

Objectives and Recommendations for the 34th Government of Israel

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Objectives and Recommendations for the 34th Government of Israel

Taub Center Researchers

Introduction

As the new government begins its work, Taub Center experts have drawn up a set of social and economic objectives and recommendations. Center researchers have mapped the challenges facing the country in the fields of macroeconomics, the labor market, education, social services, and healthcare, and have suggested practical policy measures that can lead to improvements in these areas.

These recommendations do not represent a single vision; they have been written by researchers with differing perspectives and opinions on the situation in Israel. They do, however, share a common thread. They see the problem of inequality and widening gaps as perhaps the most difficult issue currently facing Israeli society.

In 2003, over a decade ago, a profound change occurred in Israeli welfare policy. Entire populations lost government allowances that were not linked to employment, and were forced to seek their livelihood in the labor market. It could be argued that this change was inevitable due to the economic crisis that was taking place and the budgetary problems that ensued, as well as to long-term trends that Israel's transfer allowance policies had set in motion. These trends included welfare dependency, with populations disengaging from the labor market and from acquisition of useful skills, and a reliance on a high birthrate – which led, in turn, to successive, increasing and larger generations of citizens with little to no work skills. As noted by Dr. Moshe Hazan and Dr. Noam Gruber in the economy section of this document, the continuation of these demographic trends would, within a few decades, likely put the State of Israel's very survival at risk. In this context, it is clear that cutting transfer allowances has been a main driver of the trend toward increased labor market participation over the past decade.

Necessary though the change may have been, it is impossible to ignore the fact that it also caused tremendous suffering. Many large families sank into abject poverty, while adults lacking work skills were thrown into the labor market without sufficient preparation. The outcome was a substantial rise in income inequality within Israeli society. A change of this magnitude should be accompanied by government intervention to assist low-skilled workers and to prevent the next generation – those children growing up in need – from falling into the poverty trap. As Prof. Ayal Kimhi writes, a number of tools exist that can reduce labor market inequality, but the government is not investing enough in them. An accessible, flexible and upgraded labor market, an effective training system for adults, and support conditioned on employment, like negative income

tax, are all measures that, if implemented correctly, could enable working families to live in dignity.

In addition to helping the current generation of adults find its way in the labor market, there is a need to look beyond in order to give today's children – many of whom are living in poverty – the tools to prevent generational poverty. For this purpose Israel needs a quality education system, one that can reduce the disparities that currently plague Israeli society and provide all of the country's children – regardless of their ethnic background or their parents' economic ability – with learning and analytical skills suited to the challenges of the 21st century. Unfortunately, despite improvements over the past few years, Israel's education system is very far from approaching this ideal. Israeli pupils' achievements are low compared with those of pupils elsewhere in the developed world and characterized by a high degree of inequality; and pupil achievement is highly correlated with socioeconomic background. In the section devoted to education, Prof. Yossi Shavit, Dr. Yariv Feniger and Nachum Blass present the measures required to improve pupil achievement and close gaps in the education system: differential budgeting to ensure quality education in Israel's economic and social periphery; raising the overall educational level by reducing class size; and improving discipline. Educational investment, which entails significant expenditure, is not the kind of investment that pays off right away; but the impact of quality education on society as a whole, in terms of health and quality of life, is significant and long-term, and there can be no doubt that a government that makes education a top priority will earn its place in history.

While investing in working adults, young people and children, Israel must not neglect the elderly, the infirm or those with disabilities. Under no circumstances should there be a return to the lenient welfare policy that enabled entire population sectors to disengage from the labor market, but there is a place to increase assistance to those who are unable to work, or whose ability to work is limited due to age or health status. Measures presented by Prof. Johnny Gal – such as raising the old-age pension, expanding the social assistance budget, and linking income support to a negative income tax – are in this spirit, as are Prof. Dov Chernichovsky's recommendations regarding the regulation of long-term care insurance.

Gaps are also widening in the healthcare system between those of means, who avail themselves of private medical services, and the less affluent, who are forced to rely on public healthcare. As Prof. Dov Chernichovsky recommends, the public healthcare system, which is deteriorating due to under-budgeting must be strengthened, and the diversion of resources intended for the public at large to a fortunate few must be stopped.

The recommendations presented in this document have a budgetary price, but they are worthwhile and necessary investments in Israeli society – even when the national debt is taken into account. In the economy section, Dr. Moshe Hazan and this writer recommend curtailing the shadow economy and taxing rental income – measures that are necessary and desirable in and of themselves, and that will make it possible to increase social spending without significantly compromising other budget items. Other measures include expanding the tax

base by repealing exemptions that currently exist, such as exemptions on contributions to employee study funds.

