



TAUB CENTER

for Social Policy Studies in Israel

A Comprehensive Program for
**Reducing Inequality and Poverty
and Increasing Economic Growth
in Israel**

Prof. Dan Ben-David
Executive Director

Jerusalem, May 2009



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provides the country's leading policy makers and the general public with a 'big picture' perspective in the economic and social spheres. The Center's interdisciplinary teams of prominent academic researchers, leading experts from the policy realm, and the Center's professional staff conduct research and develop policy recommendations on the important socio-economic issues facing the country. These long-run strategic analyses and appraisals of policy options are made available to decision makers and the public through direct communications, an active publication program, conferences, and other activities both in Israel and abroad.

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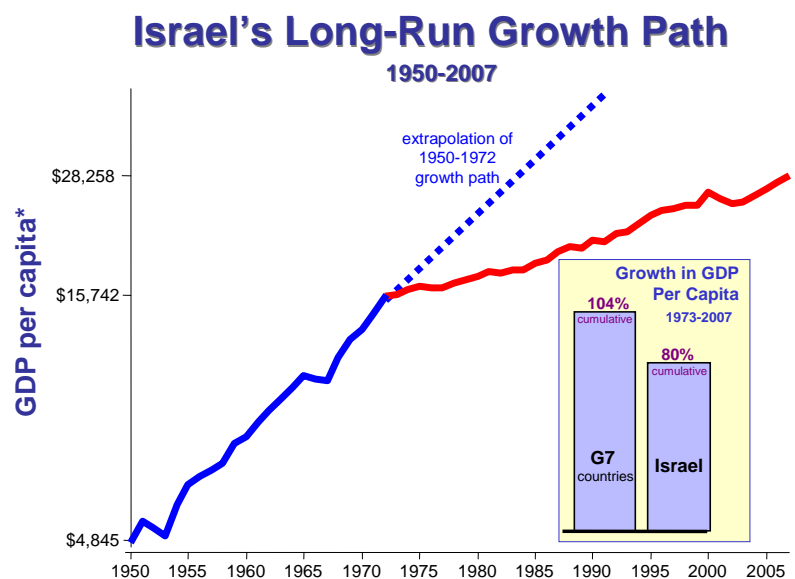
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Foreword and Presentation of the Main Problems

The underlying social and economic foundations upon which Israel's national security is based have been steadily deteriorating over the past three decades. During the early years of the State, there was no doubt as to the source of the clear and present danger confronting us. But in subsequent decades, a number of socio-economic trends have gradually begun to develop that are slowly but surely disintegrating the basic fabric of Israel's society and the economy.

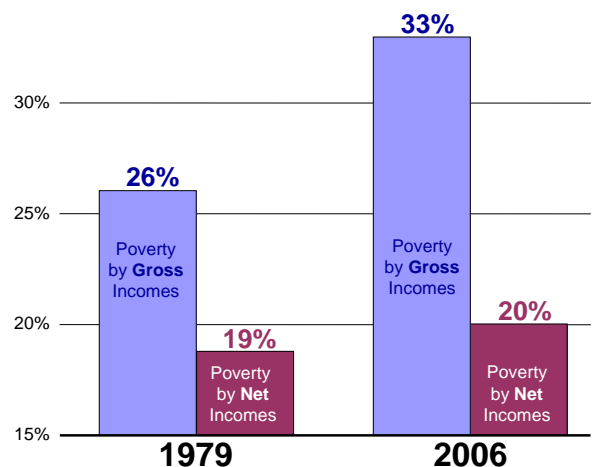
- **Economic growth.** Until 1972, Israel steadily closed the gap with the leading Western countries. Since 1973, Israel's standard of living has been falling farther and farther behind – in relative terms – from those same leading countries. This trend is not compatible with attracting immigrants or with preventing a brain drain among Israelis who are able to find alternatives overseas.



- **Poverty.** The extent of poverty has been steadily increasing since the 1970s. In 1979, about one-quarter of families in Israel lived under the poverty line based on their actual income – i.e. before the social safety net of welfare payments and taxes. Today, this share has climbed to over one-third of the families.

In terms of net income (after welfare payments and taxes), roughly one-fifth of families lived under the poverty line then and now, meaning that increasingly large amounts are required – not to lower the extent of poverty in net income, but simply to prevent what has been happening in terms of actual poverty from being reflected in net incomes.

Percent of Families in Population Living under Poverty Line



* Old series until 1997 adjusted to new series that includes non-salary workers

Source: Dan Ben-David (2003) Economic Quarterly (updated)
Data from Israel's National Insurance Institute

- **Income inequality.** Disparities in actual income – before welfare payments and taxes – are among the highest in the West, and have been steadily growing since the 1970s. As in the case of poverty, welfare payments and taxes reduce net income inequality and dampen the increase in that inequality.

