Engines of Equality

A New Way of Looking at the National Budget

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Engines of Equality: A New Way of Looking at the National Budget

This paper makes a simple argument – that the national budget must include not only engines of economic growth, but also engines of equality.

Capitalists, Finance Ministry bureaucrats and economists expect the national budget to foster growth. Growth is of course good for business and it provides employment. Yet growth in and of itself cannot tackle one of the main challenges of our time – the growing inequality.

In Israel, for most of the past thirty years, the GDP per capita has risen more sharply than wages; in other words, the economy has grown, but most of the population has not enjoyed that growth to the expected degree. In the United States, 91% of all new income generated by the growth that followed the great financial crisis of 2008 went to just one percent of the population – the top 1%. The vast majority of the population experienced no improvement in their standard of living.1

Why Do We Need Fiscal Engines of Equality?

We have been taught to think that inequality is the result of the marketplace; we have also been taught to think that inequality should be dealt with in that same marketplace.

We forget that the State is part of that same market and not a separate arena. It is the largest single employer in the economy, employing one third of the country's workforce and pays just over one quarter of total wages in the economy. In this regard, the State is an integral part of the economic marketplace. As such, it has a central role in the creation and perpetuation of inequality – and, at the same time, it has the power to reduce inequality, be it through employment and compensation within the public sector, or via the allocations it makes to fund the various services it offers the citizenry, or via the taxes it collects in order to finance the above expenditures.

It makes no sense for us to ignore fiscal policy’s contributions to inequality in Israel – nor its possible contribution to increasing equality. Just as we expect the national budget to include engines of growth, so we should demand that it include engines of equality.
Inequality is one of the central political, social and economic issues in the West today. Former U.S. President Barack Obama called the growing inequality in the United States “The defining challenge of our times.” The background to this statement is the growth in inequality over the past decades, a growth expressed mainly in the shrinking of the middle class, on one hand, and the growing concentration of wealth in the hands of the few, on the other.

In Israel, which has known a high degree of inequality from its inception, and whose degree of inequality is presently among the highest in the West, public discourse tends to focus on the issue of the cost of living; and yet, the issue of inequality is becoming more prominent in the reports of both Israeli institutions such as the Bank of Israel, and of international bodies such as the OECD.

The discussion of inequality usually focuses on developments in “the market.” This “market” is perceived as the main arena of economic activity in which macro-economic processes such as globalization take place. This is where “the economy’s top executives” are to be found, along with those earning the minimum wage and the unemployed. Finally, this is also expected to be the arena in which the trend could be reversed towards a more equitable economy.

In contrast, the “public sector,” the entire sector of economic activity financed by the national budget, is usually discussed as though it were not even part of “the market,” as though the coin of the national budget were made of a different alloy than that of the business sector. Civil servants are perceived to be situated above the market, viewing macro-economic processes, such as the growing inequality, from a distance above.

This is an economistic approach anchored in the realities of the early Industrial Revolution, when private entrepreneurs developed a new arena of economic activity, distinct from the traditional agrarian economy controlled by the royalty and landed gentry. The industrial arena soon became “the market,” the theater in which owners of capital act, and in which goods and services are traded.

One of the reasons “the market” became the focus of economic discussion is that the institutions we now call “the state” or “the public sector” — the civil service, armies, courthouses, local government, schools and so on — were on a vastly smaller scale, where they existed at all.
Over the course of the 20th century, and in particular following the Second World War, things changed in this regard, as the veteran state institutions, including the standing armies and government bureaucracies, grew more and more, while governments established new institutions, including those of education, health and welfare. An idea of this growth can be gleaned from the historic numbers of government transfer payments, in countries which in 1995 were OECD members: In 1880, the median government outlay on transfer payments in these countries stood at 0.29% of GDP. By 1900, it had grown very little, to 0.55% of GDP. In 1930 this outlay was still extremely limited – 1.66% GDP. The “big bang” came only after World War Two. By 1995, the outlay on transfer payments had reached 22.5% of the median GDP, and since then it has risen further.

Today the state is an immense institution and its budget is the single largest amount of money controlled by a single entity (that being the government). In Israel, those employed by the public sector (a category which includes government ministries, local government employees and those employed by governmental non-profits) constituted 35% of the entire workforce in the Israeli economy in 2018.

In that year, wage earners in the public sector received 26% of the total compensation earned by employees.

In light of these data, the distinction between “market” and “state” or “market” and “public sector” loses much of its meaning. Those who persist in holding on to it are mostly academic economists, acting under the influence of an apparent sub-conscious desire to return the state to its former dimensions, to the little corner from which it expanded over the course of the 20th century. To reiterate: the discussion of equality cannot be limited to the boundaries of “the market.” The State, through the budget allocated to it annually by the Knesset, is a major player in the arena of economic activity, and therefore a major player in the arena of socio-economic equality.

This may be illustrated by one of the main indicators used in the current discourse regarding inequality, which is, of course, the salaries of top executives in business corporations. In 2017, the average monthly compensation of a CEO in a publicly-traded “Tel Aviv 100 Index” company (the 100 largest companies traded on the Tel Aviv Stock Exchange) stood at ILS 371,000. This was 39 times higher than the average salary, which then stood at ILS 9,543. This is certainly a large gap, and indeed, it rankles. In that same year, the monthly compensation of the CEO of Israel’s Aeronautics Industries (IAI), a government-owned corporation, stood at ILS 125,000 – “only” 13 times higher than the average salary in the labor market. Comparing these two sums seems to indicate that the public sector is more equitable than the business sector, as the CEO of IAI makes one third
of what his counterparts in publicly traded companies do. On the other hand, this salary can be seen as proof of the continuing penetration of compensation norms – and norms of inequality – from the private sector into the public one. In a government-owned corporation, just as in a business enterprise, the CEO’s high salary comes at the expense of the workers, and in the case of the IAI, at the expense of the dividend paid to the public coffer.

Inequality is as much a product of “the market” as it is of fiscal policy. This is the background to the proposal of this paper, which is to examine the budget bill submitted annually to the Knesset for approval based on whether it includes engines of equality, and the nature of such engines.

**Engines of Economic Growth**

The concept of “engines of equality” is of course derived from the concept of “engines of economic growth.” These are the budgetary items politicians and economists seek when attempting to appraise the budget proposal submitted by the government annually for Knesset approval. Will the budget include engines of growth, and what is the nature thereof?

Economic growth means expansion of economic activity, or to use a familiar technical term – growth of the GDP. GDP, or Gross Domestic Product, is the monetary value of all goods and services created in a country in a given year. Once we know the GDP for a given year, we can compare it to that of the year before, and thus calculate the growth rate. Usually we get a single-digit number. In Israel in 2018, economic growth stood at 3.4%, a figure which means that the total value of all the goods and services produced in Israel in 2018, was 3.4% higher than their value in 2017.  

Governments like nothing better than economic growth. In fact, during the past few decades this has been the stated, overriding goal of macro-economic policy. This is mainly due to the fact that growth creates new jobs: A factory expanding operations needs new workers. A bus company that grows needs new drivers. An expanding school needs new teachers. When there is no growth or when growth is very low, unemployment rises – and unemployment, beyond bringing misery to many families, may lead to criticism of the government and even develop into political unrest.

The term GDP, and the ways in which it is calculated, was developed in the United States shortly prior to World War Two, and has since become the most well-known and most highly-regarded indicator of the state of a country's
economy. When international bodies or academic researchers seek to describe a given country’s economy, they will first of all note its GDP and the forecast thereof – whether it is expected to grow, stagnate or contract.

And yet, in recent decades critiques have emerged against the GDP index in particular and the concept of economic growth in general. One of the criticisms focuses on things the GDP index does not even consider, such as the rate of unemployment in the economy, the level of the population's health, the prevalence of poverty, environmental impacts of growth and subjective feelings of satisfaction. To all of these one can add the feminist argument that GDP does not calculate the monetary value of services performed by women in the family sphere “for free,” such as caring for the family's elders. Had the family purchased such care from a home nursing company, it would have been considered economic activity and thus would have been included in the calculation of the GDP. According to estimates, had such services – performed overwhelmingly by women – been included in the GDP calculations, the GDP figures would have been considerably higher and women's contribution would have been much higher.