As the new government takes office, we at the Taub Center would like to wish our lawmakers success, and express our hope that they will be able to set the priorities that will make Israeli society, with all of its variations, healthier and stronger. We also invite policy makers and the wider public to look into the Taub Center materials online to learn more on the subject of the economy and society in Israel.

Dr. Noam Gruber

Objectives and recommendations for the 34th government - main points

The Economy (pp. 6-9)

- Institute core studies in the Haredi (ultra-Orthodox Jewish) school system
- Sever the links between employment, yeshiva study and military service
- Tax rental property income
- Transfer authority for housing, planning, and the collection of construction and city property taxes to local authorities
- Relax regulations and eliminate customs on food imports
- Establish a single, unified authority to regulate the natural gas market
- Re-evaluate the level of public expenditure
- Ease the bureaucratic burden on small businesses and set objectives for the collection and enforcement authority
- Encourage the use of automatically-generated income statements and electronic reporting mechanisms

Welfare (pp. 10-12)

- Increase the old-age supplement so that the income of needy elderly reaches the poverty line
- Raise income assurance allowances to bring recipients to the level of two-thirds of the poverty line
- Improve coordination between the negative income tax mechanism and the income assurance allowance
- Create system that encourages people to save money
- Enact a social services law
- Significantly increase the number of social workers in the public welfare system
- Establish citizen rights centers

Education (pp. 13-15)

- Improve the quality of instruction throughout the system and particularly in institutions that serve disadvantaged populations
- Make use of substantial differential budgeting
- Advance socioeconomic integration within schools

- Limit tracking in the high schools
- Reduce educational inequality outside of the school setting
- Reduce class size
- Improve the level of discipline in schools

The Labor Market (pp. 16-19)

- Encourage employment among Haredim, Arab Israeli women and those with low education levels
- Move to an employment model that offers flexibility to employers and protection for employees
- Improve the negative income tax system
- Evaluate minimum wage hikes in greater depth, and improve labor law enforcement
- Exempt low-wage workers from the pension savings obligation and improve their employment conditions
- Make the retirement age more flexible

Healthcare (pp. 20-23)

- Create a hospitalization authority
- Continue developing the mental health system and increase its budgets
- Expand eligibility for dental care funding
- Regulate long-term care insurance
- Shorten waiting times for medical procedures in the public healthcare system
- Reduce out-of-pocket expenditures on medical treatment
- Increase the system's manpower supply
- Increase government funding and transfer money from payments for health fund supplemental insurance to the public healthcare system

Objectives and recommendations in the area of the economy

Moshe Hazan and Noam Gruber*

Long-term demographic processes

- **Institute core studies in the Haredi school system**
- **Sever the links between employment, yeshiva study and military service**

About 10 percent of Israel's working-age population is Haredi (ultra-Orthodox), and current demographic trends indicate that this sector's population share is increasing rapidly and will represent one-quarter of the total working-age population within four or five decades (according to Central Bureau of Statistics forecasts). The Haredi school curriculum, especially for boys, does not provide its graduates with the most basic educational skills to enable them to participate in the labor market. If the present situation persists, it will lead to an unprecedented economic regression and seriously hamper the government's ability to fund and provide public services at their current level – including the continued prioritization of the military that is essential to the country's very survival. Even if this problem does not make the headlines like the cost of living or poverty rate, and although its anticipated impact appears to be far in the future, it is actually one of the most serious threats now facing the State of Israel.

The solution is simple: the introduction of core studies into the Haredi education system immediately as a condition for state funding. Another useful measure that would reinforce the impact of core studies, though not replace it would be to sever the links between employment, yeshiva study and military service. Cutting this tie would allow Haredi men to more easily enter the labor market.

Housing

- **Tax rental property income**
- **Transfer authority for housing, planning, and the collection of construction and city property taxes to local authorities**

There has been an unprecedented rise in housing prices over the last few years. This is due to a combination of two factors: inelastic supply (rooted in bureaucratic red tape and conflicts of interest at the municipal level), and a steep rise in the demand for apartments (resulting from a decline in interest rates that reduced the total amounts of mortgage loans to be repaid, as well as lower tax rates on rental income than on capital income). Magic bullets that do not address the reasons behind the rise in demand for housing and the prevailing inelasticity of supply are doomed to fail, as they will not be targeting the root of the problem.

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In the short term, increased demand can be addressed by taxing rental income at a level similar to that of income from other sources. Currently, the relatively low tax rate on rental income makes investing in residential real estate attractive compared with financial investment, and serves to increase demand for apartments and drive prices up. Taxing rental income at a level similar to that of income from labor would mean that low-income retirees who rent out apartments that they own would be taxed at a low rate, while those with a high income, such as those who rent out several dwellings, would be taxed at a higher rate.