But this is a treatment of the symptoms rather than addressing the primary sources of the underlying problems – a focus that would reduce inequality in gross incomes as well as in net incomes. As a result of not treating the fundamental causes of income inequality, Israel must spend ever greater sums to prevent the increasing inequalities in gross incomes from being reflected in net incomes.



Source: Dan Ben-David Taub Center for Social Policy Studies in Israel.
Data processed from National Insurance Institute.

The State of Israel is situated on three unsustainable socio-economic trajectories that pose an existential threat in the long run.

Contrary to conventional wisdom and to the usual public discourse, there is no contradiction between setting a comprehensive policy that strives to reduce gaps and poverty on the one hand, while increasing growth on the other. A policy that provides personal tools to workers and creates a supportive environment not only empowers the individual worker, but also increases the economy's overall ability to absorb, implement and develop knowledge, goods and services – crucial features that underlie sustainable growth.

The public discourse on the need to choose between free markets and public intervention is obsolete and irrelevant. Open and competitive markets are critical to changing Israel's long-term trends. However, market failures are an unavoidable feature of free markets and it is the government's responsibility to build the human and physical infrastructures and to provide the necessary services efficiently, in order to overcome the existing market failures.

The uniqueness of the program proposed here is its overall, national perspective. This is a *comprehensive* program for narrowing gaps, reducing poverty and increasing growth. The program is based on three policy spheres: The first, creating incentives and providing tools; the second, creating a supportive environment; and the third, a multi-annual strategic program.

The severe economic-social trends that characterize Israel's society and economy are not etched in stone, nor are they the inevitable outcome of some preordained destiny. It is possible to stabilize the present situation and to improve the long-term outlook dramatically. What is not possible is a continuation of the pervasive mental block that inhibits a fundamental change in the State of Israel's national priorities.

The severe economic crisis, which began a number of months ago in the West, presents Israel's society with a rare window of opportunity to come to its senses and rebuild its human and physical infrastructures that have been neglected for years. This is a window of opportunity that will not remain open forever.

This is a time for putting the national interests first.

Prof. Dan Ben-David
Executive Director, Taub Center

Jerusalem, May 2009

first policy sphere

Creating Incentives and Providing Tools

In the Israeli economy, there is a disconnect between large sections of the population and many employers. A non-negligible portion of the former group is able to choose non-work as a way of life. Even if they wish to work, many lack the basic skills to function in a modern, competitive, and open economy. Conversely, employers in many fields are able to avoid compliance with labor laws applying to the employment of Israelis, creating an artificial profitability bubble. Israel must address these market failures in order to ensure that more Israelis will be employed, and that the productivity of those employed will increase and enable higher salaries.

• Enhancing the incentives to work

- **Replacing non-work incentives with work incentives.** A large part of the assistance (for those capable of working and not physically disabled) should be provided in the form of incentives to work.
 - **Child benefits** have two goals – whether declared or otherwise – and it is important to distinguish between them: providing incentives for having children and providing assistance to poor families. Encouraging families to have children should no longer be in the form of child benefits that are provided irrespective of the parents' state of employment. Instead, taxable income should be reduced by set amounts per child. Assistance for poor children may be provided by other means that clash less with work incentives, as is the case in other countries. It is important that the transition to the new system be gradual; it should not be imposed retroactively on families whose size was influenced by past child benefits.
 - **Negative income tax** on low incomes should be provided at a rate that represents a real incentive to work. Instead of a negative tax rate of 9 percent, which is currently being proposed in Israel – and even then, it is subject to very restrictive conditions that further reduce the incentive embodied in negative income tax – the negative tax rate should be similar to the 40 percent rate in the United States that has been proven an effective incentive to work. Moreover, the American negative tax is provided up to a much higher income level than that proposed in Israel (even after adjusting for different standards of living in the two countries).
- **Increased transparency with regard to total taxable family income and the total amount of state assistance.** At present, the state has no idea regarding the true scale of income of many of its residents. The time has come to reorganize three key areas in order to provide information on the degree of need and on the scope of assistance that is already provided by a myriad of public agencies:
 - **Introduction of a mandatory reporting of income and simplification of the tax system.** All of a household's income from all sources should be combined for tax purposes. The taxation system should be significantly simplified, and each household should be required to report on its annual income. This will enable identification of persons in genuine need of financial assistance. It will also increase the number of individuals shouldering the tax burden, enabling a reduction in the burden borne by those who currently pay taxes.
 - **Unifying all sources of assistance and subsidies,** including financial assistance from the Ministries of Housing, Interior, Religious Affairs, and so on, to families, businesses, and organizations. As in the case for combining

income from all sources to enhance the efficiency of the tax collection process, such is the reasoning here with regard to assistance.

