

# Looking at the Budget of the State of Israel

1998

**Shlomo Swirski, Meirav San-Zangy, Ety Konor, Barbara Swirski**



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**ADVA CENTER  
P.O.B. 36529, Tel Aviv  
Tel 972-3-5608871, Fax 972-3-5602205,**

**Adva Center is an action-oriented policy analysis institute.**

**About the authors:**

*Shlomo Swirski* is a sociologist and the author of several books on Israeli society. He is the director of the Budget Analysis Project at Adva Center.

*Meirav San-Zangy* is an economist and researcher at Adva Center.

*Ety Konor* is a research assistant at Adva Center.

*Barbara Swirski* is a sociologist who has written on health care and on women in Israel. She is the director of Adva Center.

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# LOOKING AT THE 1998 BUDGET

*Looking at the Budget* analyzes Israel's social service expenditures. The key question in the analysis is how budgeting policies affect the various social groups in Israel.

*Looking at the Budget* is published annually - shortly after the government presents the Knesset (the legislature) with its draft budget for the coming fiscal year. Its purpose is to inform public officials and NGO leaders in order to stimulate and enrich the public debate over the budget.

## EXECUTIVE SUMMARY

### Ministry of Health

If the draft budget for 1998 passes, it will mean the demise of the National Health Insurance Law which assured a uniform basket of health services for all residents of Israel, at a relatively low price.

Under the guise of budget provisions, the Budget Reconciliation Bill is attempting to reorganize the health care delivery system - circumventing the legislative authority of the Knesset Labor and Social Affairs Committee. This is to be done by:

- Abolishing the uniform basket of services: if the budget passes in its current form, each health fund will be encouraged to develop its own basket.

*This violates the principles of universality and equity that are at the heart of Israel's National Health Insurance Law.*

- Reneging on the government's obligation to cover the difference between the income from the health tax and from co-payments and the actual cost of the basket of services, in accordance with Article 13(A)(5) of the National Health Insurance Law. Instead, the government proposes to fix a limit to its contribution: "a normative sum, fixed at NIS 659 million in 1995 prices, to be adjusted in accordance with the health price index of 1995."
- Shifting responsibility for financing the National Health Insurance Law from the government to the health funds, which are being encouraged to charge additional payments and fees and to sell supplemental insurance plans.
- *Under the best scenario, a new head/family/membership tax will be imposed - a regressive tax. Under the worst, the sick will shoulder the main burden of the new health care charges.*
- Encouraging the creation of new, for-profit, health funds [At present, there are four funds in Israel, all non-profit].

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### **The National Insurance Institute (Social Security)**

- The Budget Reconciliation Bill proposes cutting children's allowances: a reduction of between 1/3 and 2/3 of the allowances of the first and second children in families with up to 3 children whose "heads of households" earn middle-level incomes.

*Those affected:* middle-class families.

- The Budget Reconciliation Bill proposes slashing first-tier, state provided old-age pensions: a reduction of 50% in the seniority payments.

*Those affected:* senior citizens who live solely on state old-age pensions, as well as seniors with small pensions of their own.

- The Bill proposes taxing the elderly by imposing national insurance (social security) payments on women aged 60-65 and men aged 65-70 who work and earn more than the amount that would entitle them to an early old-age pension from the state (social security).

*This is a new tax. The question is, why impose new taxes on senior citizens only?*

- The Bill proposes cutting back on unemployment compensation by changing the conditions of entitlement. Those who cannot find jobs on their own, without the assistance of the government labor exchange (previously charged with finding jobs) will not receive unemployment compensation either.

*The state is sloughing off responsibility for the unemployed at a time of increasing unemployment.*

### **Ministry of Education and Culture**

The Education system is reverting to the situation of the 1980s, during which education budgets declined. The cost burden is being shifted to families, and "gray education" - regular class hours financed by parents - is expanding. The present cutbacks in teaching hours come in the wake of a 3% decrease in teaching hours in 1997.

- The Budget includes a cumulative cutback of 30 thousand teaching hours in 1998 and 1999, involving a total cut of NIS 80 million.

*Those affected:* Students whose parents cannot afford to finance "gray education"; teachers who will lose their jobs.

- The Budget Reconciliation Bill proposes the elimination of free preschooling in some development towns.
- The Budget Bill stipulates abolition of the assistance formerly given to local governments in development towns for comprehensive high schools.

### **Ministry of Construction and Housing**

The proposed housing budget reflects the government's neglect of the needs of Israelis who do not own their own flats (In Israel, ownership is the norm, and the rental market is extremely limited).

- The Budget includes a slash of NIS 1.2 billion in the 1998 budget for housing assistance.
- The Budget continues the policy under which government mortgages have not been updated since 1992. The mortgages available to most households have lost 60% of their value.

*Those affected:* young couples whose families have no capital and cannot give them financial assistance to purchase a flat.

### **Ministry of Labor and Social Welfare**

- The budget of the Vocational Training Department, which offers courses to the unemployed, has been eroding steadily since 1995.

## **Social Services Expenditures in 1998**

### **General Overview**

#### **THE ISRAEL STATE BUDGET FOR 1998 AND THE EXPENDITURES ON SOCIAL SERVICES AND SOCIAL SECURITY**

The 1998 state budget is NIS 207.4 billion including investment and NIS 215.3 billion including investment *and* revenue-dependent expenditure.

The Finance Ministry expects the 1998 State budget to claim 46.3 percent of the Gross Domestic Product, as against a forecast of 47.6 percent in 1997 (Ministry of Finance, *State Budget: Proposal for Fiscal Year 1998*, p. 23, and *State Budget: Proposal for Fiscal Year 1997*, p. 23).

The share of the social services and social security expenditures in the State budget will increase slightly in 1998, to a total of NIS 87.8 billion.<sup>1</sup> The only item that has gone up significantly is social security transfers, which is 12 percent higher in 1998 than in 1997 in real terms. The National Insurance (Social Security) benefits expenditures in the following table is a forecast, because the actual annual outlay is determined by the requests for payment. In its draft budget, the Finance Ministry does not explain its high forecast of transfer payments in 1998.

Social Service Expenditures, 1998  
(Including investment budgets; NIS billions, current prices)

	<b>Expenditure (including investment budgets)</b>
National Insurance benefits, total	31.7 <sup>2</sup>
Education and culture	20.5
Higher education	4.5
Labor and social affairs	3.3
Health system (Health Ministry budget and health tax)	19.6 <sup>3</sup>
Immigrant absorption	1.6
Other (municipal authorities, religious affairs, benefits for the disabled)	6.6
Total expenditure	87.8 <sup>4</sup>

Source: Ministry of Finance, *State Budget-Proposal for Fiscal Year 1998, Major Provisions of the Budget*, p. 94.

<sup>1</sup> Social services are as defined by the Finance Ministry in *State Budget: Major Provisions of the Budget*.

<sup>2</sup> Including National Insurance expenditure for benefits and transfers to health funds under the National Health Insurance Law.

<sup>3</sup> This figure represents the health *system* budget, calculated by adding the total Ministry of Health budget (including investment but not including the budget for government hospitals) and health-tax revenues. The Health *Ministry* budget, as cited in the analysis below, does not include the health tax.

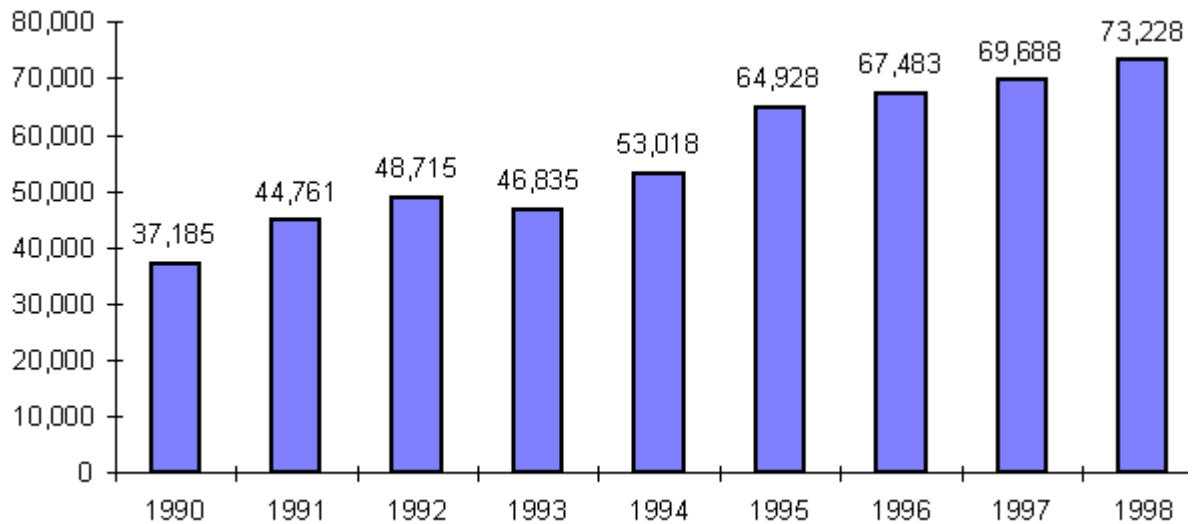
<sup>4</sup> Estimate.

## CONTINUING STAGNATION IN THE BUDGETS OF THE SOCIAL SERVICE MINISTRIES

The Finance Ministry's forecast of high benefit outlays by the National Insurance Institute in 1998 creates the impression of an increase in government social expenditure for social services. However, as we shall see, most of the social service ministries—Higher Education, Immigrant Absorption, and Labor and Social Affairs—will not spend significantly more, and some of them, such as the Ministry of Education and Culture, face real budget cuts.

In other words, the 1998 budget portends *the third consecutive year of stagnation or erosion* of Israel's social service budgets.

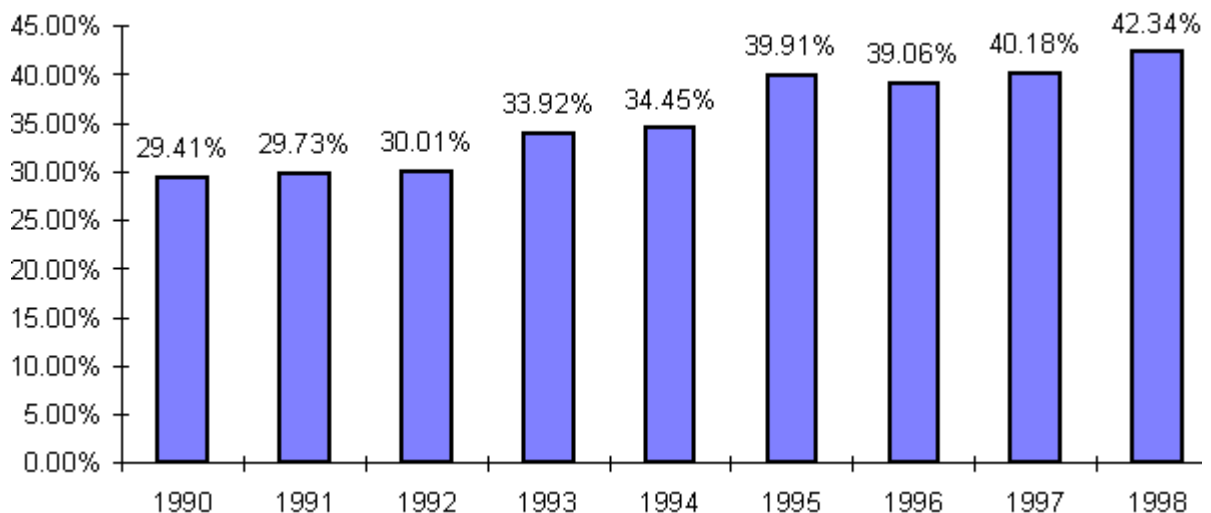
Social Expenditures 1990-1998  
(NIS millions, constant 1996 prices)



Source: Ministry of Finance, *State Budget: Proposal for Fiscal Year, Main Provisions of the Budget*, various years.

As we shall see, the budgets of the social service ministries-Education and Culture, Labor and Social Affairs, Immigrant Absorption-are not increasing and, in fact, have been stagnating since 1995, their share in the State budget moving slightly within the range of 39-40 percent.