In order to lower prices in the long term and avoid the next housing crisis, the supply side of the housing market must be dealt with. There are several barriers to an increased supply of housing units in Israel. One is over-centralized planning and infrastructure development by government authorities. In order to remove this barrier, it is proposed that the marketing of land and the responsibility for developing infrastructures be transferred to the relevant municipal authorities – on condition that the authorities meet a predefined standard of transparency, and that any land to be marketed has not been designated a nature reserve or destined for future national infrastructures. In places where the necessary infrastructures straddle more than one local authority, they could be developed jointly by several authorities – for instance, by means of a metropolitan infrastructure corporation. It is also proposed that a minimum open space ratio be set to prevent excessive density.

Another obstacle has to do with the fact that in many cases residential construction creates debt for local authorities, leading to major delays and curtailing construction. To cope with this problem, the process of setting both residential city property taxes and development/improvement levies should be made easier for municipal authorities, on condition that they meet the transparency standard.

Food prices

- **Relax regulations and eliminate customs on food imports**

In recent years, Israeli food product prices have risen sharply, and at a much higher rate than in the European Union or Eurozone countries. This price increase is especially burdensome for the lower socioeconomic groups, as they spend a large proportion of their income on food. One simple and effective means of solving this problem would be to eliminate customs on food imports and to ease over-regulation. These measures would spark competition in the local market and cause food prices to drop in a quick and efficient manner.

The argument that eliminating customs would only increase profits for chain stores without lowering prices for consumers seems irrelevant given the efficacy of the “exposure to competing imports” policy that was enacted in the 1990s, which significantly reduced the prices of many products.

The natural gas market

- **Establish a single, unified authority to regulate the natural gas market**

The capitalized value of Israel's existing natural gas reserves amounts to 50 percent of GDP for 2014. Tens of regulatory bodies are involved with various aspects of the natural gas market: government committees address specific issues such as taxation and exports; competition in the market is regulated by the Antitrust Commissioner; prices are set by the Ministry of Economy; the Electricity Authority sets the maximum gas purchase price for the Israel Electric Corporation; transmission infrastructures are regulated by the Ministry of National Infrastructures; gas facilities are secured and a range of other activities carried out by additional authorities.

Since decisions made in the natural gas market are interdependent, the market is in a deadlock that causes heavy losses to the Israeli economy. When, for example, gas exports are delayed, as they were on the recommendation of the Tzemach Committee, the result was a loss of over NIS 10 billion per year – a figure that amounts to nearly 1 percent of GDP. It should be emphasized that in contrast to the prevailing view that the natural gas market is the business of “tycoons,” seventy agorot of every shekel earned in this market are collected by the government. This means that the main loser from the market's ineffective regulation is the Israeli public. To make Israel's natural gas market more efficient, a single authority should be created to be responsible for all issues pertaining to the market's regulation. An authority of this kind would consider all the relevant issues and would best be able to regulate the sector.

- **Re-evaluate the level of public expenditure**

Over the past decade, the share of public spending in Israel's gross domestic product declined by 12 percent. The reduction was divided fairly evenly between a decline in interest payments on the public debt, diminished security spending and reductions in expenditure on education, health and social services. Currently, Israeli public expenditure as a share of GDP is 5 percent lower than the OECD average, and 2 percent lower than the OECD average for 2008, just prior to the economic crisis. By contrast, a decade ago Israel's public spending level was 2 percent higher than the OECD average despite its outsized security expenditure which amounts to 4 percent of GDP.

The main difference between Israel and the OECD countries is in welfare and social insurance spending. Despite a reduction in the poverty rate and inequality levels, Israel still leads the developed world on these metrics. The fiscal rule stating that the government's share of GDP should be small needs to be changed, and public spending should be moderately increased, with an emphasis on social services and on investment in physical infrastructures and education which are major factors in improving productivity.

The shadow economy

Israel's shadow economy is estimated to be on a scale of 20 percent of GDP – double that of some developed countries. Given this estimate, a reduction by half would enable the budget to be increased significantly by 30 to 40 billion shekels without raising taxes. Tax evasion, which is especially prevalent among the self-employed and small businesses, is due to a combination of a low likelihood of being caught, punishment that does not act as a deterrent and norms that see tax evasion as socially acceptable behavior.