- **Assistance must be provided along clear, transparent, and uniform standards** for all population sectors and groups in Israel. Assistance to individuals and households should be provided mainly on the basis of their socio-economic status, health status, and so forth. A necessary condition for providing assistance to businesses is that the social returns emanating from the assistance surpass the private returns received by the firms.

- **Providing tools**

It is not sufficient to create incentives for people to work when many lack the ability to succeed in a modern, competitive, and open economy. The government must establish an integrated network of supplementary adult education, vocational training, and employment placement adapted to the needs of the economy. The new system should include several complementary components, each with a distinct target population and goals. The first component relates to the need to upgrade basic knowledge; the second addresses the upgrading of vocational skills; and the third addresses the system that connects the upgrading of knowledge and skills with job placement.

- **The “Second Chance” Program for Supplementary Education**

The objective of the supplementary education system is to provide general human capital for adults who dropped out of the education system as children, or for new immigrants who did not acquire a high school education in their country of origin. This is a way to provide individuals with basic tools for improving their earning capacity. The goal is to provide a high school education and as such, these studies should not be conditioned upon the participant’s employment status.

- Raising an employee’s basic level of knowledge is of considerable importance not only to the employee, but also to Israeli society in general. As such, these studies should be subsidized – directly and via long-term interest-free student loans – in order to enable all those who wish to take advantage of this second chance to climb back onto the studies ladder.
- The major economic crisis developing in Western countries is disproportionately affecting skilled Israeli workers who have hitherto been employed by companies that exported most of their products and services. Some skilled workers who may lose their jobs as the result of the crisis can be retrained to work as teachers in adult education or in the primary and secondary education system, thus significantly upgrading the quality of the country’s teaching staff.

- **Vocational training**

The involvement of employers in vocational training contributes to an increase in employment rates and to an upgrading of employment.

- Colleges should be encouraged to establish technological training centers in cooperation with employers and with government encouragement.
- Participation of the business sector in this initiative is particularly important.
- Centers should offer modular training programs for technicians and technical engineers, in-service training programs, and vocational retraining programs.
- Training of technicians, technical engineers, and other vocations should include internships in business firms.

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- Constant and ongoing quality control of vocational programs is essential for ensuring that the substantial public budgets used to fund these activities are used wisely.
 - **Placement system**
 The placement system in Israel must undergo substantial change. The state should enter into contractual agreements with private companies for limited periods of time. Performance should be inspected and monitored on a continual basis, and it should be possible to withhold payment or impose fines in the case of failure to comply with the conditions. Conversely, performance bonuses should also be introduced. Placement centers should be structured on a regional basis; each region specializing in fields reflecting the profile of the local population and local employers, thus ensuring that the service is as personalized as possible. This process has already begun, but it is limited in scope and the package of incentives is still not sufficient to meet the economy's needs.
 - The function of each center will be to locate, offer, and recommend various alternatives to each client: supplementary education, vocational training, and/or immediate job searches.
 - The center should supervise the client in whichever course is selected, until employment is found and for a defined period thereafter. The client will be able to draw on the professional knowledge and accumulated experience of the center in order to adapt skills and preferences to meet existing possibilities.
 - Placement centers should be remunerated in accordance with their level of success in placements and the length of employment. In contrast with the Israeli version of Wisconsin's "Welfare to Work" program, if the client selects a supplementary education or vocational training track, the center's remuneration should be based on the student's success on completing each structured section of their personal plan. The remuneration should be determined in accordance with a scale developed by experts on the national level. The scale should be based on the client's success, ensuring that the center will make a serious effort to ensure that the client selects the most appropriate track – and not necessarily immediate placement.
 - **Significant reduction in the number of non-Israeli workers**
 Not only should Israeli workers learn to cope with the conditions of the Israeli economy, employers must also learn to make do with Israeli workers. Foreign workers who replace unskilled Israeli unemployed have a negative impact on salaries in the lower income deciles and create a public burden in the form of unemployment payments and income supplements. Rather than deporting foreign workers – which is problematic and ineffective – law enforcement should focus primarily on employers, with the goal of significantly reducing the demand for foreign workers. A substantial and rapid reduction in the employment of foreign workers can be achieved by:
 - **Enforcement of all existing labor laws;**
 - **Imposition of a tax on the employment of foreign workers.**

second policy sphere

Creating a Supportive Environment

Even if incentives are provided to work and to employ, and even when workers are provided with tools that fit the needs of a competitive economy, failures in the surrounding environment still hamper the ability of many to work outside the home. The second policy sphere seeks to address these failures and to improve conditions enabling employment.

- **Children:** A long school day and subsidized afternoon enrichment programs for children and youth will enable more parents to go out to work.