Share of Social Services in the Israel State Budget, 1990-1998



Source: Ministry of Finance, *State Budget: Proposal for Fiscal Year, Main Provisions of the Budget*, various years.



## EDUCATION AND HEALTH NEARING THE BRINK OF CRISIS

Education and Health, the largest of the governmental services, are headed for a budget crisis.

The Education budget for 1998 is similar to that of 1997. The health system budget expanded by 4 percent, but this increase does not benefit a deficit-burdened system that neglects vital needs, such as long-term nursing care. The table below shows the growth rates of the Health, Education, and Higher-Education budgets since 1991.

Budgets of the Ministry of Education, Higher Education, and the Health System,  
1990-1998, and Annual Percent Change  
(In constant 1996 prices)

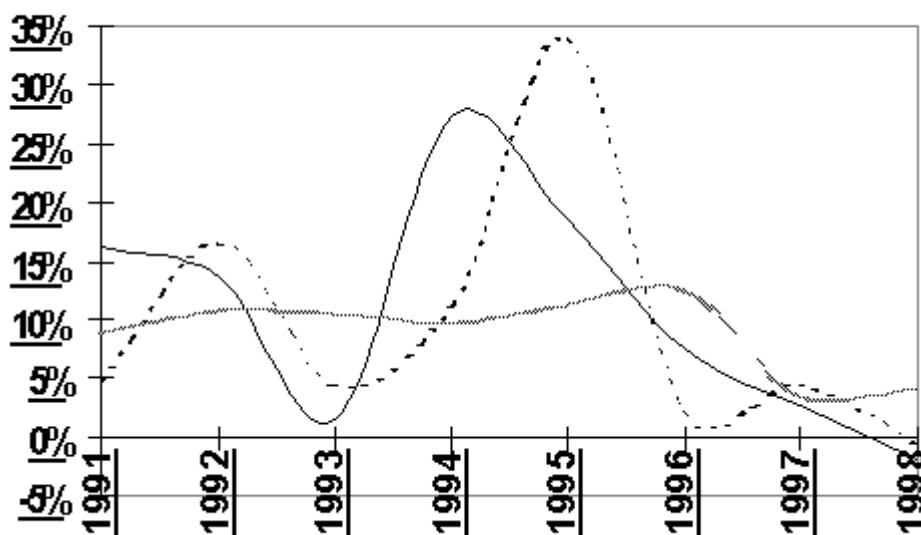
	1990	1991	1992	1993	1994	1995	1996	1997	1998
Ministry of Education	7,846	9,118	10,364	10,502	13,362	15,827	16,993	17,442	17,098
Percent change		16%	14%	1%	27%	18%	7%	3%	.15%
Higher education	1,868	1,952	2,275	2,377	2,640	3,538	3,610	3,771	3,753
Percent change		5%	17%	5%	11%	34%	2%	4%	0%
Health system	5,433	5,714	5,758	6,231	7,202	13,461	15,148	15,693	16,347
Percent change		5%	1%	8%	16%	87%	13%	4%	4%

Source: Ministry of Finance, *State Budget-Proposal for Fiscal Year, Major Provisions of the Budget*, various years.

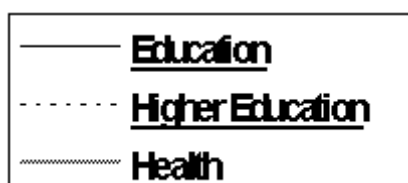
Note: In 1995, the Ministry of Finance budget included the sum that the Finance Ministry paid in lieu of the parallel tax, formerly paid by employers.

The following graph illuminates the stagnation that has typified the Education, Higher Education, and Health budgets since 1995.

Education, Higher Education, and Health System Budgets, 1990-1998,  
Annual Percent Change  
(In constant 1996



prices)



*The government's budget policies are leading the education and health systems toward a crisis. In this context, two matters are worth noting:*

- a. The present policy fails to separate the wheat from the chaff: Assuming that the budget has to be pruned, a distinction should be made between a cutback that causes short-term damage and one that strikes at the flesh and sabotages future growth. Two examples: Education and higher-education services assure the future growth of the Israeli economy, and government-funded health services reduce private health outlays, thus freeing resources for investment that stimulates growth.

The present policy is contrary to the principle of social justice in resource allocation; it also weakens social solidarity. If a budget cut is needed, the burden should be divided among all socio-economic groups. At present, Israelis in the upper income brackets *are not partners to the budget crunch*. While Israelis in the lowest income brackets will probably have to forgo some of the health and educational services they have been receiving, and those in the middle classes will have to strain the family budget to make extra payments for these services, Israelis in the upper income brackets will have no problem paying for the full range of high-quality services out of their own pockets. They could become partners in the national effort if employer subsidies were reduced, if tax exemptions were eliminated, if the corporate tax were raised, and if profits made on the stock market were taxed.

## ISRAEL'S SPENDING ON SOCIAL SERVICES AND SOCIAL SECURITY IS LOW BY INTERNATIONAL COMPARISON

According to World Bank data for 1994, the share of Israel's social service expenditures constitute 49.1 percent of the state budget -- which is low relative to that of other countries with high per-capita income. One obvious reason for this is Israel's defense budget, which, although having declined steadily since the 1980s, remains higher in terms of share of GDP than the other countries compared below, with the exception of the United States, Singapore, and the United Arab Emirates.

### Social Service and Defense Budgets as Percent of the State Budget Selected GDP High Per-Capita Countries<sup>5</sup>

Country	Defense budget as percent of State budget	Social-service budget as percent of State budget
Austria	2.2	70.1
Netherlands	4.3	69.3
New Zealand	3.5	69.1
France	5.6	68.7
Finland	3.7	59.3
Japan	4.2	59.2
Australia	7.8	57.5
Ireland	3.2	57.3
Sweden	5.3	56.8
Norway	6.5	55.6
Denmark	4.7	53.5
United Kingdom	10.4	52.2
United States	18.1	52.1
Canada	6.9	51.4
Israel	19.2	49.1 <sup>6</sup>
Spain	3.4	46.6
Singapore	21.4	35.9
United Arab Emirates	37.1	29.9

Source: The World Bank, *From Plan to Market-World Development Report 1996*. Washington, D.C., 1996: Table 14, pp. 214-215.

<sup>5</sup> Countries that did not release data on the share of social services in the state budget were deleted from the original table.

<sup>6</sup> The World Bank enumerates housing budgets among the social services, thus explaining-among other reasons-why the figure for Israel, 49.1 percent, is higher than that shown at the beginning of this paper, 42.3 percent (for 1998).

## **SOCIAL EXPENDITURES CONSTITUTE INVESTMENTS, NOT CHARITY**

Over the years, the social services have become a "natural target" for cutbacks, as if they were adjustable items that could expand and contract as desired, or "charity" that the State doles out when it has money in the till and withholds when the coffers are less than full.

Allocations for social services, however, should be regarded not as "charity" but as an *investment in the facilitation of growth and development* - no different from investments in infrastructure or industry - in addition to their being a basic component of social justice. Government investment in education enhances society's human capital and contributes to economic growth; government investment in health makes private expenditure on health less necessary and frees capital for alternative, more productive investments.

If a budget cut is indeed needed, less detrimental alternatives may be chosen. Examples are the reductions and benefits that the government itself gives in the following areas:

- \* Reductions in National Insurance charges for employers, which remain at the low 1996 level instead of the higher 1994 level;
- \* Subsidies of employers' National Insurance contributions-costing NIS 2.4 billion in 1998;
- \* Reduction of the corporate tax rate from 49 percent in 1986 to 36 percent in 1994. The Government of Israel refuses to change this trend; in contrast, the Government of France recently raised the corporate tax by 15 percent in order to lower the budget deficit to the limit stipulated for membership in the European Monetary Union.
- \* Refusal to impose further taxes on the affluent-as against higher payments for the ill and for parents of preschool-age children, and higher taxes for senior citizens who continue to work after retirement age.

# Taxation

## Individual and Corporate

### CORPORATE TAXATION THE WELFARE STATE FOR BUSINESS FLOURISHES

As the budgets of the social service ministries stagnate at their 1995 level if not worse, and as all Israelis are called upon to pay more for education and health services, employers' benefits continue to flourish. The welfare state is withering for run-of-the-mill Israelis but thriving for the affluent.

Employers' contributions to National Insurance illustrate this. The Finance Ministry has been subsidizing employers' National Insurance liabilities, foremost the "parallel tax," to the sum of more than NIS 56 billion between 1986 and 1997 (Shlomo Cohen, National Insurance Institute, to the Knesset Labor and Social Affairs Committee, *Ha'aretz*, November 13, 1996) and reduced them in 1995. (See the table on the next page.)

Disclosure of the magnitude of the employers' subsidy has evinced considerable public criticism. At the onset of the 1997 budget debate, many legislators announced their intention to cut the subsidies back-whereupon the government deflected the criticism by the simple expedient of abolishing the parallel tax, paid by employers. This tax was meant by law to fund the health system. When the parallel tax was abolished, it was decided that the Finance Ministry would give the Health Ministry an annual sum equal to that of parallel tax revenues in the past. Thus, the employers' subsidy became *invisible*.

However, the direct, *visible* subsidy persists-although at a lower level than before: the Finance Ministry is presently paying 2.22 percent of wage instead of employers-NIS 2.4 billion (Ministry of Finance, *State Budget-Proposal for Fiscal Year 1998, Major Provisions of the Budget*, p. 109). The table on the next page explicates this and shows that employers' National Insurance contributions have been reduced since 1994: they now start at 4.93 percent of wage, as against 7.35 percent in 1994.

Thus, employers are given three kinds of benefits: a visible subsidy, an invisible subsidy, and a reduction in their National Insurance contributions. The Finance Ministry justifies these benefits by citing the need to lower the cost of labor. Actually, as noted in *Looking at the 1996 Budget*, the cost of labor in Israel is not high by European standards. Neither is there any evidence that these subsidies have created enough jobs to justify their magnitude.

While employers' taxation has decreased, the employees' tax burden has hardly changed. In 1994, employees contributed 5.35 percent of wage to National Insurance. The rate fell to 4.9 percent in 1995, but a health tax at 4.8 percent of wage was added (replacing the sum previously remitted to health funds in membership fees). These rates will apply in the future. The table below shows the changes that took place in the parallel tax and in employers' subsidies, as explicated in the draft budget that the Finance Ministry presented to the Knesset.

National Insurance Contributions, by Rates and Contributors, 1994-1997

<b>(Percent of Wage)</b>									
		<b>Employer</b>		<b>Employee (in lieu of employers)</b>		<b>Government</b>		<b>Total</b>	
		<b>Standard rate</b>	<b>Reduced rate</b>	<b>Standard rate</b>	<b>Reduced rate</b>	<b>Standard rate</b>	<b>Reduced rate</b>	<b>Standard rate</b>	<b>Reduced rate</b>
1994	National Insurance	5.35	-	2.4	-	6.3	-	14.05	-
	Parallel tax	-	-	4.95	-	-	-	4.95	-
	Health tax	-	-	-	-	-	-	-	-
	<b>Total</b>	<b>5.35</b>	<b>-</b>	<b>7.35</b>	<b>-</b>	<b>6.3</b>	<b>-</b>	<b>19.00</b>	<b>-</b>
1995-	National Insurance	4.9	2.66	1.93	1.93	5.22	3.47	12.05	8.06
1996	Parallel tax	-	-	3.00	1.78	1.95	1.15	4.95	2.93
	Health tax	4.8	3.1	-	-	-	-	4.8	3.1
	<b>Total</b>	<b>9.7</b>	<b>5.76</b>	<b>4.93</b>	<b>3.71</b>	<b>7.17</b>	<b>4.62</b>	<b>21.8</b>	<b>14.09</b>
1997	National Insurance	4.9	2.66	4.93	4.93	2.22	0.47	12.05	8.06
and	Parallel tax	-	-	-	-	-	-	-	-
after	Health tax	4.8	3.1	-	-	-	-	4.8	3.1
	<b>Total</b>	<b>9.7</b>	<b>5.76</b>	<b>4.93</b>	<b>4.93</b>	<b>2.22</b>	<b>0.47</b>	<b>16.85</b>	<b>11.16</b>

Source: Ministry of Finance, *State Budget, Proposal for Fiscal Year 1998 and Explanatory Notes*, p. 171.