- **Ease the bureaucratic burden on small businesses and set objectives for the collection and enforcement authority**

The bureaucratic burden involved in paying taxes in Israel is heavy. In order to reduce the tax evasion temptation, the bureaucratic burden borne by small businesses should be reduced. At the same time, it is recommended to set clear and transparent objectives for the Tax Authority in the areas of collection, detection, punishment, and reducing the bureaucracy involved in tax reporting. This would serve to raise public awareness of the dangers of tax evasion, and incentivize the Tax Authority to make effective use of information technologies that have become widely available in recent years.

- **Encourage the use of automatically-generated income statements and electronic reporting mechanisms**

One means used in many countries in the developed world to fight the shadow economy, which mainly operates on cash, is to encourage the use of electronic payment systems. These systems can also provide a basis for computerized income reporting, which saves small businesses time and money while also increasing the Tax Authority's certainty regarding the veracity of reporting. With an understanding that small businesses' cash transactions taken together amount to a major portion of the shadow economy, it is proposed to lower the tax on automatic electronic payments to the authority. If the Tax Authority were to support a standard application programming interface (API) for reporting, and encourage businesses to use it through tax incentives, the reporting infrastructure (the necessary software and hardware) could be developed privately. Systems of this kind are already at different stages of implementation in several European countries, and there can be no doubt that Israel has the technological know-how to become a leader in this field.

Objectives and recommendations in the welfare field

Prof. Johnny Gal*

Israel's welfare and social security systems are under-budgeted, which makes it hard for them to achieve their main objectives and cope with major social problems of poverty and inequality. The central conclusion of the War on Poverty Committee created by the Israeli government a year ago (as well as by Taub Center studies that have been published over the years), was that Israeli social spending is exceptionally low compared with that of other welfare states. The new government will have to act decisively to fight poverty and inequality through extensive resource allocation to the welfare and social security spheres and through the adoption of new welfare programs. Primary funding sources should be government spending, a certain increase in the National Insurance payments required of employers and employees, and a change in the allocation of welfare and social security expenditure.

Fighting poverty and closing social gaps

The War on Poverty Committee's varied recommendations have the potential to reduce the number of people living in poverty and to ease the plight of those who fall under the poverty line. Unfortunately, most of the recommendations have yet to be implemented.

- **Increase the old-age supplement so that the income of needy elderly reaches the poverty line**

The elderly income supplement is intended for those who have no income other than the standard old-age pension. This pension is currently lower than the poverty-line income level, leaving a quarter of Israel's elderly below this level. Since the allowance is at present relatively close to the poverty line income, the recommended measure and increase in the supplement would not entail a major expenditure; it would, however, significantly ease the plight of Israel's needy elderly.

- **Raise income assurance allowance to bring recipients to the level of two-thirds of the poverty line**

Income assurance constitutes a security net for 105,000 families that are unable to participate in the labor market or whose income from labor is particularly low. The allowance is very small (sometimes less than half of the income that would place a household under the poverty line), and the hardship endured by these families is profound. To ease their plight, it is proposed to raise income assurance allowance to a level that is no less than two-thirds of the poverty line income.

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- **Improve coordination between the negative income tax mechanism and income assurance**

At present, it is difficult for income assurance recipients to transition to reliance on income from labor. On the one hand, going to work could compromise their eligibility for income assurance, while on the other hand, they might be unable to reach an adequate income level from their income from work. To ensure that these households can maintain themselves with dignity, the connection between income assurance allowances and the negative income tax program should be improved, making income from labor a reasonable alternative for these households. At the same time, the problem of the working poor should be addressed by increasing the amounts paid out in the negative income tax framework (see also the recommendations in the Labor Market section).

- **Create a system that encourages people to save money**

It is proposed to adopt the American Child Development Account model, which ensures that young people growing up in poverty start their adult lives with a reasonable amount of capital – savings to which the government and their own families both contributed. The matching funds method is used to encourage these families to save; for every amount the family deposits, the government adds a supplementary sum. The maternity grant that every Israeli mother receives could serve as the initial deposit for this kind of savings plan.

Expanding access to social services

- **Enact a social services law**

The current Welfare Services Law (1958) does not provide an appropriate legal framework for the social services system. It does not ensure the citizen's right to social services, nor does it specify the social services package Israeli citizens should be eligible for; in fact, its failure to set nationwide norms actually creates inequality between local authorities. This law should be replaced by one that is consistent and clear, and that enables the system to operate in an efficient and transparent manner.

- **Significantly increase the number of social workers in the public welfare system**

The growing number of duties borne by social workers in the local authorities, the system's rapidly accelerating privatization and chronic under-budgeting have greatly increased social worker caseloads. The resulting workload is such that the needs of social service recipients cannot be adequately addressed. The number of positions in the system should be greatly increased and caseloads reduced to an average of 50-60 cases per social worker.