These steps should be part of a structural reform in Israel's education system – as described in Appendix 1 – targeted at improving the general standard of education and significantly reducing educational and social gaps. What we won't spend today on education, we will pay for in the future – with compounded interest – on welfare.

- **Upgrading transportation infrastructures**
 - In order to enhance access of workers in the periphery to jobs in the major cities.
 - In order to reduce production and transportation costs, thus increasing the competitiveness of Israeli businesses and expanding their scope of employment.
 - In order to reduce physical and social gaps between different regions of Israel.
- **Substantially simplifying bureaucracy** that is cumbersome and complex, causing delays and unnecessary costs across the interface between the private and public sectors. The easier it will be to establish and run a business in Israel, the higher the subsequent employment rates and salary levels.
- **Protecting employees of manpower companies** through legislation stating that the recipient of a service shall be responsible for ensuring that the worker providing the service – whether employed directly or through a manpower company – receives the salary and conditions to which they are entitled by law.
- **Equal rights and opportunities** in training, work, promotion, and salary for women and minorities. Particular emphasis should be placed on the integration of Arab Israeli women who face double discrimination both due to their gender and their ethnicity.

third policy sphere

Long-term Strategic Plan

Conventional wisdom notwithstanding, the problems of poverty and inequality that have steadily worsened since the 1970s, and the low rate of economic growth that has characterized Israel since that same decade, are not due to a lack of public resources. Over recent decades, civilian public expenditure in Israel – i.e. total public expenditure excluding the defense budget – has not been low in comparison with the average in Western countries. In other words, for many years there has been no shortage in Israel's non-defense civilian budgets, and these budgets could have been used to prevent the deterioration in the socio-economic sphere that has transpired over the past three decades. It is all a question of national priorities. The lack of transparency in the allocation of funds has also contributed to the wasteful and ineffective use of public funds.

The state budget must be restructured on the basis of budgetary requirements reflecting national priorities. The civilian aspects of national priorities should include particular attention to the following issues:

- **Education.** Funds should be allocated for all the education systems – state, state-religious, Arab, and ultra-Orthodox – on the basis of identical, clear, and transparent criteria enabling increased support for the weak and the narrowing of gaps. This reform will make the education budget more efficient and will significantly enhance the system's performance. Further details about the main components of the proposed reform in the field of education are presented in Appendix 1.
- **Employment.** Implementation of a strategic plan for increasing employment, including changes in incentives and increased investment in physical infrastructures (as detailed in the first two spheres above).
- **Budget transparency.** Enhanced transparency will increase the efficient use of public funds and enable the public to monitor national priorities in practice rather than merely on the basis of declarations.
- **Law enforcement.** Budgetary prioritization should be given to intensifying the war against Israel's underground economy. This is an important step in combating crime, increasing tax income, and spreading the tax burden more evenly. The issue of enforcement extends far beyond the war on the underground economy.
- **Higher education** enabled the emergence of Israel's high-tech sector and will ensure that Israel maintains a qualitative edge in the defense sector. Higher education in Israel is still among the best in the world, but protracted public apathy – and, in some cases, contempt – threaten to inflict significant damage to the system. The brain drain of outstanding Israeli academics to the West is on a scale unparalleled in any other country. Moreover, approximately half the senior faculty of the universities will reach mandatory retirement during the coming decade. Unless immediate and comprehensive attention is paid to the crisis in the universities, the system may be irreparably damaged, with all of the grave ramifications that this has for Israel's economy and security.

The serious economic crisis that has befallen the West creates opportunities for Israel. The crisis has had a negative impact on the funds of leading universities

around the world. While the crisis they face is no substitute for reform in the Israeli higher education system, it creates a rare opportunity for Israel to bring home leading doctoral and post-doctoral students who are not currently receiving the kinds of job offers they were accustomed to in the past.

- **Encouraging research and development.** This field constitutes one of the main sources for Israel's creativity, which in turn enables Israeli companies to keep a step ahead of their competitors, increasing sales and raising their own demand – as well as that of their local suppliers – for additional workers.
- **Social welfare policy.** Israel is responsible not only for providing tools and conditions enabling equal opportunities, but also for providing a basic social safety net for those who are unable to cope on their own. The state is obliged to provide assistance in the following three areas:
 - **National Insurance payments enabling a decent existence** and living conditions for the elderly, for people with disabilities, and for others who are unable to work (this issue is detailed more fully in Appendix 2).
 - **Providing personal welfare services** at a respectable level for individuals, families, groups, and communities that are having difficulty integrating into society (this issue is detailed more fully in Appendix 3).
 - **Ensuring the regular supply of medical services** to all Israelis, including nursing services, a basket of medicines, and hospital care at levels common in the West (this issue is detailed more fully in Appendix 4).