Note: The columns labeled "reduced rate" indicate that National Insurance contributions are paid at a reduced rate for those beneath a stipulated income level.

## TAXATION AND EQUALITY

The government funds its activities by collecting taxes from individuals and corporations.

The nature of the taxation—the type of tax and to whom it is applied—affects the extent of equality in society by redistributing income, and impacts on economic activity, e.g., by protecting local manufacture through the levying of customs tariffs.

We focus below on the effects of taxation on social equality. The central theme is the balance between direct and indirect taxes.

### Indirect and Direct Taxes

*Direct taxes* are taxes applied to income; they include individual and corporate income tax, National Insurance contributions, and health tax.

Direct taxes are usually progressive because they take the taxpayer's income level into account. As such, they help reduce income disparities by making the more affluent pay a higher percentage of their income and the less affluent pay a lower percent. (The redistributive effect of direct taxation occurs not in raising the income of the poor but in reducing that of the wealthy.)

In 1996, for example, the uppermost decile received 38 percent of the national income and retained 31 percent after income tax was collected. The lowest five deciles received 16 percent of the total income, but the income-tax remittances of the upper deciles raised their share to 20 percent (Ministry of Finance, State Revenues Administration, *Annual Report 1996*, No. 46, p. 4).

*Indirect taxes* are those applied to expenditure instead of income. The main indirect taxes in Israel are value added tax, purchase tax, fuel excise, and customs tariffs.

Indirect taxes usually have a regressive effect on national income distribution. Rather than mitigate inequality, they exacerbate it. For example, all Israelis, of whatever income level, pay VAT at the same rate on every purchase made, irrespective of differences in income.

Thus, the burden of indirect taxes as a share of income is heavier in the lower income deciles than in the higher ones.

When the government fixes the ratio of indirect and direct taxes in the total tax burden and selects the products and income levels on which the taxes will apply, its decisions have direct implications for the extent of social justice attained. In Israel, most indirect taxation (66 percent) is achieved by means of Value Added Tax. The greater the weight of VAT is, the more unequal income distribution becomes.

In 1996, direct taxes generated 56 percent of State revenue, and indirect taxes 44 percent (*ibid.*, 196).

## THE INDIRECT TAX BURDEN INTERNATIONAL COMPARISON

According to the data in the following table, Israel in 1993 had a heavier indirect-tax burden than *any* of the fifteen developed countries that the Israel Ministry of Finance chose for comparison. (The tax burden is measured as the share of the total indirect tax revenue in the Gross Domestic Product.)

Total Indirect Tax Revenue as Percent of Gross Domestic Product

	1980	1985	1990	1991	1992	1993	1994	1995	1996
Israel	18.0	21.5	20.0	21.0	21.6	20.7	20.0	19.8	19.8
Greece	13.4	15.3	17.0	17.8	19.6	18.5			
Denmark	18.6	18.4	17.7	17.5	17.5	17.6			
Sweden	13.5	16.5	17.2	17.7	16.3	15.6			
Austria	16.4	16.8	16.0	15.9	15.9	16.0			
United Kingdom	15.5	15.5	14.0	14.6	14.4	14.2			
Canada	11.5	12.4	13.2	14.0	14.4	14.3			
France	14.6	15.0	14.2	13.7	13.6	13.8			
Netherlands	11.1	12.1	12.3	12.4	12.8	13.0			
Germany	13.1	12.6	12.5	12.7	13.0	13.3			
Belgium	12.4	12.3	12.2	12.2	12.3	12.4			
Italy	8.6	9.0	10.6	11.1	11.1	11.9			
Spain	6.7	9.5	9.9	9.8	10.2	9.6			
United States	7.8	8.2	8.1	8.5	8.5	8.4			
Japan	7.4	7.8	8.3	7.8	8.1	8.0			

Source: Economic Research and State Revenue Division, *Annual Report 1996*, No. 46, 1997, p. 417.

## THE DIRECT TAX BURDEN (INCLUDING NATIONAL INSURANCE) INTERNATIONAL COMPARISON

According to the data in the table below, Israel in 1993 had a very low direct-tax burden-ranking thirteenth among the fifteen developed countries that the Israel



Finance Ministry chose for comparison. (The tax burden is measured as the share of all direct tax revenue in the Gross Domestic Product.)

Israel Finance Ministry economists have argued that direct taxes are detrimental to growth. The data below show that a high direct-tax burden is typical of countries that have grown steadily over the past four decades, such as those in Western Europe.

Total Direct Tax Revenue as Percent of Gross Domestic Product

	1980	1985	1990	1991	1992	1993	1994	1995	1996
Sweden	35.8	33.7	38.9	35.3	35.2	35.4			
Netherlands	34.5	33.3	32.7	35.0	34.7	35.7			
Belgium	32.0	35.6	32.5	32.6	32.5	32.9			
Denmark	26.7	30.6	30.9	31.3	31.8	32.3			
Germany	28.8	29.4	27.5	28.4	28.8	29.0			
France	26.4	28.5	28.4	28.8	28.6	28.9			
Italy	21.1	25.0	27.3	27.6	28.0	29.6			
Austria	25.7	27.1	25.8	26.5	27.6	27.9			
Spain	18.9	20.3	24.2	24.4	25.5	26.3			
Canada	18.9	20.1	23.2	23.4	23.3	23.0			
Japan	18.2	20.3	23.1	23.1	22.3	21.6			
United States	20.5	20.1	21.1	20.7	20.7	21.1			
United Kingdom	20.1	22.2	21.3	20.2	19.3	18.4			
Greece	14.5	16.9	17.9	17.1	17.6	18.5			
Israel	24.3	22.4	18.4	17.2	17.4	18.6	20.0	18.7 20.5 <sup>7</sup>	17.6 19.6 <sup>7</sup>

Source: State Revenues Administration, *Annual Report 1996*, No. 46, 1997, p. 415.

<sup>7</sup> Including the health tax.

### INDIRECT TAXES

In 1996, revenue from indirect taxes accounted for 19.8 percent of the GDP, and direct taxes, including National Insurance contributions, provided 17.6 percent. When health-tax revenues are included, the share of direct taxes rises to 19.6 percent of the

GDP (State Revenues Administration, *Annual Report 1996*, No. 46, 1997, pp. 415, 417).

In 1996, 66 percent of the indirect-tax revenue was generated by VAT, followed by the purchase tax (18 percent), the fuel excise (10 percent), and other taxes (customs duties, tobacco tax, and stamp tax-6 percent (ibid., pp. 190-195).

The government raises and lowers indirect taxes for various reasons including the need to "plug holes" in the State budget or make up missing tax revenue. In January 1996, for example, excise taxes on all grades of gasoline were raised by 27.5 percent in order to generate revenue and trim the 1996 budget deficit.

It deserves re-emphasis that Value Added Tax, like other indirect taxes, is less equitable than direct taxes such as income tax.

#### Value Added Tax Rates in Israel (Percent)

<b>Starting on</b>	<b>VAT for businesses and financial institutions</b>
July 7, 1982	15
June 1, 1985	17
July 1, 1985	15
March 1, 1990	16
January 1, 1991	18
January 1, 1993	17

Source: State Revenues Administration, *Annual Report 1995*, No. 45, p. 149.

### **MARGINAL TAX RATES IN ISRAEL AND OTHER COUNTRIES**

In contrast to the prevailing myth, *the maximum marginal tax rate in Israel is not high by Western European standards*. In 1995, it was lower than the median of nineteen selected countries and ranked twelfth from the top.

It should be pointed out that the maximum marginal tax rate cannot serve as the sole indicator of the volume of tax revenue or the tax burden. Other significant factors are (1) the level of income on which it is applied, (2) the other tax brackets, and (3) the extent of tax exemptions and credits in each country.

Maximum Marginal Tax Rate,<sup>8</sup> Selected Countries (Percent)

	<b>1985</b>	<b>1990</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>
Belgium	71.5	65.0	65.0	68.0	68.0	55.0	55.0
Japan	88.0	65.0	65.0	65.0	65.0	65.0	...
Denmark	73.0	68.0	68.0	68.0	65.0	63.5	63.5
Netherlands	72.0	56.0	56.0	60.0	60.0	60.0	60.0
France	...	...	...	...	56.8	56.8	...
Spain	66.0	56.0	56.0	56.0	56.0	56.0	56.0
Germany	56.0	53.0	53.0	53.0	53.0	57.0	57.0
Canada	52.0	48.0	51.0	51.95	52.94	52.94	...
Luxembourg	57.0	52.5	50.0	50.0	51.25	51.25	...
Sweden	80.0	63.0	68.0	50.0	50.0	56.0	56.0
Italy	...	...	51.0	51.0	51.0	50.8	...
Israel	60.0	48.0	48.0	48.0	50.0	50.0	50.0
Ireland	65.0	53.0	52.0	48.0	48.0	48.0	48.0
Greece	63.0	50.0	50.0	40.0	40.0	40.0	45.0
United Kingdom	60.0	40.0	40.0	40.0	40.0	40.0	40.0
Portugal	76.6	40.0	40.0	40.0	40.0	40.0	...
United States	55.0	33.0	31.0	39.6	39.6	39.6	39.6
Jordan	...	...	...	...	45.0	35.0	35.0
Egypt	...	...	...	...	65.0	32.0	32.0

Source: Calculated from Ministry of Finance, State Revenues Administration, *Annual Report 1996*, No. 46, 1997, p. 428.

<sup>8</sup> Excluding National Insurance contributions and income surtaxes; including income taxes imposed by municipal authorities.

## **INCOME AND INCOME TAX**

### **The Lower Income Brackets**

Many employed Israelis-47 percent-do not earn enough to reach the income-tax threshold, which in January 1997 was NIS 2,406 gross per month for a single male (similar to the minimum wage), NIS 2,760 for a woman, NIS 3,110 for a married man whose wife does not work outside the home, and NIS 3,460 for a married woman with one child.

Consequently, most State tax revenue is generated by people with high incomes. However, the contribution of persons of low income to government and economic activity is no less important. The very fact of their low income allows industry and trade to operate under profitable terms and permits some government services to operate on low budgets.

### **The High-Income Brackets**

- \* In 1996, only 5 percent of taxpayers reached the highest marginal tax bracket (50 percent).
- \* These 5 percent grossed 27 percent of personal income countrywide and paid 53 percent of all income tax.
- \* Thus, people in this bracket pay a disproportionately high share of taxes, but they also earn a disproportionately high share of the national income.
- \* In January 1997, the average monthly earned income in the uppermost decile (wage earners and self-employed) was NIS 21,365-3.8 times the national average monthly income and 9 times the minimum wage.
- \* In January 1997, the average earned income in the uppermost centile (wage earners and self-employed) was NIS 59,676 per month.
- \* The uppermost decile paid 67 percent of income tax and still had the highest disposable income (State Revenues Administration, *Annual Report 1996*, No. 46, 1997, p. 4).

### **Widening Inequality**

Inequality in net income distribution has been increasing steadily since the 1980s.

In 1985, the two highest deciles of households headed by wage earners received 40.4 percent of total national income; the two lowest declines received 6.6 percent. In 1996, the share of the two lowest deciles remained unchanged, but that of the two

highest declines had risen to 42.6 percent (Central Bureau of Statistics, *Household Income Survey*, 1997:13).

### MEN AND WOMEN

On the average, male wage earners and self-employed persons earn nearly twice as much as female: NIS 6,113 per month as against NIS 3,225, respectively, in January 1996 (Lifschitz-Bock, *Taxation Quarterly* 24, p. 5). The tax burden of men is greater still: 22.9 percent as against 10.2 percent (State Revenues Administration, *Annual Report*, 1995, No. 45, p. 99).