- **Establish citizen rights centers**

At present, many needy families do not fully avail themselves of the services and allowances to which they are entitled in the social services, social security, housing and health care systems, due to lack of knowledge or bureaucratic obstacles. Making these entitlements accessible would greatly ease their plight. It is proposed that citizen rights centers be established alongside all social services agencies, to work together with social service professionals to ensure that all who seek assistance are able to exercise their rights in full.

Objectives and recommendations in the education field

Prof. Yossi Shavit, Dr. Yariv Feniger and Nachum Blass*

Closing educational gaps

Closing gaps in the education system should be a main priority of the 20th Knesset. In general, inequality between Israeli pupils from different socioeconomic backgrounds is very great. Of the 60 countries that participate in the PISA tests, Israel ranks among the five countries with the highest rates of achievement inequality. To illustrate, the inequality of achievements between pupils within Israel is similar to the level of inequality between the pupils in developed countries (the UK, for example) and pupils in developing countries (such as Jordan). In countries with educational and economic inequalities it can be very difficult to maintain social cohesion.

The research shows that most academic achievement inequality stems from economic inequality between families; this issue, however, does not lie within the Ministry of Education's purview. There are, however, a number of policy tools available that can aid in reducing educational disparities.

- **Improve the quality of instruction throughout the system and particularly in institutions that serve disadvantaged populations**

The processes that began within the framework of the most recent wage agreements with the teachers' organizations aimed at advancing teachers in the public education system should be continued: improving teacher recruitment and the training given to teachers before and on the job; improving employment conditions and raising salaries; upgrading the teaching profession's image; and changing working conditions so that the better teachers will be able to stay while those unsuited will find it easier to leave. Consideration should also be given to a graduated wage based on teacher working conditions, that is, additional compensation for teachers employed in schools that serve underprivileged populations, or those who teach classes that are especially large or unusually heterogeneous.

- **Make use of substantial differential budgeting**

In order to address the gaps within Israeli society and their impact on the education system, the budgeting system needs to be overhauled. Educational institutions – from preschool through post-primary school – should be budgeted according to objective and uniform measures of need that take into consideration not only enrollment figures but also the socioeconomic status of the pupils served. These criteria should create a very large difference between the allocation for pupils from the lowest socioeconomic group and that for pupils

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from the highest. Differential budgeting should ensure that every pupil receives the tools necessary to succeed, including small classes, adequate study-track offerings, appropriately-trained teachers, well-equipped classrooms, and teaching aids.

- **Advance socioeconomic integration within schools**

The most important resource available to the education system is the pupils themselves. Learning alongside pupils from the higher socioeconomic groups is a “resource” that positively affects pupils from disadvantaged backgrounds. Pupils of lower socioeconomic status should be able to study in heterogeneous (socioeconomically mixed) classes, and local authorities and schools should be encouraged to strive for social-class integration in educational settings. One challenge to integration is specialized schools which attract pupils from affluent homes and leave other schools to serve pupils from weaker backgrounds. To keep this from happening, budgeting for schools that admit pupils on the basis of screening or parental payments should be reduced, and more money allocated to schools that choose and implement policies of social integration.

The Ministry of Education should also work to lessen the use of screening and pupil-differentiation mechanisms – such as grouping by ability of excellence in achievement – and work to make heterogeneous classrooms a major goal. Towards this goal, teachers must be trained in pedagogic approaches intended for heterogeneous groups.

- **Limit tracking in the high schools**

In Israel, as in other countries, it is customary to differentiate between academic and technical-vocational tracks at the high school level. This kind of tracking is highly controversial. On the one hand, technical-vocational training is very important for those who will not be pursuing higher education, and it is also necessary for the economy, which needs workers with vocational skills. On the other hand, recent data indicate that technical-vocational track graduates (except for those who enroll in science and technology programs) have much lower matriculation certification rates as well as lower rates for advancing to higher education than do academic-track graduates of similar educational achievement and social backgrounds.

Moreover, tracking has a pronounced socioeconomic dimension; more pupils from the lower socioeconomic groups study in technical-vocational tracks than do pupils from the higher classes. This means that tracking perpetuates class inequality in the educational achievement area. In recent years, the percentage of high school pupils studying in technical-vocational tracks has increased, raising concerns that inequality will intensify.

Many tenth graders have not yet formulated clear plans for their future, and it is not appropriate to track them in a way that limits their chances for matriculation certification and academic study. It is recommended that technical-vocational education be delayed until the post-secondary level and that high school tracking be curtailed.