Another critique, one directly related to the subject of this paper, is that economic growth in and of itself – increased GDP – is not necessarily indicative of an improvement in the population's standard of living. In Israel, in most years over the past three decades, the GDP per capita grew at a higher rate than the growth in wages. In other words, the economy grew, but most of the population did not enjoy this growth to the expected degree.

So What Is an Engine of Growth?

Despite its widespread use, it is difficult to find a definition for the term “growth engine.” In fact, anything that contributes to the expansion of economic activity is considered an “engine” of economic growth. The number of government activities thus defined is endless: Occupational training, higher education, paving roads, benefits for national priority regions, encouraging women's employment, creating high-tech incubators, promoting immigration to Israel, promoting tourism, subsidizing public transportation, and more.

All these can be done by the State, and indeed not long ago it was the State that was responsible for these activities. But today, under the hegemony of a neo-liberal ideology that extolls the “free market” and calls for the privatization of as many government services as possible, the practical meaning of a “fiscal growth engine” is first and foremost government allocations which contribute to the
expansion of business sector activity. The largest engines of growth, therefore, are public allocations to fund services and infrastructures which aid the activity of the private sector: Paving roads, laying water and power infrastructures, cyber services, occupational training, higher education, and the like.

The Ministry of Finance takes pains each year to highlight the growth engines contained in the budget proposal it submits for Knesset approval. In 2018, for example, this was done in a sub-chapter entitled “Raising Productivity and Growth Engines,” which included items such as optimizing the business licensing process, removing barriers to the outlay of advanced communications infrastructures, the employment of non-Israeli workers, the advancement of the construction of a fourth railway line through the Ayalon Highway, and the reduction in scope of the black market.20

If there is one thing all these engines of growth share in common, it is the idea of a dual-phase investment – State first, business to follow. Let us take, for example, the State's investment in education:

In the first phase, the State collects taxes, invests part of the proceeds in the education system, employs teachers, trains them, funds the development of curricula and learning materials, builds school facilities, and purchases chairs, desks, computers and the like. Eventually, the government investment produces educated graduates, equipped to enter the workplace.

In the second phase, these graduates enter the workforce – mostly for private business owners (and a smaller minority for the government itself), who invest in new ventures, purchase equipment, rent facilities, and provide goods and services.

This is how an engine of growth works: Government investment creates convenient conditions for private business investments, which in turn increases the scope of production of goods and services in the private sector – or in other words – economic growth.

**Economic Growth is Not All There Is**

Despite all the critiques and reservations, the concept of economic growth still enjoys the status of a magical political and economic number, to the point where it can decide the fate of politicians. "It's the economy, stupid," said Bill Clinton, running for President of the United States in 1992, to his rival and sitting President George H.W. Bush, referring to the slowing of growth in the American economy – and this message carried him into the White House. This is why
politicians crave engines of growth in their budgets – even as they are fully aware that growth in and of itself cannot guarantee an improved standard of living for all segments of the population or all areas of the country, and certainly cannot guarantee that the enlarged pie will benefit all.

This is why the national budget must include not just engines of growth, but also engines of equality. While investment in economic growth does not necessarily produce equality, investing in equality promotes economic growth. A society which is relatively egalitarian, which is to say has a broad middle class, has a better chance of economic growth than one with a small middle class and a large lower class, as most of its citizens are reasonably educated and enjoy a reasonable level of purchasing power.

Why Equality?

Equality is one of the central values of the Enlightenment. “Liberty, Equality, Fraternity” is what the demonstrators demanded in the French Revolution. “All men (sic) are created equal,” stated the United States’ Declaration of Independence. “All human beings are born free and equal in dignity and rights,” announced the UN’s Universal Declaration of Human Rights. Our own Declaration of Independence, Israel’s foremost constitutional document, guarantees that the State shall uphold “complete equality of rights, social and political, for all its citizens regardless of religion, race or sex.”

Equality is a complex concept with many meanings. In a later chapter we shall deal with various definitions of equality in the context of the public education system.

In the general context of the national budget, the importance of equality as a value lies in the fact that budget revenues and expenditures consist of monies belonging to the citizens and residents, who pay their taxes as prescribed by law and are entitled to expect that the State use these funds equitably. Thus, for example, it is inconceivable for a country facing military attack to announce that it will finance the defense of only part of its population. It is equally inconceivable for the State to announce that it will fund a vaccine against a given illness for only some of its citizens.

An equitable society is one of the loftiest goals of public policy. An equitable society is a firm foundation for a democratic regime. An equitable society is one where the majority, and not just a select few, can study, create, and take part in setting the goals of public policy and in shaping the daily public agenda.
What Is a Fiscal Engine of Equality?

The idea of designing the national budget to include *engines of equality* is of course borrowed from the idea of fiscal *engines of growth*.

We have seen above that despite the widespread use of the term “fiscal engine of growth,” a precise definition thereof is hard to come by, and in practice it means any budgetary allocation which enables an expansion of economic activity.

The term “engine of equality” requires a somewhat broader discussion, primarily because the concept of equality itself is more complex than the concept of economic growth.

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Equality in Budgeting

What is budgetary equality? In the following, we shall discuss this question using examples from the field of education.

The first answer, the one that practically begs itself, is of course that budgetary equality means equal allocations to each of the entities – institutions or individuals – funded by a given budgetary item.

Thus, for instance, budget item 20-26-11, “statutory study hours” [in layman’s terms, classroom hours], elementary education. This item was budgeted in 2014 at ILS 8.34 billion.22

The expectation of anyone opening the budget book is that all students, throughout the course of their studies, would enjoy the same number of classroom hours. In practice, this is not so. We can learn this from the data published by the Office of Budget Transparency at the Ministry of Education. The data refer to the number of classroom hours financed per student (“statutory study hours” in bureaucratese) at schools defined as having five scholastic levels – strong, medium-strong, medium, medium-weak, and weak.24

It should be noted that Israeli schools are operated by four distinct educational bureaucracies: Jewish public-secular, Jewish public-religious, Arab schools, and two Jewish ultra-Orthodox organizations.

The following example refers to schools classified as “weak.”
It turns out that in 2019, a student at a weak public-religious school received funding equal to 2.44 classroom hours. A student at a public-secular school received 2.16 hours, and a student at an Arab public school received only 1.86 classroom hours of funding.\textsuperscript{25}

Therefore, the first answer to the question “what is budgetary equality” is: An equal allocation of financed classroom hours for every student in Israel, according to the five aforementioned categories. This answer is consistent with what academic discourse calls “formal equality” – "The removal of any inequality stemming from arbitrary characteristics such as race, nationality, religion or gender."\textsuperscript{26} In our case, it is the removal of inequality between Jewish and Arab students, and between religious and secular ones.

**Outcome Equality**

Even had basic equality existed, we could not be content with it, for it is well known that even when budgetary allocations are completely equal, there are many other differences within the education system that cause student A to advance faster and further than student B. For instance, when a school divides its students into ability groups, this usually cements the gaps in achievement rather than reducing them.

Therefore we require a more meaningful definition of equality. We should begin with outcome equality, as that is “the bottom line.”

What is outcome equality?

One possible definition is based on the fact that the education system is characterized by daily appraisal of the students and classifying them according to their scholastic achievement. As it is well-known that students are thus sorted into different tracks, one possible conclusion is that outcome equality is grade equality, meaning each student can study and advance along the most prestigious track, which leads to academic studies. Such a conclusion results in the definition of outcome equality as a budgetary policy that would allow each and every student to achieve the highest score in each and every study subject.

This definition is so far-reaching – some would say absurd – that it brings to mind a diametrically opposed definition, where outcome equality is a state of affairs in which there are no grades, no sorting, no tracking, and instead all students learn together from kindergarten to a bachelor’s degree, where everyone’s motivation is not the individual grade but the communal sharing experience.
But there is also a third possible definition of outcome equality, which is actually a middle path. This definition is rooted in the question, what are the objectives of a public education system. Here we can distinguish between two possible approaches: The first would view the primary goal of the education system as to impart the cultural and scientific legacy of humanity to the younger generation, with the expectation that it will engage in cultural creativity and continue to advance scientific research. This approach, whose practical meaning is that all students are to become scientists or writers, is similar to what we termed “grade equality” above, which we concluded was far-fetched.