Voluntary organizations also play an important part in providing assistance. However, even if generous and ample assistance is provided, this does not obviate the need for a national perspective reflected in systemic planning, budgeting, and control – a perspective that is the state's responsibility.

- **Reducing the public sector**
 - Reducing the number of government ministries.
 - Merging local authorities.
 - Abolishing unnecessary bureaucracy and duplication in the public sector.
 - Improving efficiency in the area of defense.

Reducing public expenditure in these areas, together with an increase in income from taxation in the long run due to improvements and upgrading of the Israeli workforce, will enable public funds to be channeled towards implementation of the programs presented above.

Appendix 1

The Education System – Main Problems and Solutions

Taub Center Education Policy Program

If strong socio-economic foundations are a necessary condition for national security, then education is the primary element that gives these foundations their strength. More specifically, *education is the basic national infrastructure*. It is a primary factor in providing equal opportunities for full realization of individual abilities. The better the education and the lower the educational gaps, the greater the benefit to society.

Main Problems

While it is difficult to overstate the importance of a good education system to the country, it is similarly difficult to overstate the extent that Israel's education system has deteriorated, particularly in its ability to provide its students with high quality skills in critical core subjects:

- The scholastic achievements of Israeli children are among the lowest in the industrialized world;
- Education gaps in Israel are among the highest in the West;
- The achievements of the brightest pupils – from whose ranks will emerge an important part of the generation that will lead the country in the future – are below those of similar pupils in the majority of industrialized countries, and also in relation to a number of other countries whose standard of living is currently lower than that of Israel.

The failure is systemic; continuing in this way is no longer an option.

Because the problems are profound and their socio-economic implications are so severe, it is no longer sufficient to deal only with the symptoms. There is a clear need for a comprehensive structural reform of the entire education system.

Main Solutions

Without substantial improvement in the level of basic education and the provision of equal educational opportunities to its schoolchildren, Israel will have a hard time competing in a modern, competitive global economy. Without serious enhancement of the “toolbox” that we provide our children, we cannot expect fundamental change in behavioral norms that are eroding the foundations of Israel's society and government.

Such improvement can occur only as a result of changing the emphases of the school system, instilling a mandatory, high quality core curriculum; an educational climate that fosters an aspiration to excellence and the desire to learn and expand areas of understanding, achievement; introducing greater discipline, order, and cleanliness; increasing transparency of expenditures and achievement results, implementing differential funding that directs additional resources to children in weaker neighborhoods, and vastly increasing the efficiency of the education system.

A true reform must be based on three elements:

1. Teachers

- A substantial increase in teachers' salaries to comparable Western levels (relative to GDP per capita) alongside a significant improvement in the quality of the teaching workforce and in the professional requirements of teachers.

- Professional training requiring attainment of at least a BA degree from a university or general college with similar admission requirements, as well as a teaching certificate.
- The number of work hours per day and work weeks per year for full-time teachers should be similar to the norm in other sectors of the economy.
- There needs to be more flexibility in the employment of teachers and in the determination of their salaries to provide appropriate financial incentives for achievement. Every attempt should be made to complete this transition in cooperation with the unions representing the teachers.
- Each teacher should have their own workspace in the school.

2. Curricula

- Establishment of a professional and non-partisan National Education Authority with a mandate to determine the credo of the education system and its core curriculum. The authority should comprise a staff of 20-25 professionals and a limited number of administrative staff.
- Implementation of a core curriculum that is binding in all the education systems. In order to receive a license, each school in Israel must adopt and implement the core curriculum.
- The core curriculum must be uniform in content and in quality if the future economic playing field is to be level.

While Israeli society is characterized by numerous lifestyles, each of which demands an education that reflects its distinct social and religious perspective, there is only one economic market in which all the country's citizens must compete and thrive without becoming a burden to society. Therefore, a country that wants an egalitarian – and not just a successful – society must ensure that the enhanced “toolbox” be provided at equal levels in all its education systems, in all its towns and neighborhoods, in all parts of the country. The various education systems can emphasize additional areas above and beyond the core curriculum.

3. Management and organization on all levels

- Financial resources should be provided to the schools on the basis of transparent and equal budgetary criteria, with supplementary funding that takes into consideration the socio-economic status of the student population and incentive programs. This requires a shift from budgeting per class to budgeting per child for all levels of schools. Funding should be in money terms and not based on teaching hours.
- Special budgets should be provided to individual schools as an incentive for rewarding school achievement
- The State of Israel must provide free education – in practice and not just on paper – to every child from age three through the end of Grade 12. This budget should enable schools to implement a comprehensive study program, including both the core curriculum and the elective curriculum. The balance between the core curriculum and the elective curriculum should be determined by the National Education Authority. Only a national education system with a systemic perspective can reduce regional, ethnic and religious gaps. This is the role of the state.
- The school principal – who should have professional management training – will prepare the work plans and allocate resources. The principal will be responsible for implementing the work plans, achieving the goals, adhering

to the budget, and for recruiting and dismissing teachers (subject to labor agreements).

- A school board (similar to a firm's board of directors) should be established for each school. The board's main duties will be: supervising the work of the principal; approving the school's work plans and budgets; and approving the appointment and dismissal of teachers. The school board will include representatives of four groups: The Ministry of Education, the local authority, parents, and teachers – with a majority of representatives from the Ministry of Education and the local authority.
- Activation of an education department in the local authority.
 - The education department will set educational targets – beyond the national core curriculum – adapted to local community preferences, which will be implemented in the framework of elective studies and/or in extracurricular frameworks.
 - Members of the education department will represent local interests on each of the school boards within its jurisdiction, thereby enabling the municipality to have an input on the choice of principal, the school's educational targets, and also the approval of the principal's work plan.
- For the reasons specified above, the core and elective curriculums should be funded entirely by the Ministry of Education. The local authority and the parents will be able to augment these budgets in order to implement local educational priorities.

Conclusion

Improvements in one of the elements detailed above without the remaining two will not be successful and will lead to a waste of considerable resources. Talented teachers who are carefully chosen and properly compensated must be able to work with substantially upgraded curricula that are much more focused on core subjects (reading, writing, mathematics, science, English, and so on). Yet even this is not enough. The education system must make the connection between personal accountability and personal authority and it needs to utilize positive and negative incentives, as needed, to get people engaged in educating to do their best.

A systemic reform in education will not be cheap and will require additional resources. With the exception of defense, however, there is no more important or more justified investment in the future of the State of Israel.

Appendix 2

Social Security – Main Problems and Solutions

Taub Center Social Welfare Policy Program
Prof. Johnny Gal, Program Chair

The social welfare system forms the heart of the modern welfare state. The various services and financial payments that are included in the systems in all developed nations are funded from the state budget or from earmarked payments by employees, employers, and the self-employed. These programs enable society to protect individuals and families whose welfare depends primarily on their ability to make a living in the free market. The intention is to provide support in cases when income from work is absent (or reduced) and/or when expenses are increased for various reasons. The different programs constitute an overall system intended to alleviate poverty; to maintain a general standard of living; to help disperse individuals' income over the their lifetime; to contribute to covering additional costs, such as raising children; to promote the integration of the unemployed in the job market; to compensate for loss or injury; to promote the redistribution of resources in society; and to enhance gender equality.

Main Problems

The social security system faces various limitations that are the product of the level of generosity of benefits in addressing problems of poverty and disadvantage, and the sense of citizens that they are full partners in this system. More specifically:

- The social security system in Israel has difficulty in ensuring the welfare of the unemployed during their period of exclusion from the job market. Access to the unemployment insurance program is extremely limited, with the result that only a minority of the unemployed are eligible for unemployment benefits. Moreover, the period of eligibility for unemployment benefits is very short, 50-175 days – far shorter than in other welfare states.
- The incidence of poverty in families with children is greater in Israel than in all the other welfare states, with the exception of the United States. This is due to the inability of many parents to compete in the job market and to insufficient support from the social security system. The main program that aims to address poverty in families with children – supplementary income – offers benefits that are less than half the poverty line income. The scope of support is lower than is common in other welfare-providing countries, with the result that many families are left far below the poverty line.
- The social security system is based on the assumption that all citizens feel that this system guarantees their social security in times of need. This sense has been severely eroded in recent years, impairing confidence in the system, particularly among the middle class.

Main Solutions

1. Unemployment insurance

- The period of eligibility should be extended, with a gradual reduction in the level of unemployment benefits paid beyond the current short period. The period should be set at between six and twelve months (depending on the age of the insured, or on the length of time that insurance premiums were paid), as is customary in other Western countries.

- The method of calculation of unemployment benefits should be changed so that the calculation will be based on not less than 60 percent of the individual's prior income (excluding exceptional cases), and not more than 80 percent of this income.
- The mandatory period that a person must work in order to qualify for unemployment benefits should be shortened. The current qualification period is particularly long, disproportionate to the period of eligibility, and creates an obstacle in access to unemployment benefits for many of the unemployed. The period of qualification should be reduced to six months, and this should not be conditioned on the level of unemployment in the economy or on any reduction in the period of eligibility
- The unemployment insurance premiums collected for unemployment benefits from all three sources – the state, the employer, and the salaried employee – are insufficient for financing the unemployment insurance program and should be increased.