- **Reduce educational inequality outside of the school setting**

Israel currently has no education policy that addresses educational processes outside of school hours like learning-disability assessment, remedial instruction and tutoring (private instruction). As a result, such services depend almost entirely on the family's ability to purchase them privately – which, of course, exacerbates inequality.

It is very important to develop public policy that addresses these factors, especially in light of research showing that pupils with learning disabilities (or other learning problems) who belong to society's weaker strata are at greater risk of dropping out of school. It is recommended that a public body be created for the evaluation and management of learning disabilities, to ensure that all social groups have access to this service. Moreover, the Ministry of Education should allocate resources and work with local authorities to establish high-quality learning centers, expand existing centers, and offer needy pupils tutoring at a subsidized rate.

- **Reduce class size**

Israel's mean class size is one of the highest in the OECD. Large classes negatively affect discipline and the classroom climate; they also make it hard for teachers to meet individual pupils' needs. The State is already devoting resources to class size reduction for pupils with learning disabilities (e.g., in special education), and in basic subjects in the lower primary grades, but most Israeli pupils still learn in classes that are larger than the Western norm, especially in the Arab Israeli sector and in parts of the state (non-religious) Jewish-education sector.

Class sizes between various sectors should be equalized, and reduced over time to the extent possible. These objectives are now more easily achieved given the increased Education Ministry budget and the changes in teacher working conditions following the Ofek Hadash and Oz Le-Tmura wage agreements.

- **Improve the level of discipline in schools**

Another factor that greatly affects the level of education is class discipline. In classrooms characterized by high levels of discipline, all of the pupils' achievements are significantly better. In schools whose pupils come mainly from lower socioeconomic strata, disciplinary problems are more common, which makes it harder for pupils to reach high achievement levels. Discipline overall should be improved, especially in schools that serve less-affluent populations; this can be done through smaller class sizes, additional teachers to help with problematic classes, and training teachers to handle disciplinary problems. It should be noted, however, that addressing disciplinary problems also requires attention to fostering pupils' internal motivation to learn.

Objectives and recommendations in the labor market

Prof. Ayal Kimhi*

Israel's income inequality level is among the highest in the developed world due, at least in part, to the country's labor market. The Israeli labor market does not adhere to a classic free market model and suffers from a number of problems related to manpower supply and demand, as well as structural and institutional factors. These problems could potentially harm employment, and thereby widen existing disparities between the employed and the unemployed; they are also liable to widen income inequality gaps among workers. The policy mechanisms proposed below are intended to address these problems in an integrated manner.

Employment

- **Encourage employment among Haredim, Arab Israeli women and those with minimal education**

Israel may not appear to have a critical employment problem, but a more in-depth look reveals that, in cross-country comparison, Israel's employment rate is particularly high among young adults and older adults, while the rate for those of prime working age is relatively low. The employment problem centers on three specific population groups: Haredi men, Arab Israeli women and those with low levels of education. All three of these groups share a basic problem of work skills which, in the long term, should be resolved through the education system. In the short term, what is needed is an effective vocational training system, as well as a placement program that would continue the work of the Orot LaTa'asuka welfare-to-work program (also known as the Wisconsin Program), which met an early demise. Orot LaTa'asuka was operated as a pilot program in four localities suffering from low employment rates, and aimed to free families from dependence on National Insurance income supports by helping them find and keep jobs. Although the program was regarded as a success and was slated for implementation at the national level, political and other considerations led to its cancellation.

In addition, efforts should be made to remove population-specific barriers. In order to help Haredi men find employment, the public funding that enables them to choose non-employment as a way of life should be discontinued, links between employment, yeshiva study and military service should be severed, and the Haredi education system should, of course, be made to provide its graduates with basic work skills. To aid Arab Israeli women, public transportation in minority localities should be improved, suitable workday childcare frameworks should be created, and women should be encouraged to pursue higher education,

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which has proven to be a key factor in closing employment gaps for all women, and for Arab Israeli women in particular.

Structure of the labor market

- **Move to an employment model that offers flexibility to employers and protection to employees**

The Israeli labor market is quite polarized in terms of employees' degree of protection. In the public sector and in certain other sectors (such as banking), labor unions are powerful and provide permanent employees with near-absolute protection from dismissal and differential wage changes – meaning that employers do not have the flexibility to adapt themselves to changing market conditions. These sectors are not able to link labor productivity and wages either – a necessary condition for the efficient allocation of labor. By contrast, in most private-sector industries, employers have so much flexibility that employees do not enjoy an appropriate level of security; this is also the case with regard to contract workers in the public sector. The solution lies somewhere in between these two extreme models. With the consent of employees, working conditions need to be made more flexible in that part of the labor market where they are inflexible. At the same time, workers need to have attractive advancement prospects and a tighter safety net that can help them find new positions in case of dismissal and maintain a reasonable standard of living when they are between jobs. Israel does not need to invent such a solution; it is already being implemented in several northern European countries (the Netherlands and Scandinavia) and is called “flexicurity.” These countries are characterized by high employment rates, high labor productivity levels and high mean wages, as well as by low levels of inequality. The model would obviously have to be adapted to suit the Israeli economy and Israeli society, and its implementation would entail understandings between the government, employers and the worker organizations.