The second possible approach views the primary goal of the school system as imparting the basic skills required today to enter the workforce and the civilian arena. This approach is known in philosophical literature as “The Threshold Principle,” and it is the one we shall be using herein. A practical definition of these skills can be found in the threshold requirements set by Israel’s Council on Higher Education for admission to an academic institution: So many units of math, so many units of English, and so on. This definition is a very practical engine of equality: Even today there are high schools in municipalities and neighborhoods which in the past were far from achieving the threshold requirements, but now enjoy very high rates of matriculation success. The threshold principle does not require grades necessary for advanced academic study, but it does seek a universal achievement of bachelor’s degrees. (It should be noted that the threshold required in the not-distant future may be meeting the requirements for graduate degree studies.)

At the base of this application of the “threshold principle” is the knowledge that graduates of the education system who possess an academic degree enjoy a significant advantage in the labor market, both with regard to workplace conditions and compensation, compared to those who do not possess such a degree. (Until the 1960s, the dividing line was a high school matriculation diploma.)

In other words, if we seek equality, we need to strive for an education system that allows all comers to meet the threshold requirements for admission to undergraduate academic studies.

In 2017, only 39.4% of Israeli 17 year-olds obtained a matriculation diploma meeting the threshold requirements of academic institutions.
Substantive Equal Opportunity

Once we have defined outcome equality, the next step is what the literature terms “substantive equality of opportunity.” According to this approach, “The distribution of educational resources must ensure that Manal and Rachel have an equal opportunity to become scientists, despite their differing social and economic backgrounds.”

The practical meaning of substantive equality of opportunity is a comprehensive upgrade of the means needed for low-achieving schools to equal the success of normative schools: Smaller classrooms, two teachers in core subject classes, abolition of ability groups, personal assistance and tutoring for struggling students, proper facilities, funding of teaching at 150% of the normal teaching budget, and more.

Substantive Equality of Opportunity? Not in Our Educational Backyard

The greatest barrier to equality in the Israeli education system today is the admission by the government that budgetary equality in education is a practical impossibility.

This is stated explicitly in the budget books for the years 2017-2018: “Progressive budgeting does not mean the guarantee of equal budgeting for every student from the amalgam of existing budgetary sources (State, Municipality, NGOs and parents.) The scope of resources required for such a step is immense and unrealistic.”

This admission sheds a particularly negative light upon the ruling by the High Court of Justice from August 7, 2019 that the charging of parental payments for some study subjects, extracurricular lessons and study aids is permissible, arguing that while such payments carry the risk of inequality, there is no room to intervene in the desire of parents who so wish to impact the education of their children.

The bottom line spells egregious harm to the idea of equitable public education.

This is the time for new engines of equality in the education system.
Equality in health care can be defined in a way similar to equality in education. Here, too, we may begin with a maximalist approach, according to which a health care system that provides equality is one that enables each and every person to reach an advanced age in good health.

This, too, is a far-reaching and perhaps inconceivable notion, as at the present time we do not have — and may never have — full control of nature and genetics, not to mention control over the conditions of our environment.

This being the case, it appears that in the area of health, as in that of education, we can reference “The Threshold Principle,” under which the equality for which we strive is substantive, that is, a health care system under which every Israeli has at their disposal, at each stage of life, all the medical and socio-economic means to arrive at the next stage. For example:

At the stage of pregnancy and birth — universal and equal access to prenatal and postnatal care for mother and child and to birthing services.

In the same manner, universal and equal access to the following services:

- Child development;
- Preventive services like inoculations and vision and hearing checks;
- Services for the promotion of a healthy life style, including smoke prevention, physical activity and proper nutrition;
- Proper care in the case of sickness and care to keep one in balance in the case of chronic illnesses;
- Assurance of income after retirement;
- Universal long-term care for those in need of it.
Aims of Fiscal Engines of Equality

Just as engines of growth are supposed to achieve practical goals – a certain rate of economic growth – so is the case with fiscal engines of equality. The notional aim is a more just and equitable society – but it can be broken down into practical goals, as follows:

**Expanding the middle class** in Israel, from its current extent (53.8% of households in 2016) to its extent in Scandinavian countries – around 70% in the same year\(^{35}\);

**Reducing the rate of poverty**, from its current figure (18%-19% of households) to the rate in Iceland, Denmark, the Czech Republic and Finland (5-6%);\(^{36}\)

**Reducing income inequality** in Israel (the Gini Coefficient) from its current level (0.346 in 2016) to its level in Sweden – 0.282\(^{37}\);

**Universal affordable housing**, including a long-term rental option;

**A fully publicly-funded healthcare system**, obviating the necessity of the supplementary healthcare insurance offered by the health funds;

**Universal academic (undergraduate) education**.

None of these goals appear in the budget proposals submitted annually to the Knesset.
Examples of Fiscal Engines of Equality: The Education and Healthcare Budgets:

The Compulsory Education Law (1949)

The Compulsory Education Law, which states that “compulsory education shall apply to every boy [and girl] and young person[^38] and that this study shall be free of charge from age 3 to the end of the 12th grade, is undoubtedly the most important and significant engine of equality.

The language of the law indicates a major historical revolution, for up to the 20th century, education as we know it today was not provided to all but only to chosen youngsters for whom the ability to read and write was a signifier of prestige and tool of social power. Only during the 20th century did public education reach universal scope in most countries.

Today, the State funds universal, compulsory and free education intended to provide all children with the basic tools for participation in the public arena – politics, the economy, the media and culture. That being the case, any harm to the public and universal nature of the education system constitutes harm to equality.

And indeed, the education system is chock-full of equality barriers: Different curricula for different groups of students, unequal budgeting, ability groups, tracking students into different study curricula, charging parents for a service that is supposed to be free, unequal funding of teaching hours – all these compromise the largest and most important engine of equality, a universal public education system.

That is, the public school system meets the test of formal equality – all children go to school – but is a far cry from meeting the test of substantive equality and The Threshold Principle.
Applying the Compulsory Education Law to Ages 3-4

In January 2012, the Israeli government approved the application of the 1949 Compulsory Education Law to children aged 3 and 4. This was one of the main demands of the Summer of 2011 protest movement. This demand, in turn, became one of the main recommendations of the Trajtenberg Commission, appointed by the government in response to the protest.

The decision to expand application of the law to ages 3 and 4 was made back in 1984, but its full application was postponed year after year for budgetary reasons. In 1998, a partial application began in neighborhoods with low socio-economic rating, via a format of partial government subsidy. Middle-class parents had to pay significant sums for the service.

Gideon Saar, who served as Education Minister in 2012, presented the government decision as an important step “to reduce social gaps.” Is that the case? After all, up to that decision, the government subsidy benefited only low-income families, whereas following the 2012 decision, it would benefit medium and high income earners as well. In other words, the gap would be maintained!

The answer to this seeming contradiction lies in the fact that the expansion of the law contributed to the strengthening of the public status of compulsory education for 3 and 4 year-olds. As long as the budgetary allocation was directed towards a politically and economically weak population, it was in constant danger of being cut, postponed and underserved. Once this population was joined by middle-class families, the status of the budgetary item was strengthened, especially against the backdrop of the massive social justice protests of 2011, which were middle-class protests.

The application of the Compulsory Education Law to 3 and 4 year-olds made public education for children of those ages universal; its power as an engine of equality lies in its universality. Palpable proof of this came when the Ministry of Finance agreed to parents’ demands to fund a second teaching aide in every preschool.

The remaining question is whether the quality of service for 3 and 4 year-olds is equal at every municipality and facility, or whether the educational equality barriers we mentioned above for elementary and high schools – chief among them parental payments which allow for enriched services – exist in the younger age institutions as well.
Encouraging Higher Education among Arab Youths

A decade ago, the Council on Higher Education launched a multi-year program to promote academic studies among Arabs. The program included guidance and direction, increased language studies, preparation courses for psychometric (SAT-equivalent) tests, tours of academic institutions, higher education fairs, scholarships, and more. All these caused the number of Arab students studying for all academic degrees to rise within a single decade (2008-2018), from 22,543 to 48,627, including 39,160 undergraduate students, who constituted 17% of all undergraduate students – close to the share of Arab youths in the general population. The change relates to only one part of a very complex picture that includes high drop-out rates, poor schooling levels, a low percentage of Arab students succeeding in the matriculation exams and more. At the same time, the multi-year higher education project is designed to effect a massive transition of young Arabs from blue collar occupations to white collar ones – a step that would mean a most significant change in class and status. This, of course, assuming that the labor market will accept the Arab graduates as equal to their Jewish colleagues.
Budgetary Transparency at the Ministry of Education

One of the problems encountered by anyone wishing to examine the degree of equality in budgetary policy is the low degree of transparency of budget documents.

