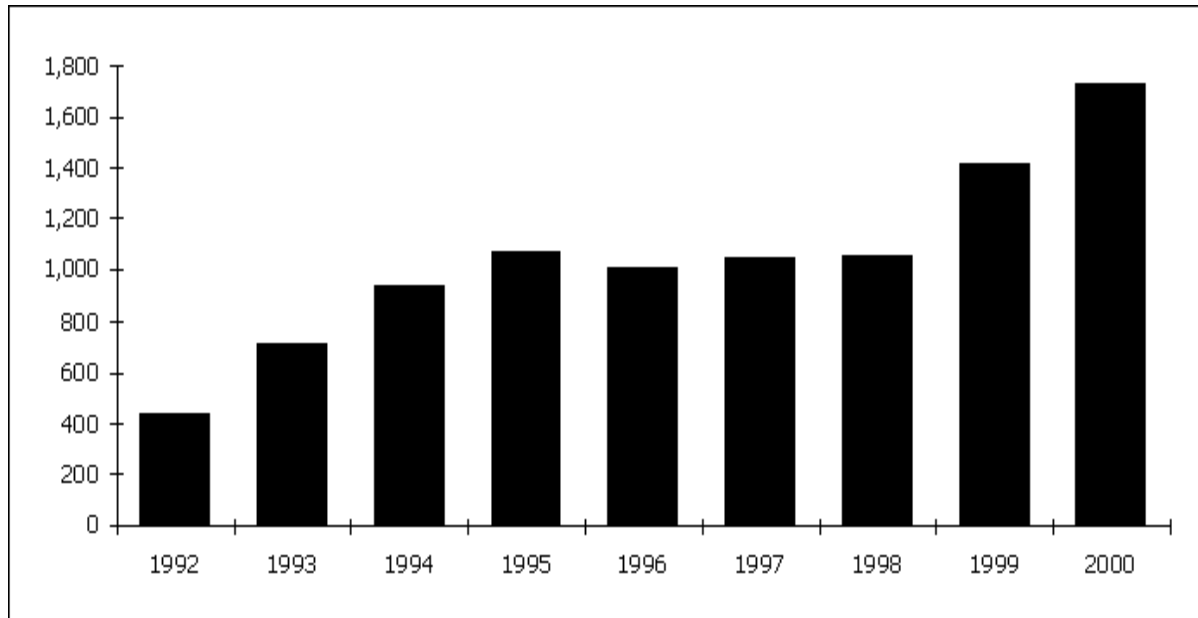
*Second--how the increment will be apportioned among different parts of the country.* In the past, the central district was given conspicuous priority. This preference has diminished the opportunities of residents of peripheral areas in the labor market, in productive activities and in cultural pursuits.

### **Development Budgets for Interurban Transport**

The investment budget for 2000 is NIS 1.9 billion--22 percent higher than in 1999 in real terms. Actually, the previous government had also decided to increase this budget significantly, after five years of standstill. Notably, most of this budget is pledged to the completion of long-term projects begun between 1995 and 1999.

## Development Budget of the Public Works Department, 1999-2000

NIS millions, constant 1998 prices,  
deflated by the Roadbuilding Inputs Price Index, annual average



**Sources:** 1992-1996: Ministry of Finance, *Budget Provisions, Ministry of Construction and Housing*; 1997-1998: Ministry of Finance, *Budget Provisions, Ministry of National Infrastructures*; 2000: Ministry of Transport, *Budget Proposal for 2000*.

### 1. Roadbuilding

The government's obvious preference for motor transport is manifested in its apportionment of the PWD investment budget, with 68 percent (NIS 1.3 billion) pledged to roads. This sum is divided as follows:

- *Highways, interchanges, and overpasses:* an earmarked budget to ease congestion on interurban highways. About 70 percent of this budget is designated for the Central District.
- *Regional development:* earmarked projects to improve connections between distant Galilee and Negev areas and the center of the country, and to improve and bolster economic infrastructure in those areas.
- *Trans-Israel Highway:* an earmarked budget for the acquisition of title to land along the route of the highway. The project itself is to be financed mainly by the franchise holder. Nevertheless, government expenses for this project are rising.

The table below shows the changes in these budgets between 1999 and 2000

### Roadbuilding Budget, 1999-2000

NIS millions, constant 1998 prices

Deflated by the Roadbuilding Inputs Price Index (annual average)  
2000 budget is adjusted according to the Finance Ministry forecast  
for changes in building input prices

		1999	2000	% change
<b>Highways, interchanges, and overpasses</b>	Central District	431.6	564.6	31%
	Northern District	154.3	162.8	6%
<b>Regional development</b>	Development of northern areas	36.0	49.4	37%
	Development of southern areas	79.9	68.6	-14%
	Joint projects	66.9	67.7	1%
	Druze and Arab sector	27.7	27.4	-1%
	Bypass roads	32.8	7.3	-77%
<b>Trans-Israel Highway</b>		102.0	98.1	-4%

**Sources:** 1999--Ministry of Finance, *Budget Provisions, Ministry of National Infrastructures*; 2000--Ministry of Finance, *State Budget Proposal for Fiscal Year 2000*.