The following table presents January 1996 data for wage-earners only:

Decile	1	2	3	4	5	6	7	8	9	10	Avg.
Women	345	698	1,123	1,599	2,124	2,699	3,359	4,199	5,519	9,777	3,144
Men	383	885	1,539	2,280	3,060	3,931	5,058	6,705	9,470	17,387	5,070

Source: Judith Lifschitz-Bock, "Women's Labor in Israel: Income, Equity, and Tax Burden," *Taxation Quarterly*, 24, p. 5 (Hebrew).

One reason for the difference in income between men and women is the difference in the work week. On average, men work longer hours. However, as the following table shows, the differences between the sexes remain large even when income is measured in average per-hour terms. The table, culled from the most recent survey of wage-earners' income (1993), presents the income disparities in various occupations.

#### Per-Hour Disparities in Wage between Women and Men, by Occupations, 1993 (NIS)

Occupation	Women			Men			Disparity in favor of men
	Gross monthly wage	NIS per hour	Hours per week	Gross monthly wage	NIS per hour	Hours per week	
Scientific and academic workers	3,080	24	31	5,463	29	45	20.8%
Professional and related workers	2,541	20	31	4,397	24	44	20.0%
Administrators and managers	4,862	27	43	7,321	33	52	22.2%
Clerical and related workers	2,362	16	37	3,801	21	43	31.3%
Sales	1,769	12	37	3,934	20	49	66.7%

Services	1,178	10	29	2,293	13	44	30.0%
Agriculture	888	6	44	1,918	12	42	100.0%
Total	2,154	16	34	3,705	20	46	25.0%

Source: Central Bureau of Statistics, *Survey of Wage-Earners' Income*, 1992-1993, Table 1, p. 2.

# The Budgets of the Social Service Ministries

**Health**

**Education**

**Housing**

**Labor and Social Affairs**

## MINISTRY OF HEALTH

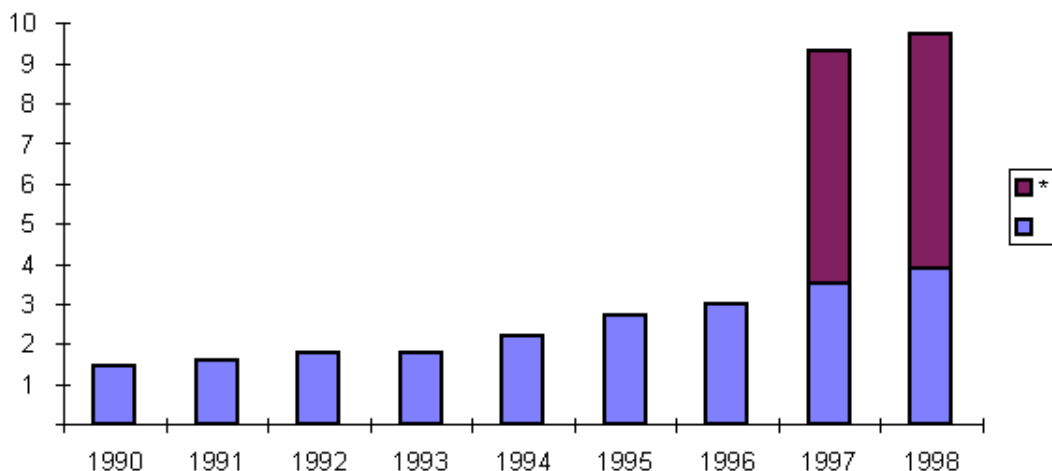
The Ministry of Health budget for 1998 is NIS 11.6 billion (in current prices), the investment budget is NIS 279 million, and revenue-dependent expenditure (not including the budget of government hospitals) is NIS 1.2 billion.

Since 1997, the Health Ministry budget has included a sum that replaces the parallel tax. As we recall, this tax, remitted by employers to the National Insurance Institute and reserved by law for the health system, was abolished on January 1, 1997. The missing revenue was replaced by a transfer from the Finance Ministry to the Health Ministry. In 1998, this sum is estimated at NIS 7 billion.

### Ministry of Health Budget, 1990-1997

Constant 1996 Prices, NIS billions

(not including investment and revenue-dependent expenditure)

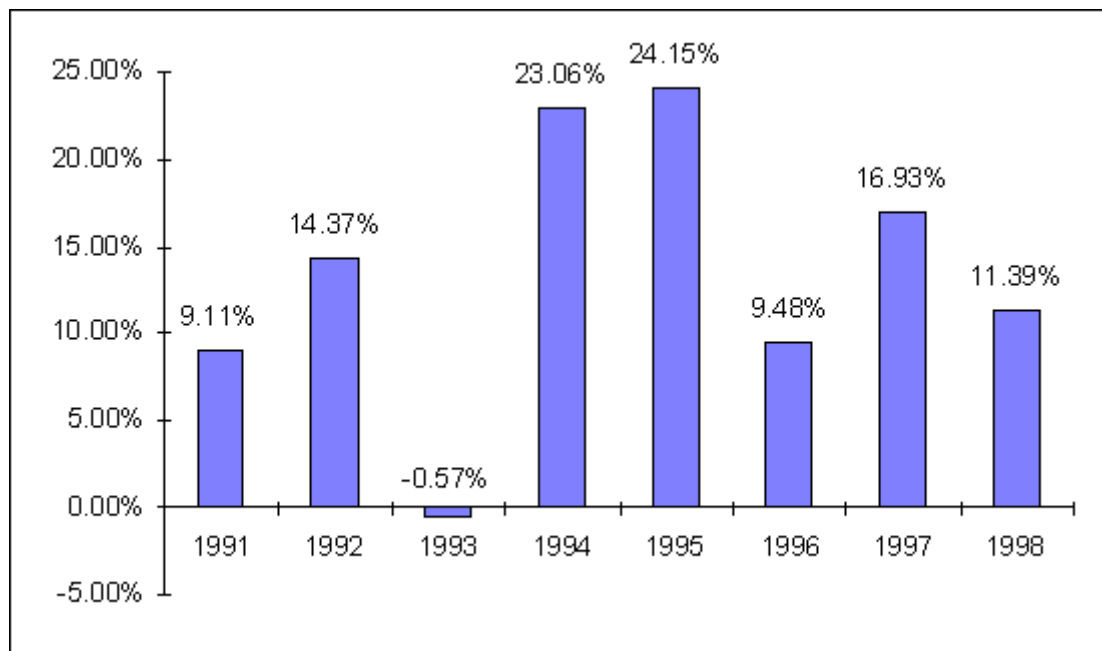


\* The portion of the Health Ministry budget that replaces parallel tax revenues.

Sources: Ministry of Finance, *State Budget: Proposal for Fiscal Year 1998*, Ministry of Health, and *Explanatory Notes*, October 1997; Ministry of Finance, *Provisions of the Ministry of Health Budget*, various years.

The Ministry of Health budget for 1998 (not including the sum in lieu of parallel tax revenues) increased in real terms by 11.4 percent relative to 1997. The most significant budget increase will occur in the public health services—a real expansion of 19.6 percent (Ministry of Finance, *State Budget: Proposal for Fiscal Year 1998*, Ministry of Health, and *Explanatory Notes*, October 1997).

**Ministry of Health Budget-Annual Percent Change**  
(Not including investment, revenue-dependent expenditure,  
and funding in lieu of parallel-tax revenues)



Sources: Ministry of Finance, *State Budget: Proposal for Fiscal Year 1998*, Ministry of Health, and *Explanatory Notes*, October 1997; Ministry of Finance, *Provisions of the Ministry of Health Budget*, various years.

**DESTROYING THE SPIRIT AND SUBSTANCE  
OF THE NATIONAL HEALTH INSURANCE LAW**

The fate of the 1994 National Health Insurance Law is *the pivotal social issue* in the 1998 budget debate. The changes that the government proposes through the Budget Reconciliation Bill (listed below) will transform, in one fell swoop, the universal and equitable nature of the health system by destroying the spirit and substance of the Health Insurance Law.

If the Knesset passes the Budget Reconciliation Bill, a new situation will arise, one that did not exist in Israel but has been observed in several other countries, notably the United States, in which different population groups receive health services of *different quality and price*.



The government argues that changes in the law are needed because the health system has become too costly and burdensome. This growing financial burden, however, is partly its own fault. In 1997, the Knesset abolished the "parallel tax" that employers had been obliged to pay to fund the health system. The parallel tax was eliminated to lighten the burden on employers (whom the Finance Ministry had, in any case, subsidized heavily on account of this tax). Now, only one year after absolving employers of their obligation, the government is reducing its own financial commitment and foisting much of the added funding that the system needs onto the health services consumer.

Below we enumerate the major proposed amendments to the National Health Insurance Law. It should be noted that the Finance Ministry intends to use the Budget Reconciliation Bill to *reorganize the health system*, a legislative role never intended for it: The National Health Insurance Law came into being after a lengthy process that included protracted public debate and numerous consultations with health experts—the Netanyahu Commission, the Ministry of Health, and legislative committees. Now, under the pretext of budgetary arrangements, Finance Ministry officials have transformed the spirit and substance of the law and the very nature of Israel's health services, over the opposition of the Minister of Health, the health system professionals, and the Knesset Labor and Social Affairs Committee.

#### **A. No uniform package of insured health services.**

The Budget Reconciliation Bill proposes that each health fund may modify the "basket" of services and medicines that it offers its members, with the approval of the Minister of Health.

*This decision spells the elimination of a universal and binding package of insured health services.*

One of the main achievements of the National Health Insurance Law was the creation of a uniform, binding, publicized, State-mandated list of insured health services. When the law was passed, all residents of Israel became eligible for these services irrespective of the health fund to which they belonged.

Now, the government is proposing to do away with a basic element in the spirit and substance of the National Health Insurance Law. The services enumerated in the law will remain there but will lose all significance, because (1) no committee will adjust and refine the list and (2) *every health fund will be able to offer a list of its own*.

If the Knesset passes the government's draft budget, each health fund will be allowed to develop a separate and different package of services, presumably tailored to its members' financial capabilities.

#### **B. No more single health tax-but more and more co-payments.**

The Budget Reconciliation Bill proposes to charge the health funds with obtaining the missing funding for the insured health services, either by imposing co-payments, by imposing a flat-rate tax whose amount is determined by the health funds, or by selling supplemental insurance.

This means that the government has disavowed its commitment, under the National Health Insurance Law, to make up the difference between revenues from the health tax and the parallel tax (the latter having been abolished on January 1, 1997) and the full cost of insured services that the health funds provide under the law.

Practically, it adds up to *new taxation*. Several possibilities are presently being discussed. One way of achieving this is by imposing it not on all citizens according to their income but on consumers of health services-*the ill*-by means of co-payments. A second possibility is to impose a supplementary payment on heads of household, fund members, or all persons registered with the funds (including children).

If the burden of further payments is passed on to the users (the ill), one of the accomplishments of the National Health Insurance Law-severing the relationship between the payments for and the utilization of health services-will disappear.

While the proposal does not allow health funds to reject members on grounds of financial resources or state of health, it has no provisions to guarantee that the funds will not withhold services from those who cannot afford to pay for them.

### **C. No more full funding from the Treasury.**

The Budget Reconciliation Bill proposes to eliminate the government's commitment to guarantee funding for the health system by providing the sum needed to cover the full cost of the insured health services, under Paragraph 13(a)(5) of the National Health Insurance Law.

Instead, the government will cap its participation by stipulating a "normative level of revenues, set at NIS 687 million in terms of the Health Price Index for 1995"-a sum to be adjusted annually at the rate of increase in the prices of insured services.

This decision has several implications:

1. Immense detriment to the health funds. In 1995, the difference between the cost of the health funds' insured services and health-tax and parallel-tax revenues was NIS 1.5 billion (in current 1995 prices). The Budget Reconciliation Bill stipulates that the government is to undertake to provide *less than half* of what it undertook to pay in 1995.
2. The National Health Insurance Law did not create a modality for adjustment of the insured services to reflect changes in medical technology and the needs of the population. Every health-system professional knows that the cost of the package of services has been rising in real terms over the years. The government is stating that, irrespective of future growth prompted by changing needs and technologies, it is limiting its share to a predetermined maximum.

#### **D. No more equality among health fund members.**

The Budget Reconciliation Bill proposes to encourage the health funds to set up an array of supplemental health services, in addition to those on the basic list, in a self-supporting fashion based on its subscribers' payments.