The Ministry of Education’s budget is actually quite detailed, relatively speaking, and yet it is still very difficult to learn from it who gets what and how much. In 2012, the Ministry of Education took an important step forward when it began to publish *Transparency in Education*, a document detailing the budgetary allocation for funding teaching hours, calculated per student and per school, divided by the various sectorial educational streams. These data, which indicate a significant inequality in the teaching hours funded for the various education streams, provide a foundation for action by the Ministry of Education itself and by civil society organization to demand the reduction of gaps. The Ministry’s data indicate that indeed there is a multi-year trend of reduction in budgetary disparities.

Unfortunately, the *Transparency in Education* documents are not part of the Ministry of Education budget book submitted annually for Knesset approval. Those who wish to read them must dig deep into the Ministry of Education’s website.

Furthermore: Schools are funded by a variety of sources, not just by the national budget: Municipal allocations, parental payments, donations, and more. All these are not included in the *Transparency in Education* documents. The Ministry of Education neither collects nor publishes such data.

Now, transparency is an important engine of equality in its own right. Thus, the *Transparency in Education* is not only an important step forward: it should be expanded to cover all sources of funding for schools in Israel today.
National Health Insurance Law

The National Health Insurance Law, just like the Compulsory Education Law, is one of the most important budgetary engines of equality in Israel.

The law states that “Every resident is entitled to healthcare services...” and that “The State is responsible to fund the healthcare services package.”

This law replaced a previous sectorial system, which was based on health funds founded and managed by partisan Zionist bodies even before establishment of the State, such as the Histadrut (the trade union umbrella organization, whose connection with the health fund was severed when the law was passed), with a statist, universalist system, in which the health funds are still the service providers, but they are obligated to serve the entire population and not just specific sectors within it. Thanks to this, certain residents – mostly Arabs – who were previously underserved by the health funds and the healthcare system in general, today have access to full healthcare coverage.

Thanks to this law and the budget funding it, all permanent residents of Israel, rich and poor, Arabs and Jews, new immigrants and old-timers alike – are all entitled, in exchange for the health insurance fees they are charged by the National Insurance Institute, to the full spectrum of healthcare services included in the healthcare services package approved by the Knesset annually. It should be noted that this package is perhaps the leading indicator of a European standard of living in Israel.

Any harm to the public and universal nature of the healthcare system constitutes an equality barrier.

A leading example is the fact that the 1994 law did not include an automatic updating mechanism for the cost of the package, to account for technological changes, changes in the cost of health outlays, and demographic changes. While the Ministry of Health and the Ministry of Finance have established professional committees to examine and partly compensate for the changing costs, there is still a growing gap between the funding of the package by the state and its actual cost.

The health funds attempt to reduce this gap by charging user fees for their services and by selling supplementary insurance plans to their members. The insurance companies have also joined the health insurance market. All these contribute to an increase in the private outlay on healthcare and to the gap the law was supposed to eliminate, between those who can afford certain health services and those who cannot.

These additional health insurance policies constitute a massive equality barrier.
Family Health Services

Family Health Services (known in Hebrew colloquially as “Drop of Milk Stations” or “Tipat Halav”) are one of the most important engines of equality in healthcare in Israel. This is because they give preventive healthcare services to all: Monitoring a baby’s progress, vaccinations, maternal guidance, epidemic detection, identification of post-partum depression, women victimized by violence and children at risk; they also promote breastfeeding and proper nourishment.

There are Family Health Service stations all over the country. Some two thirds are managed by the Ministry of Health, about 20% by the health funds, and another 16% by the municipalities of Tel Aviv and Jerusalem. While the Ministry of Health offers Family Health Services to the entire population (including those without resident status), the health funds offer them only to their own members and the cities of Tel Aviv and Jerusalem offer them only to their residents.

The status of Family Health Services as engines of equality is currently under a dual threat: The first is privatization into the hands of business corporations more interested in the bottom line than in the quality of the service; the other is transfer to management by the health funds, whose geographical dispersion is smaller than that of Ministry of Health-run stations.

This compromising of equality of service can be prevented by expanding it. This can be achieved by creating a national children's preventive care authority, an act which will ensure the gathering of services for pregnant women, newborns and school-age children under one roof. Many of the healthcare problems such an authority will combat, such as epidemics, have no boundaries, and what they require is not competition, but cooperation.
When governments seek their parliaments’ approval for budget proposals, they love to boast of the type of allocations that in Israeli public parlance are known as “social.” The budget books are chock-full of such allocations: For professional training, early childhood services, support and care for senior citizens, for the disabled, for heating the homes of the indigent, for improving the test results of children living in poverty, for the promotion of healthy lifestyles and more.48

To these “social” allocations we may add allocations that one may call “political candy” – allocations designed to ensure the support of one or more Knesset Members for the budget as a whole, or allocations designed to ensure the political support of certain population groups.

All these allocations and many others are certainly to be praised, as they benefit groups which in most if not all cases are needy or disadvantaged; but usually, these pieces of “political candy” are transient in nature, and therefore do not meet the definition of engines of equality – which is to say, allocations capable of improving the condition of such groups in a significant and long-term manner. Usually, “political candy” constitutes one-time allocations in response to political pressure, which is insufficient to change inequitable social arrangements that are often deep-rooted.

“Social” allocations are a way of “managing” ongoing inequality. They are not engines of equality.
An Example of a “Social” Budget: “Priced to Buy” Housing Purchase Program

The program “Priced to Buy,” which has been in existence since the 1990s, in its latest version became the “social” flagship of past Finance Minister Moshe Kahlon from the (now defunct) Kulanu party during the 2015 elections campaign. The program was designed to lower housing prices through marketing State-owned land to construction contractors at discounted prices and through fostering pricing competition between contractors. In addition, the State subsidized the development of the land and gave grants to buyers in locations where land values were low.

It is doubtful whether “Priced to Buy” can be regarded as a true engine of equality, for the following reasons:

First, “Priced to Buy” did not offer a true alternative to the Israeli housing market, in which the main, strongest player is currently the well-heeled households, which are capable of buying not only luxury homes for themselves, but also additional apartments as financial investments, the result of which is rising prices.

Second, “Priced to Buy” was based on the housing model that has dominated Israel since its inception, the ownership model, ignoring the fact that a growing stratum of Israelis, including a good part of the middle class, cannot afford to buy an apartment in an area of high demand, and if they do so anyway, they spend their most productive years repaying the mortgage. These Israelis require long-term affordable rental housing and not cheaper purchase prices.

Third, “Priced to Buy” reflected a governmental willingness to increase its expenditures somewhat in order to alleviate the housing crisis, but it did not enjoy long-term fiscal commitment.

Fourth, the program was tied to Finance Minister Moshe Kahlon personally to such a degree, that it was clear that upon his leaving the post of Finance Minister, the program would be left to fight for its very existence. Initially, the program was approved for only two years (2016-2017), and was extended by two more (2018-2019).

Moreover, the apartments available under “Priced to Buy” are still generally too expensive. The program does indeed reduce the market price somewhat, but even given these lowered prices, the bulk of the apartments on offer remain out of the reach of households from the seventh income decile and below. Some 40% of all housing projects included in the “Priced to Buy” program are offered at prices accessible only to the top three income deciles, whereas the remaining projects are located outside of high-demand areas.49
Another type of budget which can be mistaken for a budgetary engine of equality is the “five-year plan.” As we shall see below, despite these being five-year budgets, in many cases they are no different than occasional “social” budgets.

**An Example of a “Five-Year Plan”: Resolution 922**

As is well-known, Israel's Arab citizens, who constitute about one fifth of Israel's population, have suffered for many years, and suffer still, from multi-dimensional discrimination, one manifestation of which is budgetary discrimination.