2. Income Maintenance

- The Income Support benefit level should be increased, particularly the amount paid to families with children. An expert committee should be appointed to examine the following three issues: The level of the benefit; the method for updating the benefit; and the manner in which changes in the economy can be taken into account in determining the level of the benefit. Given the urgent need to find a solution, this committee should complete its work as soon as possible.
- Introducing a “long-term needs benefit” for those who do not have a reasonable chance of reentering the job market. Such individuals will receive a fixed monthly payment or, alternatively, an annual grant, since after prolonged periods in the program, needs arise that go beyond the daily level and must be met.
- Vital and substantial changes need to be made in the *Orot* employment program – which should then be expanded and implemented in all parts of the country. These changes were proposed by a public committee headed by the President of the Israel Academy of the Sciences, Prof. Menachem Ya'ari, which examined the program and submitted its recommendations on December 2007. Any expansion in the program should be conditioned on amendment of the benefit level in the income support program.
- The issue of *disregard* should be revised in order to encourage integration in work (even on a partial basis) by those receiving supplementary income.
One of the limitations of any selective program intended for people who are capable of employment is the creation of a poverty trap that impedes the transition from welfare to work. This refers to a situation in which any new income from work is deducted from the benefit in full. In effect, this constitutes a 100 percent tax on initial income from work, creating an extremely strong disincentive to move from welfare to work. One mechanism intended to alleviate this difficulty is called *disregard* (i.e. a mechanism that moderates the reduction in benefits that result when a person begins to work and starts to receive income). Changes introduced in the income support program at the beginning of the decade significantly reduced the disregard that was an integral part of the program.
- Increasing the remuneration from work for those with limited training in order to fight the poverty trap, which impairs the transition from welfare to work among those receiving income support. Introduction of a negative

income tax that is designed to provide meaningful added income for those with low salaries may also help reach this objective. However, it is evident that the current version of this program, which was adopted on an experimental basis in Israel last year, has a number of obstacles that impede the full utilization of the assistance offered to those who are eligible – and in any case, the proposed assistance is limited. Accordingly, the negative income tax program should be extended to the entire country. The program should be improved, access to it should be broadened, and the assistance that it provides should be increased.

Appendix 3

Personal Welfare Services – Main Problems and Solutions

Taub Center Social Welfare Policy Program
Prof. Johnny Gal, Program Chair

Personal welfare services address the needs of individuals, families, groups and communities, which are unable or find it difficult to cope with various hardships that negatively impact their functioning and their quality of life, and hamper their integration into society. This generally refers to the weakest and most vulnerable population groups: children at risk, distressed youth, battered women, elderly, physically disabled, families in crisis, mentally disabled, new immigrants with adjustment problems, released prisoners, drug addicts, and the homeless.

Main Problems

National and local budgets available for providing personal welfare services are insufficient for supplying adequate coverage to all the populations in need of assistance. This situation is particularly severe in the Arab sector, which suffers from ongoing deprivation in the area of welfare services. Moreover, it is reasonable to assume that the current economic crisis will increase the distress of families and individuals and will impose a particularly large burden on local welfare services – this, at a time when existing welfare services are already incapable of providing adequate responses, even in the few areas in which they have been active until now.

- The legislative infrastructure in the area of welfare services is outdated, very limited, does not clearly define the services to which the citizen is entitled, and does not obligate the state to provide them. The eligibility criteria are also unclear, and the legislative infrastructure does not enable transparency.
- Despite the widespread phenomenon of poverty, local agencies and local authority welfare services do not join forces in a national effort to cope with poverty.
- More than in any other area of government activity, welfare services are in an accelerated process of privatization, outsourcing and utilization of non-governmental organizations – non-profits and private firms – for provision of services. It is often evident that this process took place (particularly on the local level) without clear strategic thinking and without clear regulation of the reciprocal relations between the government/local authority and these organizations.

Main Solutions

- The current level of expenditure lags behind the increases in the number of people needing assistance and in the scope of their needs. The result is a shortage of sufficient resources for assisting the needy, and a non-optimal distribution (in social terms) of existing resources. A formula should be established that will link between the level of government expenditure on different personal welfare services and changes in the size of the various populations and the increase in their needs.
- Special attention must be given to the Arab sector. Assistance must be significantly increased in order to reduce the substantial disparities that exist in welfare services relative to the Jewish sector.