Taxation

- **Improve the negative income tax system**

Israel's income tax is progressive (tax rates rise with income) to such a degree that it now has virtually no potential for closing gaps, and certainly not for about half of the country's workers whose wages fall below the tax threshold. By contrast, negative income tax has proven effective both in closing gaps and in encouraging employment, yet its application in Israel is very modest compared with other countries. Just as the government employs tax incentives to attract businesses to Israel within the framework of the Encouragement of Capital Investments Law, similar incentives can be used to encourage the employment of disadvantaged populations, including minorities, older adults and people with disabilities. There is a need to increase the size of the grant and the range of qualifying incomes, while simplifying the criteria and the application process – preferably by automating it.

Regulation and enforcement

- **Evaluate minimum wage hikes in greater depth, and improve labor law enforcement**

The minimum wage is sometimes mentioned as an alternative to employment grants in the context of narrowing wage gaps, but for encouraging employment it could result in the opposite outcome. Although international research findings on the topic are inconclusive, the possibility cannot be ignored that a minimum wage increase could cause the lowest skilled workers to lose their jobs and the smallest of businesses to prefer operating in the shadow economy. It was recently decided to raise the minimum wage, but the decision was an opportunistic pre-election maneuver, with no apparent support in terms of background research. Israel's minimum wage is now high by international standards, meaning that any additional change should be made only after in-depth examination of its potential repercussions.

Beyond this, it is unclear to what degree the minimum wage is actually enforced, and this question leads to yet another painful issue: the problem of Israeli labor law enforcement in general. Laws and regulations that have been enacted to protect the rights of vulnerable workers, prevent discrimination, and ensure that the public support system for workers is not abused, need to be more stringently enforced. Not only that, but more effective enforcement of state law regarding the employment of illegal migrants would likely open up job and livelihood possibilities for Israelis with relatively low work skills.

The pension system

- **Exempt low-wage workers from the pension savings obligation and improve their employment conditions**

Most Israeli workers are currently required to pay into occupational pension plans. The aim of this policy is to ensure that workers enjoy a reasonable standard of living upon retirement. One problem that arises, though, is that especially low-wage workers who at present have trouble making ends meet are still required to set aside money for a future goal that could be less important than their current needs. A policy change is in order that would exempt very low-wage workers from the pension payment obligation, while still requiring employers to make contributions on their behalf.

Another problem with the pension system is the high management fees paid mainly by small savers, while the big savers are able to negotiate much better terms. This problem can be overcome by creating a special pension track for low-wage earners under full supervision of a public authority. The authority would, via tender, choose a private pension provider willing to offer low management fees, and would also oversee the provider's investment targets to ensure low risk. Another means of ensuring low risk is the use of dedicated bonds, which are issued today to all savers. There is no reason why high wage earners should enjoy this kind of government support, which could be offered to low-wage earners as well.

- **Make the retirement age more flexible**

In this context, the retirement age, which was recently raised, will have to be raised again. Raising the retirement age enables workers to save for more years and enjoy larger pensions once they stop working. Consideration should be given to making the retirement age flexible, so that workers who prefer to retire early can enjoy the pension benefits that they have accumulated, while those who choose to continue working beyond the official retirement age can continue to do so.

Additionally, women's retirement age should be made the same as men's, given that women's average annual pension is lower from the start due to their longer life expectancy. The argument that women lose their jobs earlier than men and that pushing off retirement therefore delays their eligibility for the old-age allowance should be systematically examined and addressed; but the earlier retirement age, which hurts those women who do not lose their jobs, should not be seen as a solution.

Objectives and recommendations in the healthcare field

Prof. Dov Chernichovsky*

Israel's public health system is in a severe and ongoing crisis. Over the past two decades, government investment in health manpower and infrastructures has not been commensurate with the needs of the country's growing and aging population, or with the increased demand for quality health services that has accompanied rising incomes. Moreover, the government has been exchanging an ever-larger proportion of public funding of the healthcare system for private insurance funding and out-of-pocket payments made by patients for services that are often provided in public infrastructures by physicians who are also employed by the public system. This trend has negative consequences for the system's equity and effectiveness, as well as for prevailing ethical and legal norms.