On December 30, 2015, Israel's government passed resolution 922, the main thrust of which was a systematic five-year plan for the years 2016-2020 regarding the economic integration of the Arab population in Israel, which among other things includes amending the mechanisms of governmental allocation in accordance with the professional needs of the various ministries.

In the realm of education, the government resolution includes the funding of training programs and professional development of teaching personnel in Arab schools, programs to promote scholastic achievements, and programs for the development of informal education; in the realm of transportation, investment in public transportation in Arab municipalities, until transit coverage parity is achieved; in the economic realm, development of industrial zones, with an emphasis on industrial zones shared by several municipalities, provided that at least one of these is an Arab municipality; in the realm of employment, the operation of occupational advisory centers; and in the realm of housing, allocations for the construction of public facilities and the subsidizing of high-rise housing projects.

Resolution 922 is a step in the right direction.

Particularly significant are those headings in the resolution which explicitly state that budgets are to be increased until the achievement of parity with Jewish Israelis; as is stated in the context of public transportation, “complete parity of the level of public transportation services between Jewish municipalities and comparable minority municipalities by the year 2022 – this, in regard to
three major indices: Frequency of service, level of coverage and number of destinations."

All this being said, Resolution 922 is but a partial engine of equality.

Why is that?

First of all, Resolution 922 is not the first five-year plan aimed at the Arab population of Israel. While five-year plans are not unique to Arabs, it seems that insofar as the Arab population is concerned, five-year plans have become the normative frame of reference, as though this segment of Israeli society were under a Soviet regime (where such plans were a major tool of planning).  

Second, such a plan has an expiration date of five years – whereas the gaps between the two ethnic sectors are too large to achieve equality within such a timeframe;

Third, five-year budgets often include pooled budgets, which is to say, several existing budget items to which a few new ones have been added in order to create the impression of a particularly large allocation;  

Fourth, one-time budgets, or budgets with an expiration date, are exposed to a well-known bureaucratic danger: During times of crisis or budgetary deficit, they are the first to fall victim to the blade of cuts. One proof of this is that in some cases, the budgets presented to the public are not fully utilized, whether because they are not fully allocated by the Ministry of Finance, or for other reasons. 

The Arab population, as mentioned above, constitutes about one-fifth of Israel's population, and it forms a sort of society within society, mostly grouped in separate municipalities and studying in separate schools. In light of this, the budgetary policy is best based not on specific five-year plans, but on a permanent budgetary policy predicated upon the principle of outcome equality, which in the current context can also be termed affirmative action. A second desirable guiding principle is the one developed by the gender budgeting movement, which is the obligation to examine, prior to passing the budget, the implications of each of its line items upon both Jews and Arabs.

What is needed is not a budgetary policy based on “corrections” once every few years, but consistent, consecutive engines of equality.
Budget Item

A discussion of budgetary equality can only take place, of course, regarding activities which the government funds. This means that the discussion of fiscal engines of equality begins with the question, what are the areas of activity that the government is obligated to fund.

Until the 20th century, budgetary funding was considered the privilege of a narrow governing stratum of society. Today, with the expansion of the State's mechanisms, the entire budget has become a giant potential engine of equality, as it enables the delivery of services to all citizens.

These are services to which the government is committed. That being so, the starting point to such a discussion is the existence of a “budget item” – a line item in the budget book with a serial number stating the name of the activity and the sum allocated to it.

Example: In 1977 a group of feminist women from the city of Haifa opened the first shelter for battered women in Israel. The shelter was first operated by volunteers with a minimal budget. In those years, the problem of domestic violence did not enjoy public recognition; furthermore, the feminist movement in general was far from enjoying public legitimacy. Therefore, the founding women did not even think of funding from the national budget. And yet, the feminist shelter aroused a great deal of interest in the media, following which a senior Ministry of Welfare official arrived at the facility. This person was impressed by the activity and was convinced that it was an important social service that the government ought to provide. That is when the Ministry of Welfare began supporting the shelter, and within a few short years the funding of the shelter became a budget item. This item, in turn, drove feminist activists to open more shelters, which over the years provided emergency assistance to thousands of women in mortal danger.53

Obtaining a budget item for battered women's shelters is an achievement in the arena of gender equality, as it is a signal of State willingness to protect women from violent men. It is also a tale of funding success: Had the battered women's shelters depended to
this day on donation money alone, it is doubtful whether some of them would have opened at all.

However, the level of funding for shelters for battered women, as well as hostels and halfway homes for youth, is still low, and all these services still require donations.

Do all activities which currently enjoy a “budget item” constitute a social achievement? Can they all be viewed as “engines of equality”? The answer, of course, is negative. A budget item is a necessary condition but not a sufficient one. In order to be sufficient, the item must fund activity conducive to equality.

The national budget includes line items the main objective of which is conferring preferred status upon one group or another.

Here is an example: As we have already seen, the Ministry of Education budget, which is supposed to treat all students the same, includes separate budgetary line items for different streams in the education system: The public- secular stream, the public- religious stream, and the ultra-orthodox streams. This separation is the result of arrangements set up by the Zionist movements back during the British Mandate period and affirmed by the government of the State of Israel upon the foundation of the State. The arrangements give each of the streams educational autonomy and managerial independence.54

There is a large population group that has no budgetary line-item of its own: The Arab citizens of Israel, who were brought under the umbrella of the secular public stream, but unlike all the other streams, do not enjoy pedagogical autonomy, have no managerial independence and no designated budgets.

In light of the differentiated structure of the education system, the obvious solution is, of course, to grant a designated budget item and managerial and pedagogical autonomy to the Arab schools (for the purpose of simplifying the argument, we are ignoring internal differences within the Arab population.) But it is doubtful whether a budget item and managerial and pedagogical autonomy are the
right steps towards a greater degree of equality between Jewish and Arab students. Bitter historical experience shows that such autonomy, if not backed by effective political support (such as that given by the national-religious and ultra-orthodox political parties to their educational streams,) will be funded at lower levels than those of the Jewish streams.

Beyond that, and taking a broader social view, the desirable solution is actually the abolition of the separate line-items of the Jewish streams and a switch to a single budgetary item, of all Israeli schools. The abolition of separate budget items would be an important step towards equal funding of all schools in Israel – in other words, it would serve as an **engine of equality**.
Hitherto, this document has dealt with engines of equality on the side of the State’s budget expenditures.

But the expenditure side is only one side of fiscal policy. The other side is, of course, that of revenue. When the Knesset approves expenditures, it does so subject to the government’s undertaking to raise money, mainly through the tax system, at a sum equal to the expenditure. And indeed, the budget proposal bill submitted for Knesset approval annually is built as a balance, with a column of expenditures and a column of revenue (including projected deficits). The one cannot exist without the other.

The strong connection between revenue and expenditures is expressed in the term “Fiscus,” the Latin name for the chest kept by the Roman Emperor, in which tax revenues would be placed, from which money would be taken to pay for the Emperor’s expenses. This is where we get the word “fiscal,” as in “fiscal policy,” which is the policy that combines both income and spending.
In the previous part of this paper we asked, how we can increase equality in society through governmental expenditure. Now, as we move on to discuss taxation, we may present the other side of the coin: How can we increase equality in society through tax policy.

This is seemingly a simpler step. Theoretically, we could even achieve complete equality, at least on the level of household income.

It is possible, for instance, for the State to define a level of income allowing life with dignity, according to household compositions, then leave households with the sum required for the thus-defined living wage, taking as tax any income beyond that sum. Using this money, the State could fund generous services for every family, including supplementing income to the level of a living wage (what economist Milton Friedman called “negative income tax”).

Unthinkable?

Well, precisely such an idea was proposed in the early 20th century by George Bernard Shaw, the famous playwright and critic. Shaw was a leading activist in the Fabian Society, a social-democratic organization that was one of the forerunners of the British Labour Party, as well as the London School of Economics. Shaw defined socialism as “a state of affairs in which the entire income of the country is divided between all the people in exactly equal shares, without regard to their industry, their character or any other consideration except the consideration that they are living human beings. That is socialism and nothing else is socialism.”