By so doing, the government is actually encouraging the funds to establish two separate budget systems: one for the basic list of services and another for members' supplementary payments.

Practically speaking, this resolution will encourage the health funds to develop a set of private services that will undoubtedly compete with the set of public services mandated by the National Health Insurance Law.

The resolution gives the funds an incentive to treat their for-payment services preferentially, thus giving rise to the following:

- \* Overt or covert transfer of services from the basic list to that provided under supplemental insurance;
- \* "Budget leakage" from the public service array to the private-prompted by the funds' incentive to invest more of their resources in the private array in order to attract additional paying members.

The message to Israelis is plain and simple: from now on, the notion of an "Israeli public" is dead and gone. The more you pay, the more you get. The less you can afford, the less you'll pay and the less you'll get.

#### **E. Private health funds.**

The Budget Reconciliation Bill proposes to accord official recognition to health funds run by for-profit corporations. This means that business entrepreneurs will be given access to the "health market."

Experts agree that health services are not a "market" in the commercial and business sense of the term. The experience of many countries has shown that private entrepreneurs make their pitch to one of the system's two poles: either the "cream"-people in the upper income brackets who are able and willing to pay for maximum-quality services delivered in a maximum-convenience climate, and people in the lower brackets, from whom profit is wrung by hiring minimally trained caregivers and providing a minimum of comfort-as in the services tendered by some private nursing-care institutions.

International data show that lavish private spending for health, as observed in the United States-which lacks an array of public health services-tends to inflate national health expenditure and diverts private resources from economically more beneficial investments.

## F. Jeopardizing the mother and child clinics.

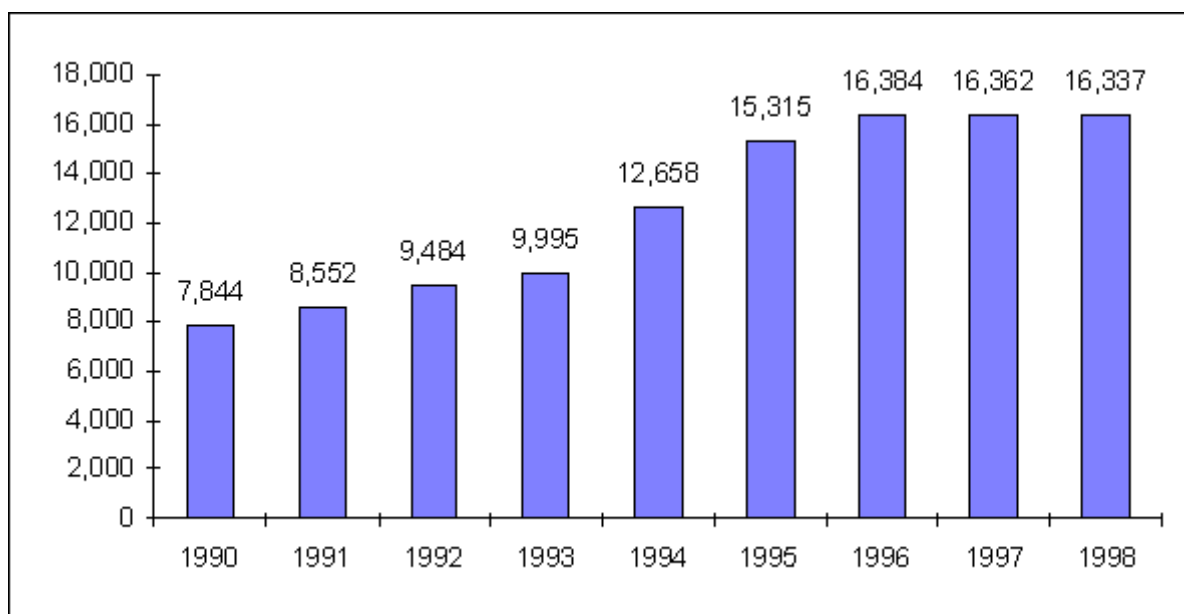
The Budget Reconciliation Bill proposes to amend the National Health Insurance Law to entrust "preventive medical services" to the health funds. The decision would repeal Amendment 4 to the law, legislated at the initiative of Member of Knesset Tamar Gozansky, which has kept the mother and child clinics in the purview of the Health Ministry.

The mother and child clinics are the crowning achievement of Israel's preventive health services. By means of these clinics, the Health Ministry provides a crucial service on a universal basis and at a very low cost. This service has expanded in the past decade and has reached most Arab villages, which in the past had not benefited from it. Practically speaking, these clinics are the only local health services in many Israeli localities. Furthermore, they are well-run. Under such circumstances, there is no reason to hand them over to the health funds, especially when the government has declared its intent to downscale its co-financing of the health funds' activities.

## MINISTRY OF EDUCATION AND CULTURE

The Education Ministry budget for 1998 is NIS 19.6 billion (in current prices), plus NIS 946.6 million for investment. In constant terms, the 1998 budget is the same as that of 1997.

Ministry of Education Budget, 1990-1998  
(NIS millions, constant 1996 prices)

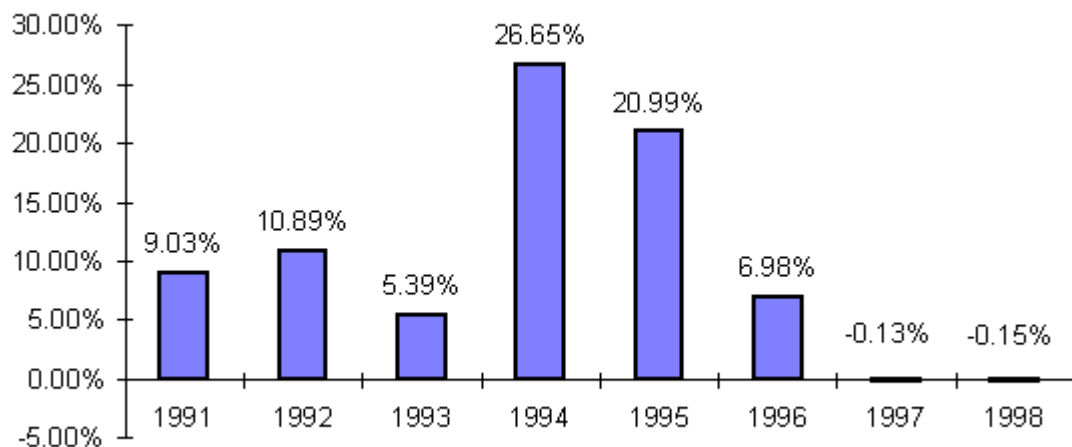


Source: Ministry of Finance, *State Budget: Proposal for Fiscal Year, Main Provisions of the Budget, Ministry of Education and Culture*, various years.

The growth rate of the Education Ministry budget began to slow down in 1995. In the past two years, this deceleration has given way to stagnation that is actually worse

than the graph shows, if we take into account the fact that school enrollment has grown each year.

### Ministry of Education Budget, 1990-1998-Annual Percent Change



Sources: Ministry of Finance, *State Budget: Proposal for Fiscal Year 1998, Main Provisions of the Budget*; and Ministry of Finance, *Provisions of the Budget*, various years.

### **While the Education Budget Shrinks, Most Teenagers Leave School without Matriculation Certificates**

The 1998 budget marks the continuation of a *downslide* in government education policy:

- \* Since school enrollment continues to expand by 2 percent annually, *the downsized education budget is being apportioned among a larger "clientele."*
- \* Immigrant absorption does not end when classrooms are built and teachers are placed in them. To make absorption a success, the momentum that typified the first half of the decade must continue.
- \* *Nearly two-thirds of Israeli teenagers do not obtain matriculation certificates.* Changes are needed in schools in urban working-class neighborhoods, development towns, and Arab villages.

**Localities in Which One-Third or Fewer 17-Year-Olds  
Obtained Matriculation Certificates in 1996**  
(Locations with populations of 10,000 or more)

<b>Locality</b>	<b>Percent of 17-year-olds matriculating<sup>1</sup></b>
Rahat	6%
Kalansawa	13%
Beney Beraq	14%
Yefiah	16%
Sakhnin	17%
Ma'alot-Tarshiha	18%
Arrabeh	18%
Umm al-Fahm	19%
Or Akiva	20%
Baqa al-Gharbiyya	22%
Eilat	23%
Kfar Qasm	23%
Jedida Makr	23%
Kafr Kana	24%
Tiberias	25%
Jerusalem	25%
Tamra	25%
Qiryat Malakhi	26%
Ramle	26%
Kafr Manda	26%

Shifr-'Amr	26%
Netivot	27%
Daliyat al-Karmil	27%
Acre	28%
Taibe	28%
Ofakim	28%
Beit Shean	29%
Dimona	29%
Arara	29%
Tira	29%
Ariel	30%
Tirat ha-Carmel	31%
Qiryat Gat	31%
Ashkelon	31%
Maghar	31%
Qiryat Shemona	31%
Beit Shemesh	33%
Lod	33%

Source: Calculated from Ministry of Education and Culture, Office of the Spokesperson, 1997.

<sup>1</sup> Computed on the basis of data from the Israel Central Bureau of Statistics concerning age groups by localities. To obtain the number of 17-year olds, we divided the 15-19 cohort by five.

### **Remedial Instruction Budgets: The Cutbacks Continue**

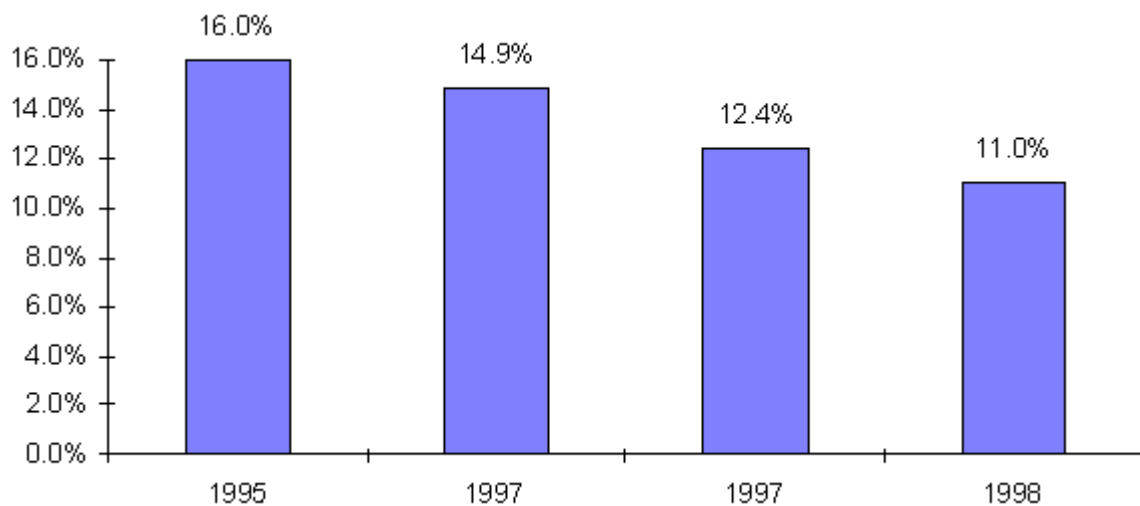
As the total education budget erodes, budget lines meant for schools in working-class urban neighborhoods, Jewish development towns, and Arab villages have been sharply reduced. Adva Center has been monitoring the *remedial instruction* budgets, which are especially important for two reasons:

\* "Remedial hours," allocated in addition to basic teaching hours, are one of the most important ways of enhancing education systems in working-class urban neighborhoods and Jewish development towns.

\* Eligibility for remedial hours was extended to Arab students in 1994.

Previous reports by Adva Center pointed to continued cutbacks in the remedial budgets, even though since 1994 these budgets have been serving a larger potential population group. *The 1998 budget sustains this trend*, if the only budget released thus far-that of remedial hours at the junior high level-is indicative. (Primary schools and high schools are also given remedial hours.) The data are shown in the graph below.