- There is a need to anchor the services in a “Personal Welfare Services Law,” which will clearly define the state’s obligation to provide a basket of services to populations in need. This should not be only a protective law, like most of the laws already enacted in this area, but rather a law that would indicate the concrete services to which populations are eligible. The services included in the basket should be funded by the state budget and provided by welfare departments in local authorities and by means of non-governmental organizations. The basket of services that will be offered in each area of service will be determined by professional committees, with feedback from the public.
- Welfare services at the national and local level need to substantially increase their support for poor populations and to extricate them from poverty. Existing programs should tend to poor populations on a larger scale, and there is a need to initiate and develop additional programs, to focus on populations in distress and significantly improve their quality of life.
- The government and local authorities should choose service providers by the quality of services given and not only by their cost; efficient periodic monitoring of the activity of the organizations providing services is essential; rules for entering contractual agreements should be carefully observed, with the provision of state and municipal services limited only to organizations meeting high standards; coordination between the organizations should be improved, and local authorities wishing to do so should also be enabled to provide services in parallel with other organizations.

Appendix 4

The Health System – Main Problems and Solutions

Taub Center Health Policy Program
Prof. Dov Chernichovsky, Program Chair

The achievements of Israel's health system are good by a variety of different standards. The average level of health in Israel's population, as measured by several health indicators (such as life expectancy at birth) is one of the highest in the world. The public's satisfaction with the health system in Israel, in an international comparison – insofar as such a comparison can be made – is also high, and is achieved at reasonable costs relative to other developed countries. The expenditure on health is about nine percent of GDP, or \$2,000 per capita, which is a level similar to the average in Western European countries.

Main Problems

The health system's achievements are now being put to the test. While it is difficult to refer to changes in trends of health indices over a short period, a decreasing trend in the public's satisfaction with the system has been evident in the past decade. This is in light of a number of developments emerging in the system:

- Increasing disparities in the level of health and availability of medical services;
- Relative erosion in preventive services versus curative services;
- Erosion of infrastructure;
- Emerging decline in the size of the medical personnel;
- Non-implementation of structural reforms that have been on the agenda for years.

These trends can, at least in part, be linked to the decrease in the share of public funding in the system to a level of about 66 percent of the total national health expenditure. This share is 10 percent lower than the situation before the National Health Insurance Law went into effect. It is also lower than the average share of public funding in Western Europe which is about 80 percent of total health spending. An increase in the share of private expenditure does not lead to an improvement in the quality and quantity of service. Instead, it primarily serves to reduce accessibility to services, in part due to the inflationary effect that private funding has on the system. This means that replacing a public shekel of health expenditure by a private shekel does not increase service and it also increases the degree of inequity in the receipt of services.

Main Solutions

In light of the economic crisis, which could worsen the population's health problems, there are three main issues that should be addressed. The proposed changes are based on an effort to restore, in a responsible manner, the share of public funding in the system to a level of 75 percent of the total expenditure within a 7-year period, while keeping the percentage of the national expenditure on health at a level of 9-10 percent of the GDP, similar to the level in OECD countries (with the exception of the United States).

1. Reducing health disparities

Gaps can be reduced, or at least prevented from expanding, by an improvement in three areas that are mutually related: Accessibility to medical services, freeing up and redistribution of family income and direct intervention in health promotion programs.

- Changes in accessibility can be achieved by changing the capitation formula by means of implementing the “distance variable” in the National Health Insurance Law, in order to transfer more resources to the periphery. This change should be implemented gradually over a five-year period. In this context, two hospitals should be built, one in the north and one in the south, initially with 300-400 beds each.
- Additional improvements in accessibility are related to the distribution of overall consumption. In this context, dental health services and long-term care of the elderly should be gradually included in public eligibility. In addition, patients co-payments for services they receive, mainly in the area of preventive medicine should be reduced, with institution of compulsory supplementary insurance for defined service baskets at the public’s choosing. These measures are equivalent to tax breaks for poor households.
- The proposed changes can improve health, but are not enough. Focused health promotion programs with special economic incentives for the Sick Funds need to be created in the following areas: Diabetes, hypertension, chronic cardiac insufficiency, morbid obesity, and congenital defects.

2. Improving preventive medicine

The status of preventive medicine – which is of great importance to the population’s health – needs to be restored. This can be done by:

- Incorporating preventive medicine into general medicine;
- Canceling patient co-payments in preventive medicine;
- Restoring the relative share of preventive medicine in the general public budget.

3. Improving infrastructure

Infrastructure budgets that have been neglected need to be restored. This is particularly important in the areas of:

- Safety;
- Medical infrastructure: Emergency medicine departments and emergency rooms, operating rooms, institutes, inpatient care departments and more;
- Engineering infrastructure and systems (air conditioning, water, elevators, etc.);
- Logistical infrastructure (storerooms, kitchens and the like).

4. Personnel

In light of decreased immigration and the aging of the medical workforce, an additional school of medicine should be established in the north, in order to prevent erosion in the quantity and quality of physicians in Israel.

5. Additional reforms

- Incorporating mental health care in general medicine within the framework of the Sick Funds;
- Setting up a fifth Sick Fund;
- Incorporation of hospitals.