Shaw noted several ways to achieve such equitable distribution, including taxation, the institution of a minimum wage, and the promotion of universal higher education. Shaw added that “… our object is… the reduction of all excessive incomes to the normal standard.”

In Israel today, where “senior” executives receive monthly wages in hundreds of thousands of ILS and where all political, economic and media systems glorify and lionize the individual drive to reach as close as possible to the top of the wage ladder, as though this were an Olympic running or swimming event, the notion of flattening incomes through the tax system seems ludicrous.

Actually, in and of itself, the idea of very high tax rates is not ludicrous at all. In the United States, which is known as the bastion of capitalism and which excels at wage-based hierarchies in all fields of human endeavor, the highest marginal tax rate in the years 1944-1963 ranged from 82% to 94%. While it is true that those were years of world war, rebuilding and the spread of the new American
empire – if it is possible under such circumstances, why is it unthinkable to have such a tax regime for a long period, during which the State invests in the economic and social progress of low-resource social strata, knowing that this will eventually strengthen society at large?

In Israel today, the likelihood of such a policy is extremely low. It is likely that an extremely high marginal tax rate would only win public approval if it turned out that we were in a state of palpable national danger – but not as a step towards creating a more egalitarian society. Today, the highest marginal tax rate is 50%, and when former Minister of Defense Amir Peretz proposed to raise it to 65%, he was called a “communist” by his rivals and the media.

Neither is the notion of equal pay ludicrous: That is precisely what people do in small social frameworks, such as the original kibbutz, into which all income flowed into the kibbutz’s coffers, and the kibbutz for its part undertook to provide its members with all the necessary services – housing, food, clothing, transportation and so on – for free.

**Redistribution?**

The idea presented by George Bernard Shaw is in fact redistribution of income. And indeed, Shaw and his colleagues at the Fabian Society are the ones who first coined the term “redistribution of income” and did much to popularize it, as a step in the socialist struggle. To Shaw, as we saw above, redistribution of income was the essence of socialism.

Ironically, “redistribution of income” has today become a prevalent term among economists, including those opposed to the socialist ideas proposed by George Bernard Shaw and his colleagues at the Fabian Society.

Have the economists become socialists?

Of course not. The term serves them not to describe the elimination of income inequality, but a far more limited phenomenon: The fact that the State collects higher taxes from high income earners and transfers part of these taxes to low income earners, such as through income support benefits. Today, the term “redistribution of income” is far from George Bernard Shaw’s socialist concept. It is merely another name for welfare policies.

It should be noted that technically, the term is imprecise, as the money collected as tax from high income earners is not transferred directly from their pockets to those of low income earners. Instead, it is transferred to the coffers of the Ministry of Finance – where the decision is made how to allocate it: How much
for defense, how much for education, how much for welfare, and so on. Only a small part of the money goes into the pockets of the poor, in the form of income allowances. And these income allowances are far from equal to a living wage.

Second, low income earners may not pay income tax, but they do pay value-added tax, healthcare tax and national insurance payments – so in practice they participate in the funding of the allowances they themselves receive from the National Insurance Institute.

Third, the relatively high taxes paid by high income earners fund not only allowances for low income earners, but also, among other things, child allowances and social security for senior citizens, which are enjoyed by the high income earners themselves.

**The Welfare State and Redistribution of Income**

In contemporary democracies, where each and every one of us pays some taxes and where most of us – at least in Europe and Israel – expect the State to provide us with many services, the discussion of taxation policy is part of a broader question, to wit: What kind of State do we want, what is its desirable size, and in practical terms, what should be the scope and nature of the welfare state.

As a generalization, one can say that people of wealth and high incomes tend to support a “small state” model, one with a low budget which therefore does not impose high taxes. High income earners can of course manage without generous State services, as they can purchase such services privately. Middle-class men and women, on the other hand, tend towards a “big state” with a large budget, which offers reasonable services and good jobs for all, even if this requires high taxation, as they know that without a “big state” they would be hard-pressed to compete with the purchasing power of the rich.

The connection between taxation and State services can be illustrated with the
comparison made by Danish sociologist Gosta Esping-Andersen in his classic study of the Welfare State. Esping-Andersen compared the United States, with its liberal/capitalist political-economic culture, and Sweden, which features a social-democratic political-economic culture. Both countries offer their citizens a high level of services, but they differ in the means of funding these services, as well as in the level of access to them: Sweden has a high level of taxation, and it uses the tax revenue to sustain a generous, universal welfare state. The United States, on the other hand, has a low level of taxation and its welfare services are largely funded privately. The result is that in Sweden, the entire population can enjoy high-quality State services, whereas in the United States only middle and high income earners can afford high-quality services.

How Much Tax Can Be Collected? And from Whom?

Throughout known history, the question of taxation – how much tax can be collected, and from whom – constituted a central domestic political-economic issue, if not the main one. Some of the most momentous changes in history took place against a backdrop of taxpayer revolts.

In 1215, English nobles stood up against an attempt by King John to impose high taxes in order to finance a war. The nobles wanted recognition of their status and demanded that the King undertake to consult them in the future before imposing taxes. This demand led to the first formal limitation on the power of a monarch, and the establishment of Parliament, which to this day is a central component of democratic regimes.

In 1776, farmers and merchants from the British colonies in America rebelled in protest of taxes imposed by the King of Great Britain in order to finance his wars against the French. The American colonists wanted representation in the decision-making forum, under the principle-turned-slogan “No Taxation Without Representation.” Eventually this led to a demand for independence and the revolt that ended in the establishment of the United States.

In 1789 the French – farmers, urban laborers, white collar professionals and merchants – rose up in protest of taxes imposed by the King of France to finance the ruinous deficit caused by his wars against the British. The rebels wanted a more egalitarian society. Until then the nobility, which controlled most of the land, was completely exempt from paying taxes. This is how the French Revolution began.
Today, as the institutions of the State have greatly expanded and the national budget funds a long list of services which have become essential to the country’s economy and the welfare of the population, the question of taxation – how much can be collected in taxes and from whom – continues to be a central political issue in every country on earth. This is also one of the main issues separating political camps, with right-wing parties usually favoring low taxes (and low “social” expenditures), and left-wing parties favoring higher taxation and higher expenditures.

In Israel, the currently dominant political-economic culture is neo-liberal, which is expressed among other things in a policy of low taxation. The present rate of taxation places Israel alongside other liberal or neo-liberal countries with low tax rates: The United States, Great Britain, Canada, Australia, New Zealand, and Ireland, as well as the Baltic countries: Estonia, Lithuania and Latvia. While the tax on income is close to the OECD average – although lower than that of several Central-European and Scandinavian countries, the corporate, wealth and capital taxes are comparatively low or non-existent.

In the 1980s, the State's revenues from taxes stood at 40%-45% of GDP, and then, in a gradual process, they dropped over the early 2000s to 34%-35% of GDP, and in 2009 to less than 30% of GDP. Recently it has risen again slightly to the current level – 32.7% in 2017. In many European countries, including those of Scandinavia, the rates have been and still remain higher.

Israel's relatively low tax rates compromise the State's ability to offer proper civic services. In 2017, civic expenditure in Israel stood at 30.5% of GDP, one of the lowest rates among OECD countries. According to Bank of Israel data, the level at which civic services are funded in Israel is lower (among others) than in Slovenia, Finland, Denmark, France, Sweden, Austria and Norway, where it stands at 45%-55% of GDP – with a corresponding level of services. The bank attributes this, among other things, to the low tax burden in Israel.

In recent decades, another factor has been added to those impacting the taxation policy: Inter-country global competition. In Israel, all governments have supported low tax rates on large corporations and hi-tech companies such as Teva and Intel – for fear that otherwise these companies would relocate their production operations to other countries. The result of this inter-party confluence of interests is a low taxation rate compared to the international average.
Equality = More Tax Payers = Equality

Here it should be noted that in the field of taxation, as in all others, an egalitarian society holds a big advantage.

In a society where most of the population belongs to the middle class, most people pay taxes, as their income is by definition high enough to meet the tax threshold.66

A high rate of tax payers leads to high state income, which in turn allows for further investment in expanding the middle class.

In a state of inequality, on the other hand, the ability to pay significant rates of income tax is reserved to a minority of the population. In such a state of affairs, high income earners may revolt against the “high tax burden” and threaten to relocate to other countries.