Remedial Hours Relative to Basic Teaching Hours, Junior High Level, 1995-1998  
(Percent)



Sources: Ministry of Finance, *Provisions of the Ministry of Education Budget*, various years; Ministry of Finance, *Budget Proposal for Fiscal Year 1998, Ministry of Education, and Explanatory Notes*, October 1997, p. 160.

### **"Gray Education" Will Flourish**

The government is leading the education system toward a crisis reminiscent of that of the 1980s. At that time, affluent parents responded to cutbacks in teaching hours by paying out of pocket for more teaching hours. The result, "gray education," became more and more widespread over the years. Today, in view of the cutbacks in instruction hours, the practice will probably become even more entrenched.

The outcome is preordained: wherever parents cannot afford to supplement state education, the quality of schooling will deteriorate.

A 1994 study on the state of gray education found that the more socioeconomically disadvantaged and geographically peripheral a locality is, the less gray education it



has-especially in the Arab sector (Eric Cohen and Einat Cohen, *Gray Education in Israel: Supplemental Curricula in the 1990s*, ISES, 1996: 32-33).

Furthermore, where gray education is offered in working-class urban neighborhoods and Jewish development towns, it is funded by a nonprofit organization because local parents cannot afford it (*ibid.*: 46). Thus, gray education is on shakier ground in these localities than elsewhere, because it depends on the good will of philanthropists.

### **The Long School Day**

In 1990, the Knesset passed the Long School Day Law to respond to middle-class "gray education" by augmenting instruction and enrichment hours in schools in less affluent areas. As envisaged, the long school day would involve an increment of 250,000 teaching hours over a four-year period. Between 1990 and 1995, however, only 107,000 hours were allocated for this purpose-less than half of the quantity planned-and the program was not budgeted at all in 1996.

Before the 1997 budget debates, the Prime Minister and the Education Minister announced the resumption of funding for the long school day-but on a much lower scale than that set forth in 1990: in only 15 percent of schools and at NIS 400 million. As it turned out, none of this funding was actually budgeted.

Although the 1998 budget contains an allocation for the long school day, schools that receive this benefit will have to forgo remedial and other reinforcement hours on a total scale of NIS 30 million (Ministry of Finance, *State Budget, Proposal for Fiscal Year 1998 and Explanatory Notes*, Ministry of Education, pp. 47-49). In other words, what one hand gives, the other hand takes away. The deal is a bad one, because remedial hours are "organic" teaching hours-delivered by members of the regular teaching staff-while long school day hours are usually given in the afternoon by non-certified personnel.

In the past, the long school day was implemented in a manner that did not correspond to the goal of enhancing scholastic achievements. In the original plan, 60 percent of long school day hours would be for the basics and 40 percent would be invested in enrichment. In practice, most of these hours were delivered by professionally unqualified personnel. Thus, the extended hours did not compensate the disadvantaged for "gray education" hours purchased in affluent schools.

### **Cutbacks in Budgets Earmarked for the Druze and Arab Sectors**

The Ministry's draft budget for 1998 shows protracted cutbacks in earmarked allocations for the Druze and Arab sectors:

- \* A 23 percent reduction in the "Education Advancement Programs for Minorities" line (following a 19 percent cutback in 1997);
- \* A 17 percent reduction in the "Druze Education Activities" line (following a 16 percent cutback in 1997);

\* A 17 percent in the "Arab Education Activities" line (following a 17 percent cutback in 1997).

### Teachers' Incentives

As the budgets for remedial instruction and the Druze and Arab sectors are being cut, the 1998 budget provides a real increase of 120 percent in the item for teachers' incentives, to the benefit of teachers who work in schools in National Priority Areas. In 1997, the Office of the Prime Minister revised the list of localities so defined. The list has not yet been made public; only a map has been issued. According to the map, most localities in Class A National Priority Areas are settlements in the West Bank and the Golan Heights. By inference, the Ministry of Education wishes to focus its incentives on teachers who work there.

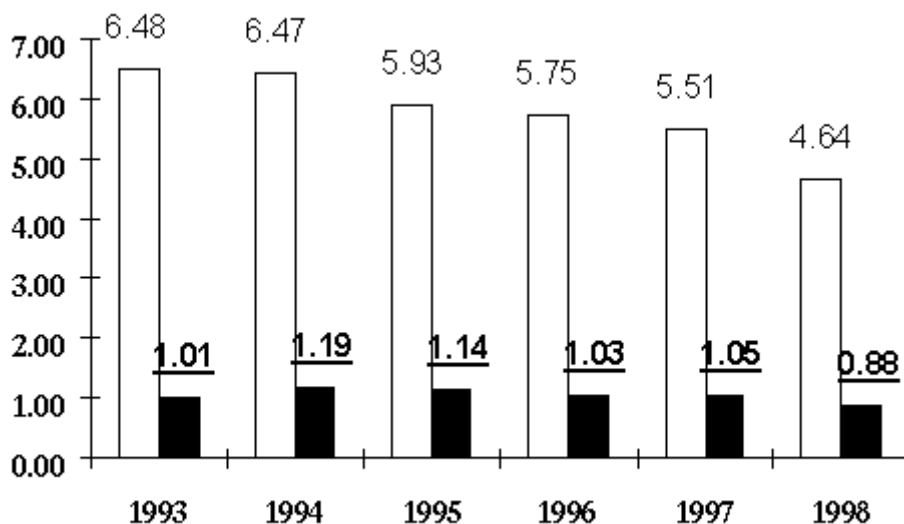
### MINISTRY OF CONSTRUCTION AND HOUSING

The Ministry of Construction and Housing budget for 1998 is NIS 9.507 billion (in current prices, including spending authorization for investment).

Most of the Ministry budget-about 77 percent-is earmarked for housing assistance. The housing assistance budget, NIS 7.279 billion (in current prices), is 15 percent smaller in 1998 than in 1997, in real terms.

Most housing assistance-NIS 6.865 billion (in current prices)-is given in the form of rent support and housing loans for purchase or construction of dwellings. This budget has been declining since 1994, as the following graph shows.

Housing Loan and Rent Support Budget, 1990-1998<sup>2</sup>  
(NIS billions, constant 1996 prices)



In the above chart, the open bars are Housing Loans, and the solid black bars are Rent Support.

Source: Ministry of Finance, *State Budget, Proposal for Fiscal Year 1998 and Explanatory Notes, Ministry of Construction and Housing*, various years.

<sup>2</sup> Includes budget items 4209, 4210, 4212, 7009, 7010, and 7011.

## **Housing Loans and Localized Assistance**

### **1. Housing Loans**

The housing-loan budget for 1998, composed of separate items for grants and credit, is NIS 5.808 billion (current prices). This budget is 16 percent smaller than in 1997, as the table shows:

Ministry of Construction and Housing, Housing Loan Budget, 1998 vs. 1997<sup>3</sup>  
(NIS billions, constant 1996 prices)

<b>1997</b>	<b>1998</b>	<b>Percent change</b>
5.51	4.64	16%

Source: Ministry of Finance, *State Budget, Proposal for Fiscal Year and Explanatory Notes, Ministry of Construction and Housing*, 1998 and 1997.

<sup>3</sup> The budget was computed by adding the budget for grants, interest subsidies, and indexation subsidies for purchasers of dwellings in the private market (Item 4209); the budget for loans for purchase of dwellings (Item 7009); and items 7010, 7011, and 4210, expenditure items on revenue from the sale of government-owned dwellings.

The housing loans range from NIS 70,000, for young couples who have few eligibility points and acquire dwellings in the center of the country, to NIS 195,800 for couples with high point rankings who buy in high priority localities.

The loans have not been adjusted for inflation since 1992, except for specific groups of eligibles. According to our computations, a loan of NIS 70,000 presently covers 10 percent of the average price of a 2.5-3 room dwelling in Tel Aviv, as against 23 percent in 1992.

### **2. Localized Loans and Grants**

Since 1994, loan eligibles who buy their dwellings in National Priority Areas and central localities-except for the major cities-have been given additional loans and grants from the Treasury, in sums ranging from NIS 50,000 to NIS 100,000. These benefits are disbursed under a budget line called "special operations."

The "special operations" budget is NIS 609 million in 1998 (in current prices), 13 percent smaller than in 1997. The 1997 allocation, however, represents an 80 percent increase from 1996.

## Rent Support Grants

Another form of housing assistance provided by the Ministry of Construction and Housing is the rent-support grant. These grants, ranging from NIS 250 to NIS 1,000 per month, are given to immigrants in their first few years in the country, single-parent families, the disabled, senior citizens on income maintenance, and other groups in need.

As of December 1996, 143,571 households were receiving rent support. Eighty percent of the recipients were recent immigrants; 20 percent of the nonimmigrants were single-parent families (Ministry of Construction and Housing, *Monthly Information*, August 1997, p. 39 [Hebrew]).

The rent support budget in 1998 is NIS 1,056 billion (current prices), 16 percent lower in real terms than in 1997. Most of this outlay-77 percent (NIS 816.4 million)-will accrue to recent immigrants and 20 percent (NIS 211.2 million) will accrue to nonimmigrants. The remainder will be used for other matters-a staggered schedule of public housing rent (NIS 9.6 million) and sheltered housing for the elderly (NIS 18.8 million).

Rent Support Grant Budget, 1993-1998  
(NIS millions, constant 1996 prices)

	1993	1994	1995	1996	1997	1998
Immigrants	818.8	985.3	935.4	772.9	802.9	680.9
Percent change		20.3%	-5.1%	-17.4%	3.9%	-15.2%
Nonimmigrants	139.2	200.7	205.2	236.2	227.3	176.1
Percent change		44.2%	2.3%	15.1%	-3.8%	-22.5%
Other <sup>4</sup>			23.0	19.4	23.7	
Total	1,010.4	1,185.9	1,140.5	1,032.1	1,049.6	880.7
Percent change		17.4%	-3.8%	-9.5%	1.7%	-16.1%

Sources: Ministry of Finance, *State Budget, Proposal for Fiscal Year 1998 and Explanatory Notes*, Ministry of Construction and Housing, and Ministry of Finance, *Provisions of the Budget, Ministry of Construction and Housing*, various years.

<sup>4</sup> Includes budgets for staggering of rent subsidy levels in public housing and sheltered housing for the elderly.

As the table shows, both nonimmigrants and recent immigrants have been getting smaller budgets for rent support grants.

*Participation in repayment of mortgage loans:* Recent immigrants who purchase dwellings while still eligible for rent support (during their first five years in the country) do not forfeit their rent-support grants; they continue to receive them in the form of subsidies on repayments of housing loans. The grant budget for 1998 includes NIS 107.6 million for this purpose (Ministry of Finance, *State Budget, Proposal for Fiscal Year 1998 and Explanatory Notes*, Ministry of Construction and Housing, p. 96).

### **Public Housing**

Israel has 100,000-110,000 public housing units, which are leased to eligibles at subsidized rent. The Ministry of Construction and Housing estimates this subsidy-which is not included in its budget-at more than NIS 500 million per year (*ibid.*: 69). Approximately 4,500 of these dwellings are vacated each year; the Ministry re-tenants them with new eligibles (*ibid.*, 67).

A large proportion of public housing tenants are low-income families that would find it difficult to purchase housing in the free market. Although many of these families occupy the dwellings for lengthy periods of time, their tenancy does not confer rights to the property. When the heads of household die, their children forfeit tenancy rights.

In early 1997, the government decided to privatize the management of the public housing system-thus making the tenants' status even more tenuous.

The 1998 budget includes NIS 98.9 million (in spending authorization, in current prices) for the acquisition of 200 dwellings for eligibles who, for medical reasons, must live in localities where appropriate public housing units are unavailable. This allocation is apportioned between NIS 62.8 million for recent immigrants and NIS 36.1 million for nonimmigrants. The total budget for such dwellings is 17 percent lower than in 1997.

### **Assistance for Arab Citizens**

The 1998 budget does not include earmarked allocations for housing assistance to Arab citizens. In contrast to special allotments for other special-need groups, Arab citizens qualify for assistance under the general criteria only. Notably, the Demobilized Soldiers Law increases the assistance available to soldiers-nearly all of whom are Jews-by one-third.