The table shows that the budget for roadbuilding in the Central District will increase by 31 percent in 2000. Another significant increase (37 percent) will occur in development in the Northern District, including completion of the Nazareth bypass as part of Project Nazareth 2000 and roadbuilding projects between Confrontation Line localities and the center of the country.

In contrast, the investment budget for southern areas will decrease by 14 percent, and that for the Druze and Arab sector will remain at its 1999 level.

A very significant change has occurred in the budget for bypass roads in the occupied territories: a 77 percent decrease. Notably, this follows a 206 percent increase in 1999 relative to 1998.

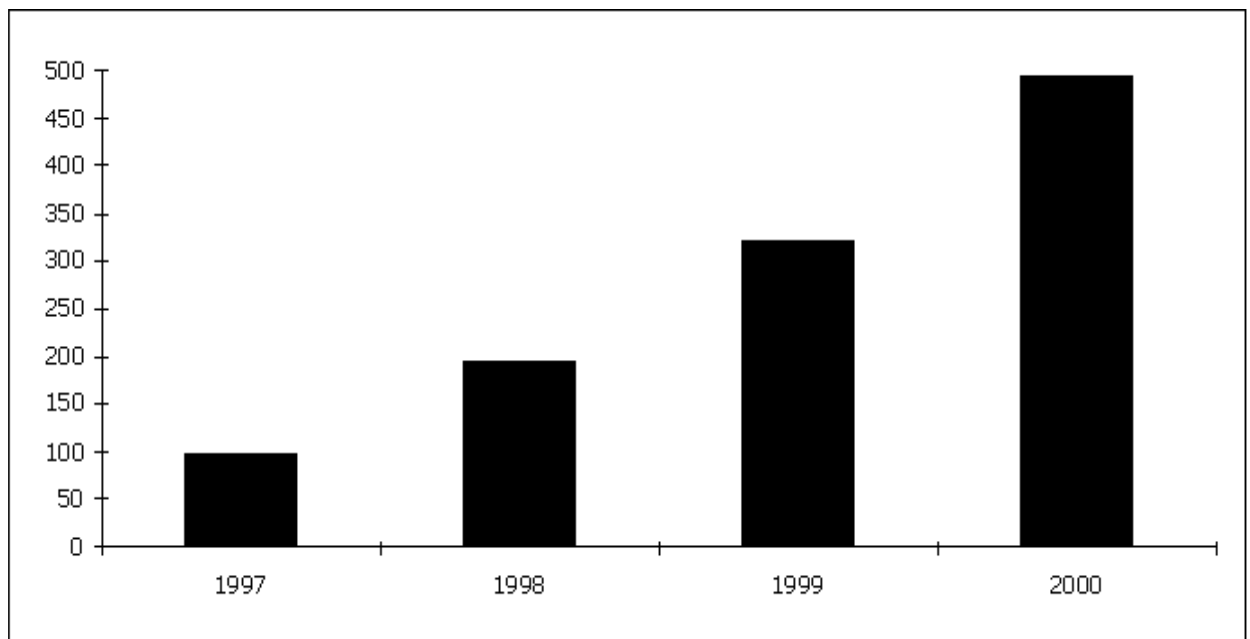
## 2. Railroads

Since 1997 the PWD budget has included funding for railroad investment, in accordance with the Cabinet resolution to separate the Israel Railways from the Ports and Railroads Authority. The railroad investment budget in 2000 will be NIS 549 million, up 54 percent from 1999. This budget line has been growing more rapidly than the total investment budget. The following graph shows the trend since 1997.

### PWD Budget for Railroad Development, 1997-2000

NIS millions, constant 1998 prices

Deflated by the Roadbuilding Inputs Price Index (annual average).  
Budget for 2000: adjusted in accordance with the Finance Ministry forecast for increases in building inputs prices



**Sources:** 1997-1999--Ministry of Finance, *Budget Provisions, Ministry of National Infrastructures*; 2000--Ministry of Finance, *State Budget Proposal for Fiscal Year 2000*.

Another encouraging figure is the increase in the share of railroad investment in the total PWD investment budget--which, as shown in the table below, has risen from 9.2 percent in 1997 to 28.5 percent in 2000.



**Share of Railroad Development in the PWD Development Budget  
1997-2000**

<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
9.2%	18.4%	22.5%	28.5%

**Sources:** 1997-1999--Ministry of Finance, *Budget Provisions, Ministry of National Infrastructures*; 2000--Ministry of Finance, *State Budget Proposal for Fiscal Year 2000*.

**Trans-Israel Highway and Preference for the Road System**

Although the railroad investment budget has grown, the road system still occupies the top position on the national priority list. The largest transport project being planned in Israel is Route 6, the so-called Trans-Israel Highway--a project that reflects a planning concept that, in the opinion of many experts, is more suited to the 1950s and 1960s than to the 21<sup>st</sup> century.

In contrast, the state budget gives no priority to completing main rail arteries such as a modern high-speed coastal railroad that could connect Israel's main population centers. Such a line could make the central area accessible to most of the population and ease the pressure on the highways.