Engines of Equality in the Tax System?

What does a revenue-side engine of equality mean?

When discussing the expenditure side, the task was relatively easy, as there are many expenditure items, and with most, a more egalitarian alternative to that which currently exists can be pointed out.

On the revenue side the situation is different. While here, too, we can find articles and sub-articles in the tax laws, there still exists a fairly clear big picture, at the center of which is the question: How much tax can be collected in Israel today?

The answer is that the main engine of equality on the side of revenue is a broad public agreement as to the image of society.

In Sweden, in 1938, employer and worker representatives signed an agreement which ended years of labor disputes. The agreement created an atmosphere of inter-class national discourse which persists to this day, despite ups and downs. The spirit of this agreement is what stands to a large degree at the foundation of the Swedish welfare state.
What Is Israel? Who Is an Israeli?

A national consensus regarding the nature of the desired society requires, first of all, an agreement regarding the boundaries of society, or in other words, agreement regarding what Israel is and who is an Israeli.

In Israel today there is no uniform answer to either of these questions. Israel is a country without internationally recognized borders. Furthermore, Israel is in the midst of an ongoing process of expanding its borders, through de-facto annexation of more and more land in the Occupied Palestinian Territories. Due to these annexations it is entirely unclear what will exist here in the future: A Jewish state or a binational, Jewish-Palestinian state – and if a binational state, what the legal and civic status of its Palestinian residents will be.

In Israel today there is also no answer to the question who is an Israeli, and in the context of our discussion, who is to pay taxes and who is to be an equal-rights eligible recipient of State services funded by these taxes. Beyond the complex issues which will arise should Israel advance towards a binational state, there are the questions that have been with us forever: The Palestinian citizens of Israel are just now beginning to emerge from a prolonged period – in fact, since 1948 – of discrimination in regard to countless budget items, including development, construction, healthcare, education and higher learning allocations. Even today, in times of tension between Arabs and Jews, many are quick to doubt the status of Palestinians citizens of Israel and their right to State services. (Indeed, when it comes to the weakest of Palestinian citizens – Bedouin residents of “unrecognized villages” in the south of the country – the State of Israel has gone to court to defend its right not to provide these marginalized, yet supposedly “equal citizens,” with bomb shelters – despite the fact that this population resides on the front lines of the occasional homemade rocket barrage from the Gaza Strip.) Public doubts are also frequently raised regarding the status and rights of ultra-orthodox Jews, some of whom do not work for a living or serve in the military. To these one may add hundreds of thousands of work migrants and asylum seekers, whose legal status and eligibility for State services are unclear.

All this is taking place while among high-income Israelis, many are adopting reclusive positions and shutting themselves off within private frameworks, from gated communities, through specialized schools to private healthcare services.
Among opponents of high taxation, one of the most common arguments is that it will lead to strengthening the mechanisms of the State, expanding them to the point of totalitarianism, threatening the free market and private enterprise.

One of the leading proponents of this fear was Friedrich A. Hayek, an Austrian-British economist and thinker who came to wield great influence in the mid-20th century over capitalists, economists and right-wing politicians. Hayek expressed particular concern with the idea of central or state-directed economic planning, which he attributed to totalitarian regimes such as the Soviet Union and Nazi Germany. He claimed that central planning was not only ineffective, but ultimately would lead to the suppression of private enterprise and the subjugation of the individual.

This fear of Hayek has shaped the worldview of many of the opponents of the Welfare State, chief among them noted right-wing economist Milton Friedman. To these one may today add economists in many parts of the world, including Israel, such as those active in the Kohelet Forum, who are influenced not only by the writings of Hayek but also by those of Ayn Rand, the herald of Libertarian ideology that sanctifies private enterprise.

And yet, this fear takes on an ironic meaning today, when several of the main spheres of economic activity are controlled by a small number of globally-arrayed corporations which require financial, production, advertising and marketing planning and coordination of a scope more reminiscent of superpowers than of traditional business concerns. The owners of these global corporations are the new planners – they and not the State. States, for their part, not only struggle to plan on their own, they are also willing to allow global corporations maximal planning freedom, at best turning a blind eye to creative tax planning and at worst to abusive labor practices which run roughshod over local protective legislation.

When states exempt Walmart, Amazon or Huawei from paying taxes, they abdicate their own ability to fund planning and development, and pass on responsibility for the same to the owners of global corporations. These corporations are the ones that set the investment policy, the employment policy, and in practice the taxation policy as well. The difference is that states have an obligation to their citizens, at least in theory, while corporations are beholden only to their shareholders, who in many cases are citizens of far-away countries.

We may be witnessing the beginning of a change. In light of harsh criticisms being voiced in Western societies against the greedy conduct of many global corporations, the CEOs of two hundred such corporations signed a declaration...
in which they avow, contrary to long-standing policy, that the goal of a business enterprise is not to maximize profits for shareholders, but to benefit society as a whole.

Furthermore, the international race to the bottom regarding corporate tax rates has recently reached the point where many of the owners of corporations in the United States have united in a group called “patriotic millionaires” and have begun calling upon the federal government to raise their tax rates.69

We have stated above that regarding revenue, the main engine of equality is a broad public agreement concerning the image of society. Now we can add that another engine of equality on the revenue side is returning the power of taxation to the State – and the investment of tax funds in actions and processes to increase equality in society.

Equality? Start with the National Budget

Israel today is one of the most unequal countries in the West.

When discussing the reduction of inequality, attention is usually devoted to issues related to “the market” – raising wages, increasing productivity, investing in the periphery and the like.

But there is a large segment of the economy that is not “the market,” at least not in the classic sense of the word. This is the national budget, which funds infrastructures, education services, healthcare services, national defense and more, and is responsible for employing slightly over one third of the workforce in the country.

In striving for a more equal society, we do not need to wait for developments in “the market.” We can start with the national budget, which is responsible for the wages of hundreds of thousands of men and woman and for services which can, through proactive egalitarian policies, provide each and every one of us with education, healthcare, welfare and housing services that will reduce the level of inequality in the country.

It is time to stop treating the national budget as a document filled with draconian decrees and start treating it as a powerful tool that can take a leading role in creating a more just and equal Israeli society.

Unlike private capital, the national budget is a public tool subject to the approval and oversight of the Knesset. It is an appropriate place to seek not only engines of growth but also engines of equality.
The concept of “engines of equality” may be new, but the demand that the national budget serve all citizens in an equal manner is not. This was the main component of feminist campaigns to institute gender budgeting, as well as those of local citizen groups, notably in Latin American countries, to institute participatory budgeting.

**Gender Budgeting**

In the 1980s, feminist activists began to voice the demand that the main instrument of public policy, namely the national budget, be utilized to advance gender equality. The concrete demand was for the government to integrate gender mainstreaming into its budget making; that is, before the budget is approved, to examine the implications of each budget item for the effect it is likely to have on the relative positions of women and men. It is an approach that makes use of the budget as a tool for the exposure of inequalities, the goal of which is re-allocation of resources to reduce gaps in the access of women and men to resources and public services, in accordance with needs and priorities.

The idea of gender budgeting, in turn, is the result of the feminist demand to place gender equality at the center of public debate; that is, to mainstream gender, as a way to challenge the gendered assumptions that form the basis of public policy, like the assumption that men are the main breadwinners while women are the main caretakers in the family.

The first initiative to institute gender budgeting took place in the 1980s in Australia; in Great Britain, the United Kingdom Women's Budget Group, a network of experts, including scholars and social activists, has been working to advance gender budgeting ever since 1989; similar work began in Canada in 1993; one year later, after the demise of Apartheid, a coalition began to promote
gender budgeting in South Africa. In 1995, at the 4th UN Conference on Gender held in Beijing, gender budgeting was adopted as an international strategy for promoting equality between women and men.

The world financial crisis of 2008 and the budgetary austerity policies that followed it in the United States and the countries of the European Union resulted in a general retreat from gender budgeting, but in recent years progress has been resumed. In 2010, the government of Scotland began publishing a document entitled **Equality Budgeting**, and Ireland followed suit. In 2016 the International Monetary Fund conducted a review of gender budgeting exercises, concluding that the policy of gender budgeting was good budgeting plain and simple. That same year The Organization for Economic Cooperation and Development (OECD) came to the same conclusion.

Israel also joined the trend. In 1998 the Adva Center published, for the first time, a report on the implications for gender equality of the draft of the national budget. Similar reports were published for subsequent budgets. In 2004, Barbara Swirski, then executive director of the Adva Center, established the Women's Budget Forum, a network of organizations whose aim was to mainstream gender into national budget making. A paper written by Swirski two years earlier, “What is a Gender Audit?” prepared the conceptual framework for the Forum’s work. The Forum remained active until 2012; it included 30 feminist and human rights organizations, along with women from academia.

Since 2009 the Adva Center has been promoting gender mainstreaming at the local level as well as the national, by training aspiring activists and municipal officials to conduct gender audits of their municipal budgets. Thus, for example, Regional Council Mateh Asher conducted a gender audit of its Sports Department and of its Music and Dance studios. A gender audit was also performed on Sports allocations and facilities in the city of Bat Yam. Tel Aviv-Jaffa ordered a gender audit of the LGBTQ Community Center. And in its 2019 budget, the municipality of Tel Aviv-Jaffa included, for the first time ever, a gender audit of some of its budget items, along with a commitment to expand the audit each year “in order to bring about a fair gender allocation.”

To date, the concrete achievements of the international movement for gender budgeting have been limited. A document published by the government of Ireland in 2017 states that “...there is currently little evidence [in the world] establishing causation between gender-responsive budgeting and lowering levels of inequality.” A 2018 analysis of gender budgeting in Austria, one of the “poster-cities” of the gender budgeting movement, found that considerable efforts are still needed to effect a significant change in actual gender equality.
Yet, the effort is still in its infancy. Throughout the world, there are about 80 initiatives involving gender audits of budgets, either on the national, the regional or the municipal level. Moreover, the efforts of feminists to mainstream gender into the public debate and to institute gender budgeting have found their way into the public discourse.

In Israel, the most important achievement of the gender budgeting project led by the Adva Center is Government Resolution 2084 of October 2014, which mandated gender auditing of the national budget. In the framework of that resolution, each and every government ministry and agency was required to present a gender analysis of its budget. It was also determined that the gender analyses (audits) would extend to the entire budget by 2018, in accordance with the following timetable: 10 percent of the budget by the 2015 budget, 40 percent by the 2016 budget, 70 percent by the 2017 budget, and 100 percent by the 2018 budget. Due to, among others, the fact that during this 4-year period two 2-year budgets were approved rather than four annual budgets, which is the usual practice, the process has yet to be completed.

The achievements of gender budgeting in Israel are still preliminary. Most government ministries included in their draft budgets for fiscal 2019 statistical analyses, of variable quality, of gender disparities, but that was the extent of their gender work. As Dr. Yael Hasson, a senior researcher at the Adva Center noted:

- Most did not provide explanations for the disparities found;
- The analyses did not specify the steps that would be taken to close the gaps;
- Most of the analyses referred to the past, with no indications regarding the future;
- The analyses concerned mainly expenditures, with much less attention paid to revenues.

To summarize, it appears that gender budgeting, in Israel and the rest of the world, is now (2019) at the stage of receiving government recognition, usually formal, regarding the justice and necessity of the strategy, but still has a long way to go.

One of the reasons for this situation appears to be the tension between feminist economic analysis, for example the fact that it challenges the gendered division of labor and often demands increased public investment in social services, and the neo-liberal ideology behind economic policy planning, among whose tenets are budget austerity and low taxation.
In the 1980s, at the very time that feminists began to demand that the national budget promote gender equality, local activists in large urban centers in Latin America began to demand that the municipal budget be made in a democratic manner, by involving residents, mainly those in poor neighborhoods – the people generally excluded from the process of municipal decision making.

“Participatory budgeting” is the name given to the process of open public debate regarding the priorities of the municipal budget.

The process began in 1989 with a community experiment in the city of Porto Alegre in Brazil. At that time, the local government was in the hands of the leftist labor party. Within a few years the practice of participatory budgeting took root to the extent that in 2004, when the mayor's office, which for 16 years had been occupied by a mayor from the labor party, was captured by the opposition, the new mayor did not dare to abolish it.

Today participatory budgeting, first initiated in Porto Alegre, is being implemented in some 1,500 local authorities throughout the world, about 40 percent of them in Latin America. Participatory budgeting is now recognized by international bodies like the World Bank, which views it as an integral part of the fight against poverty. The movement for participatory budgeting has three goals:

The first is political: to democratize democracy, by involving residents, especially poor residents, in the shaping of municipal priorities.

The second is social: to change the existing municipal priorities for the benefit of low income residents.

The third goal has to do with the quality of governance: improving the local government, increasing transparency and abolishing corruption.

Researchers have found that participatory budgeting does indeed promote transparency in local governments. Not only that, on the basis of qualitative studies, they contend that in Latin American participatory budgeting “has demonstrated that it can become a powerful instrument of redistribution to the poor.”

The most important achievement to date of the two movements, the movement for gender budgeting and the movement for participatory budgeting is the acceptance of the idea that there is a connection between budgeting and equality – a connection inscribed in stone as it were in the English expression *Equality Budget*. Both movements operate at both the national and the local levels. Both movements, even if they have not garnered achievements that...
change the world, pioneered the idea that it is legitimate to ask that the national or municipal budget promote social equality.

But there is also a difference between them: while the movement for participatory budgeting usually raises specific demands, like a housing project, the movement for gender budgeting has succeeded in attaining buy-in for a strategy that fits the definition of **equality engine**. Gender budgeting involves an ongoing process that once a year exposes existing gender disparities in different budget items and provides a factual basis for the feminist struggle for equality.
25 Ministry of Education. Economics and Budgets Administration. Central findings of the system for transparency of educational budgets – 2018. (Hebrew)
31 Dah, Dahan, op. cit. p. 24
35 The Middle Stratum: Households whose income ranges from 75%-200% of the median income in the middle incountry. See: OECD. (2019). Under Pressure: The Squeezed Middle Class.
37 The OECD's Gini Coefficient for Israel and other member countries is calculated differently than by the Israeli National Insurance Institute. The OECD figures the poverty line as 60% of median income. It is not measured by households but rather by individuals, and the definition of income includes components not included in the NII's calculation, such as income from pensions from abroad. In addition, the number of heads according to the OECD is calculated differently, and not by a standard head as defined by the Israel Central Bureau of Statistics. Swirski, S., Konor-Attias, E., and Liberman, A. (March 2019). op. cit.
38 Compulsory Education Law - 1949.
43 Swirski, S., and Dagan-Buzaglo, N. (April 2013). Inequality and Non-transparency: Israel’s Education Budget. Tel Aviv. Adva Center. (Hebrew)
44 National Health Insurance Law - 1994
45 Emphasis is on the word “European,” for in the United States, the richest country in the West, there is no universal healthcare insurance.
47 Unlike education services, healthcare services are not given under law to those who do not enjoy “residency” status. Those who desire healthcare services must purchase private insurance.
49 Hagar Center. (July 2017). Hagar Affordable Housing Index – Analysis of the “Priced to Buy” Program. University of Tel Aviv. Faculty of Law. https://www.wisrahc.org/blank-2
Current-day public-secular schools are the product of a merger made in the 1950s between the “General” stream and the “Workers’ Stream.” For years, this unified stream served in practice as “The public school system.” Lately several secular educators have proposed turning the public-secular schools into an autonomous stream.


It should be noted that in the 1970s and 1980s, the rate ranged from 60% to 66%. Ministry of Finance. State Revenues Administration. Annual Report – Various years. (Hebrew).


In January 2019, this threshold was set at ILS 6,310. At the same time, the average monthly wage in Israel stood at ILS 10,476. The latest figure published by the Ministry of Finance for tax-payers who do not meet the tax threshold is for 2016, and it stood at 54.7%. Ministry of Finance. State Revenues Administration. Report for 2015-2016. p. 12. (Hebrew).


https://www.good.is/business-roundtable-ceos-shareholder-value.

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The following review is based on the sources cited below:


Swirski, B. (2002). What is a Gender Audit? Tel Aviv: Adva Center.


Swaine, Sarah. op. cit. p. 21.