The situation calls for funding changes and structural reforms in the healthcare system, many of which could already be implemented within the short term. At the same time, attention should also be given to long-term changes, both vis-à-vis the Israeli public's needs and available medical technologies.

Completing implementation of reforms currently in process, and ensuring the reforms' success

- **Create a hospitalization authority**

The need to reorganize the activity of Israel's hospitals, especially government hospitals, has already been noted in the recommendations of several committees: the Netanyahu Committee, the Amorai Committee, and the Leon Committee. Beyond the desire to create a hospitalization system that is more efficient, a major goal of the envisioned reorganization would be to absolve the Ministry of Health of direct responsibility for the government hospitals' ongoing operation, so that it can concentrate on policy and regulation.

It is therefore important that the measures taken in order to establish a hospitalization authority are carefully assessed and focus on defining the authority's functions, with an emphasis on decentralized management of the hospitals as well as regulation of the hospitalization system by the Ministry of Health. Thought should also be given to additional measures for including mental health services in the arrangement, as well as health fund hospitals.

- **Continue developing the mental health system and increase its budgets**

The past two decades have witnessed changes in Israel's mental health system. Structural reform has been reflected in a dramatic decline in the number of psychiatric beds, number of hospitalization days and length of hospital stays. The

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rehabilitation reform has increased the number of people with mental health problems who are being rehabilitated in the community. The way in which the government mental health budget is distributed has changed accordingly. Up until a few years ago, mental health services were insufficiently budgeted and were not updated in the same way as general health services. In the past two years, however, following the order to transfer mental health services to the health funds, budgets have been allocated for development of mental health clinics and for funding ambulatory mental health services through the health funds.

Alongside these changes, the government must address various issues facing the system as a whole: non-inclusion of psychiatric hospitals in the hospitalization authority that is slated for establishment; a potential conflict of interest between the health funds, which will be responsible for some mental health services (especially those based in the community), and the State, which will still have authority over most of the psychiatric hospitals and the rehabilitation services provided to people with mental illness; the availability and quality of mental health service manpower; and issues related to the system's structure and the interests of its various components. It is clear that the highly desirable process of transferring mental health services to the health funds – signifying the integration of mental health services with general health care – has to be accompanied by appropriate budgeting and allocations. The formula by which resources are allocated to the health funds must be changed, and the funds' ability to expand mental health services should be assured – despite possible opposition on the part of employees of State-owned hospitals.

- **Expand eligibility for dental care funding**

The return on providing dental care is high; its cost makes it a heavy burden on households, especially those with children and teens under the age of 18 and elderly people over the age of 75. Consideration should, therefore, be given to expanding eligibility in the framework of the dental care reform that began in 2011.

- **Regulate long-term care insurance**

Long-term care insurance is not regulated in Israel the way it is in other developed countries. Long-term care insurance funding is currently group-premium based, that is, the older age groups are subsidized by the premiums paid by relatively younger age groups. The Ministry of Finance recently sought to change this system by having the various age groups charged differentially, in accordance with the services they need. Changes of this kind are a step backward, as they will make it harder for the older age groups to fund long-term care themselves. To prevent negative impacts on policyholders, the issue should be reevaluated.

Other necessary reforms

- **Shorten waiting times for medical procedures in the public healthcare system**

In order to shorten the lengthy waiting times for medical procedures in Israel's public healthcare system, maximum wait times should be set for each type of treatment. A transparent scheduling system should also be put in place for surgeries and imaging procedures, and measures should be taken to ensure optimal use of underutilized public infrastructures – rather than uncontrolled and excessive growth of private infrastructures, and situations where medical manpower who are paid by the public work in private frameworks.

- **Reduce out-of-pocket expenditures on medical treatment**

Some 40 percent of Israel's health spending is privately funded, compared with just 24 percent on average in the OECD countries. In order to reduce the necessity of private spending, the needs for which Israelis seek private insurance must be addressed. Firstly, there should be free choice of doctor in public hospitalization. Secondly, those aged 75 and over should be exempt from copayments for medications to treat chronic disease.

- **Increase the system's manpower supply**

A major problem currently facing the system is understaffing relative to population size. Israel's current healthcare work force is aging and retiring at an accelerating pace. The public system has a shortage of job positions and its staff carries heavy workloads, especially young doctors and the nursing staff as a whole. Another problem is that of unequal allocation of manpower, particularly specialists, between the geographic center and periphery of Israel. