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A Gender Perspective on the Proposed Budget for the State of Israel: 2005 Fiscal Year

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A Gender Perspective on the Proposed Budget for the State of Israel 2005 Fiscal Year

The first notable fact about the proposed budget for 2005 is that it contains a cutback amounting to NIS 6.3 billion. If we add to this figure the seven budget cuts made since 2001, we arrive at the sum of NIS 60 billion (in current prices), a very significant figure, considering the fact that Israel's operating budget for 2005 (not counting debt servicing and interest payments) amounts to NIS 170.3 billion.

The 2005 budget and the accompanying Budget Arrangements Law are a good reflection of the neo-liberal stance of the present administration: they include income tax breaks, especially for high-income persons, and tax breaks for businesses and employers, along with cutbacks in the social services and in the social safety net, and structural changes in the National Insurance Institute (Social Security) and the public health system.

The present report will look at the following topics:

Tax Breaks

Structural Changes

Cutting Social Security Payments

Creation of a For-Profit Health Maintenance Organization

Closing Down Well-Baby Stations

Social Service Budgets

The 2005 Budget and the Social Services

Education

Health

Vocational Training

Budget Allocations Earmarked for Women

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Tax Breaks

One of the main problems with the 2005 budget is that at the same time that allocations for social services and for the social safety net are being reduced, high-income persons are getting significant tax breaks. The so-called "tax reform" initiated in 2003, originally planned to be phased in over a 5-year period, is now to be

completed in 2006, when employed persons earning NIS 25,000 a month and above will receive a tax break of NIS 2,000 or more.

Unfortunately, very few Israelis, and even fewer Israeli women, take an interest in the subject of taxation. Despite the close connection between taxation and government activity, Israelis generally do not argue over taxes. The approach of the present administration – as well as that of its predecessor – is that both taxes and government activities need to be curtailed.

The problem is that Israelis expect high-quality public education and public health, a strong social safety net, and research and development activities designed to stimulate economy activity - and the wherewithal to operate in these areas comes mainly from taxation.

However, the 2005 budget continues the current trend of tax reductions. According to the Ministry of Finance, in 2004 and 2005 the government will lose eight billion shekels in tax revenues due to income tax breaks.

Most of the persons who stand to gain from the loss are men. If we look at the number of persons whose gross salaries will entitle them to a generous tax break (figures are available for gross salaries of NIS 21,000 and above), we find that 6.4 percent of male employees, or 64,175 persons, were at that salary level in 2002. In contrast, only 0.9 percent of female employees, or 8,917 women, earned salaries at that level.

We believe that it is in the interests of women to demand a freeze on the income tax “reform” and to insist on the allocation of tax monies to social services.

Structural Changes

The 2005 budget and the accompanying Budget Arrangements Law include three structural changes that will have far-reaching effects on women in Israel: a reduction in employers' social security payments on behalf of their employees, the creation of a

for-profit Health Maintenance Organization, and the transfer of preventive services (well-baby stations) from the Ministry of Health to the HMOs.

1. Cutting Social Security Payments

The National Insurance Institute (Social Security), whose purpose is to guarantee a social safety net that will enable Israelis to maintain a reasonable standard of living in case of unemployment, work injuries or retirement, has been under attack for four consecutive years. Cut after cut was made in social security allowances, despite the fact that in most cases, a good part of those allowances was financed by payroll taxes paid by workers and employers.

Whether we are talking about old age, unemployment, birth or the need for nursing care, women are the most important clients of Social Security: they constitute the majority among recipients of survivors' and old-age pensions, unemployment compensation and nursing care assistance. Not to mention birth allowances.

It is in the interest of the vast majority of Israelis to preserve the National Insurance Institute. The social safety net that it provides is important for all Israeli citizens, but especially for women.

If the financial base of the National Insurance Institute becomes shaky, the safety of Israeli citizens, women first and foremost among them, will also become shaky.

The 2005 budget proposes reducing the social insurance payments of employers, from 5.93 percent of wages of employees to 4.43 percent of wages, in three stages. At completion, the change will involve an annual loss of revenue of NIS 3.2 billion. Even today, Israeli employers contribute less to the social insurance of their employees than employers in many other developed countries.

In the past, when employers' contributions were reduced, the National Insurance Institute was compensated for the loss from general taxation revenues. Not this time. This time, compensation is to be only partial and only temporary. In the end, the change will involve an annual loss of NIS 5.3 billion in revenues.

It should be added that reducing employers' social insurance payments is not intrinsic to the budget. This is a structural change whose avowed purpose is to benefit Israeli employers, and as such it ought to be debated like any other law. Putting it in the Budget Arrangements Law, when it is not directly related to the budget itself, is basically undemocratic, as the budget-approval process does not allow serious debate on any one subject. It is not unreasonable to assume that most of the legislators that vote for the change will not have a good grasp of its implications.

We believe that it is in the interests of women to look out for the interests of the National Insurance Institute, so that the National Insurance Institute can look out for their interests.

2. Creation of a For-Profit Health Maintenance Organization

Experience from other countries shows that for-profit HMOs (1) generate unnecessary expenses, and (2) tend to cream-skim, that is, cater to persons who are young, healthy and/or in high-income brackets. These are the clients who cost less money, as they do not need a lot of services, and when they do need services, they can be expected to pay more for them.

At present, the law requires HMOs to be non-profit. The Budget Arrangements Law includes a proposal to create a for-profit HMO. If approved by the Knesset, a for-profit HMO will destabilize the public health system, for in all likelihood, it will cater to the young, healthy and well-off, leaving the others to the public HMOs. If this happens, Israelis will find themselves with two types of HMO, one for the well-off and the other for low-income people.

Moreover, two of the existing non-profit HMOs may be expected to opt to become for-profit.

But the damage does not stop there. Changing the law to allow for for-profit HMOs will expose Israel to new demands, in the framework of the International Agreement

on Trade in Services (GATS), to open the Israeli public health system to transnational corporations.

Why do we view such a development as negative? The answer: we view access to health services as a basic social right rather than as a consumption choice. We see health services as public goods that governments should provide for their citizens, just like education services. And we are of the opinion that public goods should be provided by non-profits, so that their first priority is the health of the citizenry (in the case of health services) and not the profits of the stockholders.

Israeli women ought to be concerned over the proposal to set up a for-profit HMO, for two reasons. Firstly, women constitute the majority of employees in the public health system, and privatization will worsen their employment conditions. Secondly, women need the health system more than men, due to a few basic “facts of life”: they give birth, they suffer from more chronic illnesses and they live longer than men. Persons 75 years and older cost the health system 7 times more than younger persons.

It is our belief that women need to mobilize to preserve the health system as a public health system that benefits all Israelis, regardless of their ability to pay.

3. Closing Down Well-Baby Stations

In August 2004, the Israeli Cabinet resolved to transfer NIS 150 million to the HMOs (over a three-year period), so that they could operate preventive services for pregnant women, infants and schoolchildren in 20 localities. The changeover was described as a “pilot project.”

However, the real purpose of the resolution was to impose by stealth what could not be implemented by the democratic process, as it failed to gain acceptance in previous years: to close the well-baby stations run by the Public Health Division of the Ministry of Health and transfer their services to the HMOs.

The excuse for the transfer is that old buzzword – “efficiency” – in other words, to provide the same service for less money. The idea is to have the HMOs take over all

the health services provided under the National Health Insurance Law. This sounds logical, but there are a number of good reasons not to transfer well-baby clinics. One is that the present service works and gets results, among them, high inoculation rates for infants, even in the poorest, most peripheral areas of the country. Another is that well-baby clinics focus on preventive care. In contrast, the HMOs focus on curative medicine, and it is likely that any preventive care they are asked to provide will be pushed to the margins and deprived of adequate resources. Finally, the well-baby clinics, 80% of which are operated by the Ministry of Health, are inexpensive: in 2005 they are to account for about two percent of the total budget of the Ministry of Health – about NIS 298 million, in current prices.

The Association of Public Health Nurses opposes the “pilot project” described above, viewing it as a ruse to lay them off and transfer the entire service to the HMOs. The Association of Public Health Physicians, the Israel Medical Association and the Ministry of Health also oppose the transfer.

In our opinion, Israeli women should join the nurses and physicians in their efforts to preserve the well-baby stations as a service operated directly by the Ministry of Health.