The Ministry of Construction and Housing does not release current data on Arab eligibles. A document from the Tenancy Division notes that "most young people who exercise [their eligibility for] assistance are Jews. In Arab localities, 1,200 [persons exercised their eligibility] in 1995." In fact, Arab eligibles accounted for no more than 2.3 percent of the 51,889 citizens who used their entitlements that year (Ministry of Construction and Housing, *Monthly Information*, August 1996: 38). Arab young couples are underrepresented, as 23 percent of persons who wed in 1995-7,850 couples in all-were Muslim, Druze, or Christian (figures based on Central Bureau of Statistics, *Statistical Abstract of Israel 1995*, Table 3.1).

The Ministry's investment budget includes one line for the Arab sector-"Infrastructure in Minority Localities." In the 1998 budget, NIS 138 million (in spending authorization, current prices) is allotted for this use. The budget book explains that, "This budget pools all resources earmarked for support of the minority sectors and includes budgets meant for construction of public facilities, development, and infrastructure in the Arab, Bedouin, Druze, and Circassian sectors" (Ministry of Finance, *State Budget, Proposal for Fiscal Year 1998 and Explanatory Notes, Ministry of Construction and Housing*, October 1997, p. 60). The Arab localities receive a disproportionately small slice of the Ministry's investment pie-7.6 percent of the investment budget (NIS 1.824 billion, current prices)-even though they account for about 18 percent of the population. Furthermore, the investment budget for the Arab sector in 1998 is 15 percent smaller than that allocated in 1997.

### **Assistance for Purchasers of Housing in National Priority Areas**

The government uses housing assistance not only to provide housing but also to carry out its settlement policies. Eligibles who buy or build dwellings in designated National Priority Areas are given larger housing loans, higher locality assistance, and, starting in 1998, grants for infrastructure development. A new map of National Priority Areas, released in September 1997, shows that most Arab localities have been deleted and that most West Bank settlements have been included.

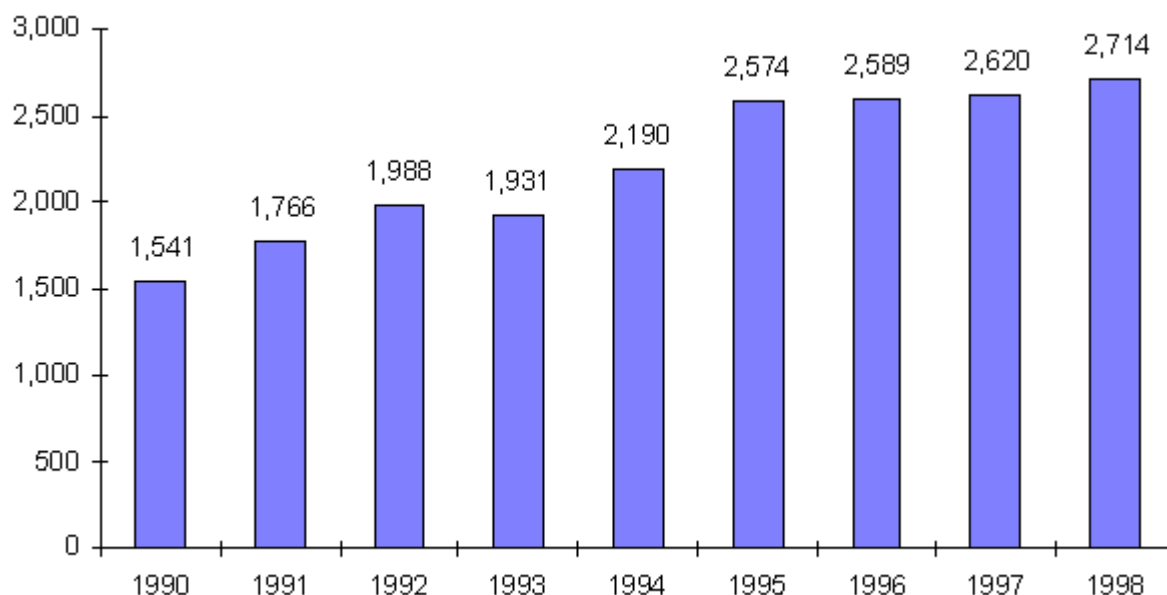
The 1998 budget includes two new expenditure items for National Priority Areas:

- \* A 50-percent discount on development expenses on government land sold to private contractors-given directly, in the form of grants, to eligibles who purchase new dwellings. This budget line includes NIS 92.5 million in grants for purchasers in "Class A National Priority Areas and Judea-Samaria."
- \* NIS 38 million to subsidize the development expenses of purchasers of new dwellings in Class A and Class B National Priority Areas. The level of this grant is NIS 25,000 in Class A areas and NIS 20,000 in Class B areas.

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

The regular budget of the Ministry of Labor and Social Affairs for 1998 (not including National Insurance) is NIS 3.25 billion (current prices), 3.6 percent higher in real terms than the 1997 budget.

Budget of the Ministry of Labor and Social Affairs, 1990-1998  
(NIS millions, constant 1996 prices)



Source: Ministry of Finance, *State Budget, Proposal for Fiscal Year, Main Provisions of the Budget*, various years.

Below we review several of the Ministry's major activities.

### **Vocational Training**

The budget of the Vocational Training Division is 2 percent larger in real terms in 1998 than in 1997. The high unemployment rates currently observed (especially in the Negev), combined with this scanty budget increase-following cutbacks in 1996 and 1997-create a situation in which more unemployed must compete for a smaller number of course vacancies.

The Division is responsible for vocational training and retraining of adults and dropout youth. It is also in charge of training technicians and practical engineers in post-secondary settings.

The Vocational Training Division claims the second-largest share of the Ministry's budget: NIS 647 million (current prices)-20 percent of the total-in 1998.

### **Women's Employment and Daycare Division**

The Division's budget in 1998 is NIS 274 million, 8.5 percent of the Ministry budget and unchanged in real terms from 1997.

Almost all of this budget is earmarked for tuition subsidies for daycare and family-care facilities. In 1997, 75,000 children were enrolled in daycare. Among these children, 81 percent were of working mothers and 19 percent (14,000) were referred to daycare by social service departments because of various family difficulties (Ministry of Finance, *State Budget, Proposal for Fiscal Year 1998 and Explanatory Notes*, Ministry of Labor and Social Affairs, pp. 68-69).

The daycare centers are run by women's organizations-Na'amat, WIZO, Emunah, and Democratic Women, by Arab nonprofit associations such as Al-Tufula and Dar al-Tifl al-'Arabi, and by Shas and Chabad. The Daycare Division forwards money to these organizations for use in administering the centers, but it has no control over the organizations' actual use of these funds.

The centers get their funding from three sources: the Ministry, the organizations that run them, and parents. Parents' daycare fees have been rising over the past few years, not because the Ministry's support has declined but because the administering organizations reduced their participation in operating expenses from 20 percent in 1994 to only 5 percent in 1995 (Ministry of Finance, *State Budget, Proposal for Fiscal Year 1997 and Explanatory Notes*, Ministry of Labor and Social Affairs, p. 65). Since September 1995, the distribution of the centers' funding by sources has not changed: Labor and Social Affairs Ministry-45 percent, parents-50 percent, organizations-5 percent.

### **Daycare Centers in Arab Localities**

The Ministry of Labor and Social Affairs awards official recognition to a total of about 20 daycare centers in the entire Arab sector. Without such recognition, the government does not provide tuition subsidies (Ministry of Labor and Social Affairs, October 23, 1996). In the Arab sector, unlike the Jewish sector, the Ministry has promoted the development of family-care settings as opposed to daycare centers. Family-care facilities are less expensive and easier to set up, and the person who runs them needs less training than that required of the administrator of a daycare center. Thus, family-care centers provide a lower level of preschool education. In the past year, the Ministry has stepped up its activity in the Arab sector, granting additional daycare centers official recognition and appointing an Arab coordinator of family-care settings in the northern part of the country.

### **Care for the Elderly**

The 1998 budget allocates NIS 168 million (current prices) for care for the elderly *in inpatient facilities, in community settings, and at home*. Relative to 1997, the budget for care away from home has decreased by 1.5 percent and that for care in the community and at home has risen by 7 percent, both in real terms.

*Inpatient care* includes participation in funding the tenancy of 3,020 of the 12,000 seniors who live in homes for the aged not defined as nursing homes (Ministry of Finance, *State Budget, Proposal for Fiscal Year 1997 and Explanatory Notes*, Ministry of Labor and Social Affairs, p. 135).



*Community and home care* includes supervision of seniors' day centers and clubs run by nonprofit organizations and municipal authorities, as well as individualized assistance for medical needs, hot meals, provision of home appliances, and other purposes. According to the budget book, 6,000 seniors benefit from such assistance each month.

Neither Adva Center nor the Ministry of Labor and Social Affairs has information on the extent of the needs of senior citizens who live at home. The amount of home assistance provided depends on the size of the local budget. (See discussion in Hannah Weihl, "Senior Citizens in Israel," Adva Center, *The Israel Equality Monitor*, No. 7, 1997.)

### **Treatment and Prevention of Violence against Women**

The budget for personal and family social services in 1998, most of which is devoted to various kinds of social care, will decrease by a very weighty 35 percent in real terms relative to 1997. The services in this rubric include welfare officers, the establishment of centers for prevention of family violence, and home counselors and tutors for disadvantaged families.

On the other hand, the budget of the Service for Girls in Distress, which includes assistance for battered women and for victims of sexual assault, is 18 percent higher in real terms than in 1997.

The budgets for the treatment and prevention of violence against women are divided among three main projects:

- a. *Centers for the prevention of family violence.* Israel has twenty-one such centers today, including three that opened in 1996. In 1996, they treated a total of 4,700 families (Ministry of Finance, *State Budget, Proposal for Fiscal Year 1998 and Explanatory Notes, Ministry of Labor and Social Affairs*, p. 126). In 1997, the budget for these centers was NIS 4 million.
- b. *Shelters for battered women.* In 1997, eleven such shelters, established and run by volunteer organizations, cared for 250 women and 1,250 children (*ibid.*, 164). Beginning in 1998, the Ministry of Labor and Social Affairs will be paying for 75 percent of their operating budgets, on the basis of a schedule that it set forth (Ministry of Finance Budget Division, November 1997). In 1997, the Ministry of Labor and Social Affairs budget for the shelters (including maintenance fees) was NIS 6.4 million (*State Budget, Proposal for Fiscal Year 1998 and Explanatory Notes, Ministry of Labor and Social Affairs*, p. 39). In 1997, 78 battered women who had stayed in the shelters were given assistance in obtaining their own housing in the community (*ibid.*).
- c. *Centers for victims of sexual assault.* There are ten such centers: two in Jerusalem and one apiece in Tel Aviv, Haifa, Ra'anana, Beersheva, Eilat, Nazareth, and Qiryat Shemona. The centers assisted

6,575 women (ibid., p. 165). In 1997, the state contributed NIS 314,000 toward the expenses of these centers.

### **Enforcement of Labor Laws**

The 1997 budget of the Division for Enforcement of Labor Laws and Regulation of foreign workers was NIS 8.9 million (current prices)-up 23 percent from the previous year. Most of the increase was for additional inspectors for the enforcement units. In 1996, the division's budget grew by nearly 50 percent in real terms, in order to place foreign workers under tougher control.

As of November 1997, the Ministry of Labor issued labor permits to 92,500 foreign workers: 60,000 in construction, 17,000 in agriculture, 2,000 in industry, 10,000 in nursing care, and the remainder in restaurants and hotels (source: Ministry of Labor and Social Affairs).

The division's activity with respect to foreign workers focuses on enforcing the 1991 Foreign Workers (Unlawful Employment) Law, and not the Minimum Wage Law.

## **National Insurance (Social Security) Benefits**

### **NATIONAL INSURANCE BENEFITS**

#### **Child Allowances**

Child allowances are one of the pillars of the Israeli welfare state.

In 1997, for the first time since they were introduced, child allowances became fully universal: they were given to every mother for every child up to age eighteen, without income tests and without the previous distinctions between large and small families, between Jews and Arabs, and between wage-earners and the unemployed and self-employed.

Now, before the first year of full universality has passed, the government proposes to mount an assault on the child allowances, reduce their level, and restore income tests and differentiation among children.

In its draft budget for 1998, the government proposes to reduce *by one-third* the benefit for the first and second children of insured persons with up to three children whose income falls within the range of 130-170 percent of the national average wage, and to cut *by two-thirds* the benefit for the first and second children of insured persons with up to three children whose wages exceed 170 percent of the national average. If

the Knesset passes the government's proposal, the casualties will be two: families with children-especially those in the middle-income bracket-and the principles on which the child allowance system is based:

*Detriment to household income:* Today, all families are given one allowance point for each of their first two children. Every such point was worth NIS 154 million in September 1997. Families with up to three children, in which the father or sole parent earns 130-170 percent of the national average wage (between NIS 7,000 and NIS 9,200 per month, gross) will lose NIS 50 per month in net income for each of their first two children. Families with up to three children, in which the father or sole parent earns more than 70 percent of the national average wage (above NIS 9,200 per month, gross) will lose NIS 100 per month of net income for each of their first two children.

*Detriment to women:* The income test will be based on the income of fathers or sole parents, and not on family income, in which both spouses share. This marks an explicit retreat from the slow progress Israel had been making toward equal treatment of working spouses.

*Detriment to children:* The government proposes that wage-earning fathers (or sole parents) be given child allowances for their first and second children through their employers-in contrast to the current practice, in which the entire benefit is paid by National Insurance directly to mothers' bank accounts. This undermines the status of child allowances as income directly earmarked for childraising-an earmarking assured, to some extent, by forwarding payment directly to mothers, who in most families are the children's principal caregivers.

*Inequitable treatment of families of equal size and income:* As the following table shows, families with similar income will receive differential treatment.

Number of working parents	Father's wage (gross)	Mother's wage (gross)	Income of both spouses	Number of children	Extent of cutback	Percent decrease in family net income (incl. National Insurance contributions)
1	NIS 8,000		NIS 8,000	3	NIS 100	1.7%
1	NIS 10,000		NIS 10,000	3	NIS 200	3.0%
2	NIS 7,000	NIS 7,000	NIS 14,000	3	NIS 0	0
2	NIS 10,000	NIS 4,000	NIS 14,000	3	NIS 200	2.3%
2	NIS 4,000	NIS 10,000	NIS 14,000	3	NIS 0	0

*Detriment to the take-up rate of child allowances:* In the past (1965-1975), child allowances for the employed were paid by their employers, who proved to be an unreliable conduit; many workers did not receive the allowances to which they were lawfully entitled. The main casualties were breadwinners who held irregular jobs or

whose employers lacked a credible reporting and payment mechanism. Temporary workers and the unemployed were also adversely affected.

*Detriment to the universality of child allowances:* The child-allowance policy has changed directions many times. Not until 1997 did this benefit become universal. Now, at the end of the first year in which allowances have been paid equitably to all childraising families in Israel, the government proposes a return to the era of differential eligibility. In so doing, it is setting a precedent for further erosion.

How much harm will the new rules cause? According to the National Insurance Institute, 188,000 families will lose one-third of the benefit for their first and second children, and 198,000 will lose two-thirds of the benefit (*State Budget, Proposal for Fiscal Year 1998 and Explanatory Notes, Ministry of Labor and Social Affairs*, p. 174).

*Detriment to the National Insurance Institute:* The government proposes that wage-earners receive benefits for their first and second children through their employers while the self-employed and the unemployed continue to obtain them from the National Insurance Institute. This decision is harmful to the National Insurance Institute, the agency charged by law with applying the government's social policy, because it turns the NII from an insurance institution into just another cog in Israel's tax-collection apparatus.

### **Old-Age Pensions**

The National Insurance old-age pension is an important source of income for Israel's elderly. One-third of seniors-including, according to researcher Hannah Weihl, 75 percent of Arab elderly (as of 1985) and 45 percent of Mizrahi elderly-get by on National Insurance benefits alone.

Old-age pensions are universal today: every elderly man and woman in Israel qualifies upon reaching the age of retirement. Until last year, homemakers were not entitled to pensions on their own account; their benefit was an appendage of their husbands' pensions. Since January 1, 1996, women homemakers who reached retirement age after that date have been eligible.

The basic old-age pension is fixed at 16 percent of the national average wage. In a retired household with two former breadwinners, each spouse gets a full pension, giving the household 32 percent of the average wage. Where only one spouse worked, he/she is given an 8 percent supplement for the non-working spouse, resulting in 24 percent of the national average wage.

This basic pension can be increased in two ways:

1. *Seniority supplement*-Working people are entitled to a seniority supplement of 2 percent of the basic pension benefit for each year of National Insurance contributions, beyond the first ten years, to a maximum of 50 percent of the basic benefit.

2. *Deferred pension supplement*-Pensioners are entitled to a 5 percent supplement for each year in which they defer their pension after reaching the minimum qualifying age-65 for men and 60 for women-up to a maximum of five years, for a maximum supplement of 25 percent of the basic pension.

Pensioners entitled to the maximum level of both supplements qualify for up to 28 percent of the national average wage (16%+4%+8%). The maximum benefit for single-breadwinner couples is 42 percent of the national average wage (24%+12%+6%), and for two-breadwinner couples 56 percent (32%+16%+8%).

In its 1998 draft budget, the government proposes reducing the seniority supplement by 50 percent. The financial harm caused is significant. The basic pension, as stated, stands at 16 percent of the national average wage-NIS 867 in September 1997. Those who accrue a maximum seniority supplement are entitled to a 50 percent bonus, worth NIS 433.5 in September 1997. Now the government wishes to cut this in half, to only NIS 216.75.

To illustrate the potential income loss, we chose the pension income-from National Insurance and from occupational pension funds-of individual retirees in two income deciles, the seventh and the fifth. The pension data are culled from the Israel Central Bureau of Statistics *Family Income Survey* for 1992/93, adjusted to August 1997 prices by means of the Consumer Price Index. The figures represent the average pension income in these deciles. Income deciles lower than the fifth were not chosen because the average pension income of people in those ranges is negligible.

	<b>Fifth decile</b>	<b>Seventh decile</b>
Basic old age pension	NIS 867	NIS 867
Maximum seniority increment	NIS 434	NIS 434
Average occupational pension-fund income	NIS 385	NIS 641
Total income	NIS 1,685	NIS 1,941
Total income after 50 percent reduction in seniority increment	NIS 1,468	NIS 1,724
<i>Percent decrease in total income</i>	<i>12.9%</i>	<i>11.2%</i>

The government's draft budget, if the Knesset approves it, will also infringe on the insurance basis of the old-age pension. The pension, including the seniority supplement, is not a dole that the state grants its citizens but a right they have earned by remitting National Insurance contributions during their years of labor. (Those who receive pensions without having paid in, such as recent immigrants, do so because the Ministry of Finance decided to give them pensions anyway.) The government's proposal infringes on an entitlement enshrined in law.

It should be borne in mind that these pensions are not high. The basic pension in August 1997 was NIS 867 per month for individual retirees and NIS 1,300 for elderly couples that had only one breadwinner (and in which the wife had retired before January 1, 1996). The basic old age pension is too small to provide a minimum standard of living; in 1996, one-third of the Israeli elderly-151,000 people-had to apply to National Insurance for an income-maintenance supplement. The pension plus this added benefit, as of August 1997, was NIS 1,400 per month for individuals and NIS 2,174 for retired couples with one former breadwinner, if the wife had retired before January 1, 1996.

### **Unemployment Compensation**

The draft budget presented to the Knesset does not deal with unemployment compensation. However, in its meeting of September 8, 1997, the Cabinet resolved to set up a team with representatives of the Ministry of Labor and Social Affairs, the National Insurance Institute, and the Ministry of Finance, to elaborate "further criteria in the matter of jobseekers' eligibility. . .in order to share the responsibility for finding work with the jobseekers themselves." This decision will be presented to the Knesset for approval in the course of the 1998 budget debate.

The Cabinet explains this measure by stating that "There has been some difficulty in placing jobseekers in the past few years." The Finance Ministry officials are obviously well aware that the unemployment rate has been rising of late, and they harbor no illusions about the ability of many unemployed to accomplish by themselves what the labor exchanges cannot-especially in peripheral localities. They have another goal in mind. As the government resolution states, "Sharing responsibility for finding work with the jobseekers themselves. . .will reduce the number of jobseekers who register at the labor exchanges and create savings in unemployment compensation and income-maintenance payments." In other words, unemployed persons who cannot find work will lose their eligibility for unemployment compensation.

This is more than an offense to the spirit and substance of the law; it also contravenes a basic principle of the welfare state. Unemployment benefits are not only meant precisely for economic-hardship situations such as the one afflicting Israel today; they are also an insurance entitlement of working people, for which they paid while on the job.

The government took this resolution in view of an upturn in unemployment. The unemployment rates are highest among unskilled industrial workers. The main casualties of the increase in unemployment are those who make their living in labor-intensive industries: inhabitants of Jewish development towns, demobilized soldiers, recent immigrants, inhabitants of Arab villages-and, above all, women in each of these groups.

Selected Population Groups, Proportion among Jobseekers at Labor Exchanges for Adults and Proportion among Civilian Labor Force, 1996

	Women	Men	Development towns	Demobilized soldiers	Post-1990 immigrants	Arabs
Percent of jobseekers	54.4%	45.6%	24.2%	10.0%	9.9%	8.8%
Percent of labor force	43.5%	56.5%	10.1%	...	13.7%	12.8%

Source: Central Bureau of Statistics, *Statistical Abstract of Israel, 1997*, Tables 5.9, 12.2, 12.4, 12.7, and 12.30.

## APPENDIX: METHODOLOGY

### Definitions, Sources, and Methods of Computation

1. Government ministries' budgets have two components: regular (operations) and development (capital). The regular budget is used for current ministry activities; the development budget is used for building and equipment.

The computation used here usually includes only the current budget, the main and the larger of the two budget components, unless otherwise stated.

2. The analyses usually pertain to net government expenditure, i.e., each ministry's total expenditure. Where use is made of revenue-dependent expenditure, i.e., expenditure dependent on revenue from outside sources or other government ministries, this is stated in the text proper.

3. Since 1992, the fiscal year has coincided with the calendar year (January-December). Until 1990, the fiscal year began on April 1 and ended on March 31. A nine-month budget (April-December) was passed for the transitional year of 1991. To facilitate comparisons with previous years, the 1991 budget is expressed in full-year terms by means of linear computation.

4. Figures are expressed in constant 1996 budget prices unless otherwise stated. The data for 1997 and 1998 are based on price estimates.

5. Different years are compared by using current prices deflated by the Consumer Price Index.

6. Following are the major sources for the budget data used in this report:

- a. *State Budget Proposal: Main Provisions of the Budget*, presented to the Knesset by the Ministry of Finance on November 1. This book contains the government's general plan and the main programs of each ministry, without itemization by divisions and departments.
- b. *Budget Provisions* booklets for each ministry. These booklets are published by the Ministry of Finance in January, two months after the budget is presented to the Knesset for approval. The booklets, itemized to the level of divisions and departments, are the main source for most of the analyses above.
- c. *Budget Proposal and Notes*: booklets with itemizations and notes on the operations of each ministry.
- d. Publications of major ministries and/or various ministry divisions.
- e. Information obtained from employees of the various ministries.

7. The State budget is merely a working plan. It undergoes many changes -- by the Knesset during the budget debates, in the course of political power maneuvers, after the budget is approved, or in response to political or economic constraints that the government faces. The figures shown in the *Budget Provisions* booklets are often significantly smaller or greater than the sums actually spent.

The Ministry of Finance does not publish regular budget updates. The main source in tracking the changes is the *Financial Statement of the Accountant-General*, issued in July. The performance reports in this publication are itemized by main items only, not by sub-items and sub-subitems.

Because we are aware of the changes that occur, we have made every effort to cross-reference information from different sources. Furthermore, our emphasis is on long-term trends, which usually come into adequate focus even when the budget is overrun or underrun in any given year.

The public's right to know is a basic democratic entitlement: to promote this end, we urge the Finance Ministry and the other ministries to issue regular updates and detailed performance reports so that the public can monitor government policies and spending with greater acuity.