Social Service Budgets are Women’s Budgets

Social services budgets are for all intents and purposes **women’s budgets**, for the following reasons:

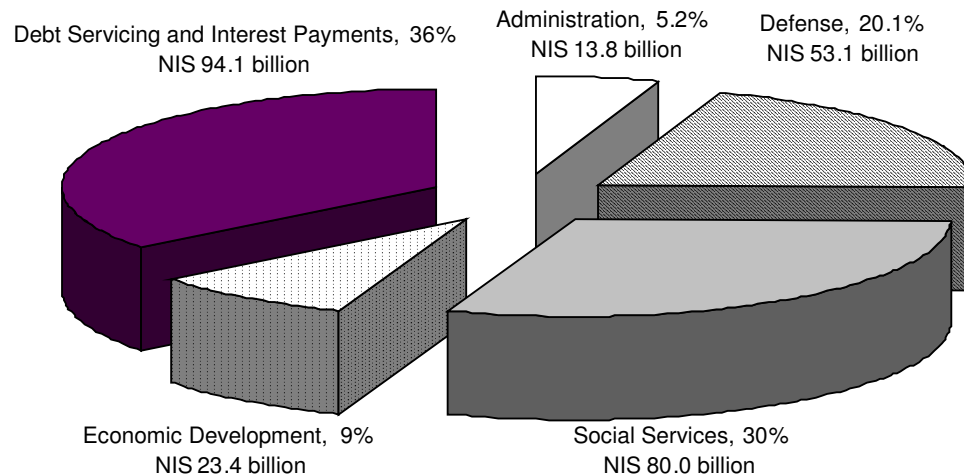
- (1) Women constitute the majority of the people employed in the social services;
- (2) Women constitute the majority of the users of social services, especially health and personal services;
- (3) Women constitute the majority of persons responsible for obtaining education, health and personal services for other family members.

The social services constitute 30 percent of the total state budget. Debt payments constitute 36 percent of the budget; the other large budget expenditure is for defense – 20 percent. It has been argued that Israel’s defense budget is too large, considering

present needs, and that defense expenditures come at the expense of social service expenditures. It is no secret that defense budgets are men's budgets. This being the case, it is in women's interests to change the proportion between the social service and defense budgets.

Breakdown of the 2005 Budget

In current prices, NIS billions and percentage of the total budget



Note: The categories are somewhat different from those of the Ministry of Finance.

Source: Ministry of Finance, *The State Budget, Proposal for 2005, Budget Highlights*, October 2004.

It is noteworthy that cutting social service budgets means cutting budgets that serve women in one way or another.

- Cutting social service budgets means that women lose their jobs or have to work under worse conditions;
- Cutting social service budgets means reducing services intended for women;
- Cutting social service budgets means reducing the earning power of women or reducing their free time. This is due to the fact that in cases where family members need services that cannot be provided due to budget shortfalls,

women are the ones who make up for missing monies, as it is usually their responsibility to take care of other family members.

Social service budgets are also supposed to benefit disadvantaged social groups. Universal free education is supposed to provide a quality education to all, including those who cannot pay. Universal medical insurance is supposed to provide quality health care to all, including those who cannot pay. And personal services are supposed to deal with problems that prevent certain people from realizing their full potential: special services for persons with disabilities, shelters for battered women, rape crisis intervention centers, homes for distressed girls, nursing care assistance for persons with problems with daily functioning, and vocational training for persons lacking workplace qualifications

The 2005 Budget and the Social Services

The 2005 budget continues the budget-cutting trend of previous years, as can be seen in the examples presented below: education, health, and vocational training.

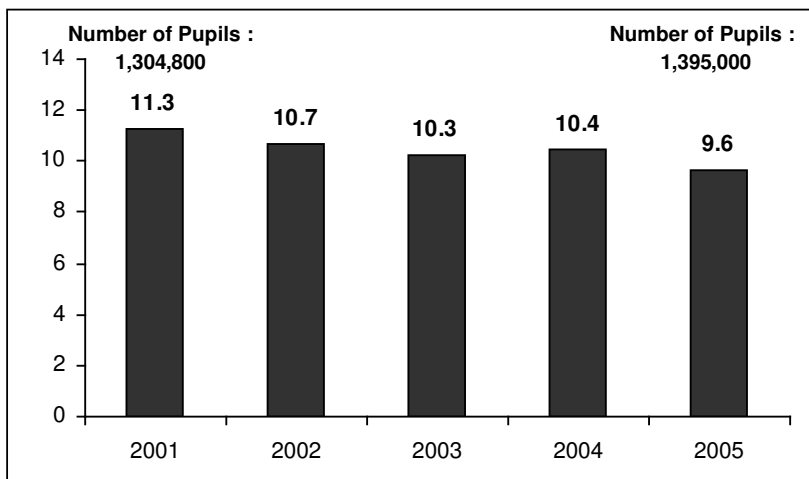
1. Education

The most significant expenditure in the education budget is for teaching hours. Between 2001 and 2005, the number of schoolchildren grew by 7 percent, while the allocation for teaching hours was reduced by 15 percent. The result: a shorter school day, unless parents are able to make up the shortfall. This leads to an increase in inequality between Jewish and Arab schools and between Jewish schools in affluent and poor neighborhoods.

The cutback in allocations for teaching hours has already led to layoffs of teachers.

Allocation for Teaching Hours, 2001-2005

In constant 2003 prices, NIS billions



Sources: Adva Center analysis of Ministry of Finance, *The State Budget: 2005 Proposal, Budget Highlights*, October 2004; *Budget Instructions for the 2004 Fiscal Year*; Office of the Accountant General, *Financial Report*, various years.

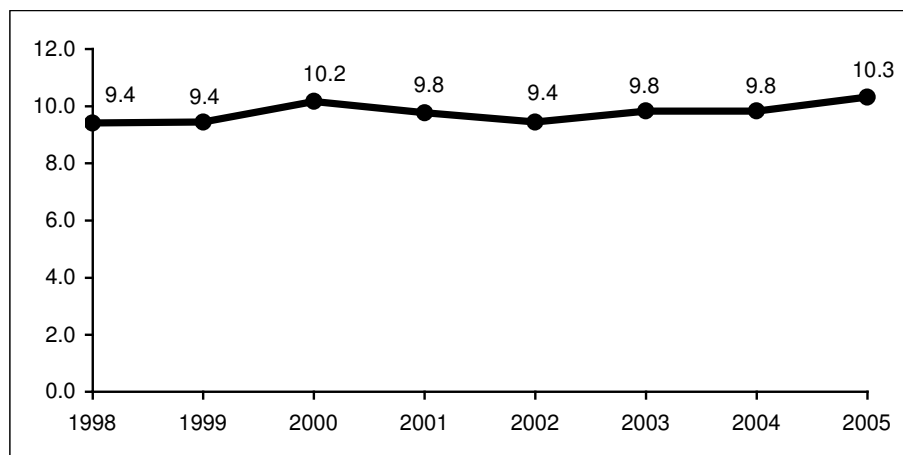
2. Health

The most significant outlay of the Ministry of Health budget is the funding of the National Health Insurance Law. Most of the remainder of the funding comes from a special payroll tax.

The figure below shows ups and downs that do not reflect actual needs; if they did, there would be a constant upward curve. This is an outcome of the fact that the main shortcoming of the National Health Insurance Law is that it does not include a proper mechanism for updating the cost of the benefits package. Thus, the ups and downs reflect an ongoing attempt to keep the health budget down, dotted by years in which public pressure succeeded in increasing it, rather than an orderly decision-making process based on the long-term health needs of Israelis.

Funding the National Health Insurance Law, 1998-2005

In constant 2003 prices, NIS billions



Sources: Adva Center analysis of Ministry of Finance, *State Budget Proposal for 2005, Highlights; Budget Instructions*, various years.

The increase in funding for the National Health Insurance Law has not been sufficient to cover the health needs of Israelis, for the following reasons: (1) the size of the population increases from year to year, (2) the population ages from year to year, and the older the population, the larger the health care needs, (3) health costs rose, for example, the cost of hospitalization, and (4) new medications and medical procedures came on the scene; a larger budget is needed to add them to the benefits package.

Looking at the first three factors mentioned above, it turns out that since 1995, a gap of 15 percent has developed between the cost of these changes and the budget allocated. This gap amounts to NIS 3.2 billion. If we add the need to update the benefits package to take into account medical advances, we find an additional gap of 9 percent between needs and budgets, which translates into NIS 1.9 billion.

The result: Persons in need of medical care are expected to make up the shortfall by paying out of pocket, a phenomenon that increases inequality in health opportunities between persons of different income levels.

The erosion of the funding of the benefits package has already resulted in lower coverage for health care. As noted, women have greater health needs than men.

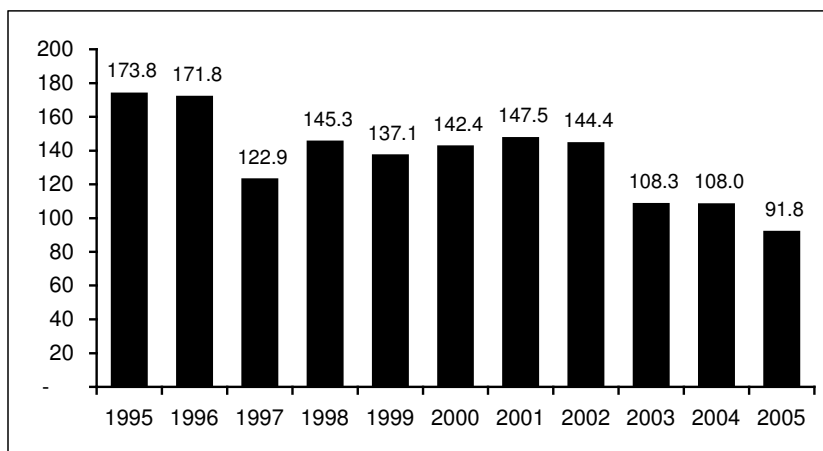
3. Vocational Training

For unemployed persons in Israel, the most significant budget allocation is that of the Vocational Training Department in the Ministry of Commerce, Industry and Labor. Vocational programs are supposed to improve the chances of the unemployed to find work.

Between 1995 and 2005, the unemployment rate grew from 6.9 percent to 10.2% (an increase of 48 percent). During the same period, the allocation for vocational training dropped from NIS 173.8 million to NIS 91.8 million, a decrease of 47 percent.

Vocational Training for Adults, 1995-2005

In constant 2003 prices, NIS millions



Sources: Adva Center analysis of Ministry of Finance, *State Budget Proposal for 2005, Highlights*, October 2004; *Budget Instructions for the 2004 Fiscal Year*, Accountant General, *Financial Report*, various years.

Between 2000 and 2004, the number of persons benefiting from full-time vocational training courses dropped from 34,680 to 13,938. The proportion of women enrolled in the courses increased, from 48 percent in 1999 to 55 percent in 2004.

The proportion of Arab citizens enrolled in the courses also increased, from 12 percent in 2000 to 26 percent in 2004; among Arab beneficiaries, women's

representation rose from 12 percent in 2000 to 26 percent in 2004 (memorandum from the Vocational Training Department, November 29, 2004).

In other words, in recent years, there has been a sharp reduction in the extent of vocational services provided by the state. While the representation of women, Arab citizens, and Arab women increased, the absolute numbers of persons benefiting from vocational services declined sharply.

Budget Allocations Earmarked for Women

Most budget allocations are not earmarked for either women or men. Still, there are a small number of budget lines for activities that provide services exclusively or mostly to women: shelters for battered women, centers for the treatment of domestic violence, rape crisis intervention centers and services for distressed girls.

Budgets for these activities in 2005 will be similar to 2004 budgets. The allocation for shelters for battered women is identical to that for 2004; the same goes for centers for the treatment of domestic violence, though the centers will be providing more services in 2005 than they did in 2004. In 2005, the allocation for rape crisis centers is to be 20 percent larger than that for 2004. As regards services for girls in distress, they were reduced by one-third in 2004; the allocation for 2005 will be similar to that for 2004.

The problem faced by services for girls in distress is that the budget for social worker positions is inadequate. Today each social worker has the responsibility for 100 girls, despite the fact that in order to do the job right, the ratio ought to be one social worker for 50 girls.

A Fool's Tale

Last year the Knesset voted to impose a health tax on housewives, who had been exempt from the tax due to the fact that they had no income. Very quickly it became apparent that the decision was impossible to implement, as housewives are not listed anywhere!

In August 2004, the Cabinet decided to rescind its previous decision. Instead of imposing a health tax on housewives (mission impossible), it decided to abolish the deductible for men whose wives do not work outside of the home (NIS 178 a month, or NIS 2,136 a year). This decision will lower the income of households with one wage earner, households which generally have lower incomes.

This is a perfect example of policies that tax the poor to give tax breaks to the rich.

We believe that women ought to support low-income families and demand the retention of the deductible abolished ostensibly to tax women who do not work outside of the home.

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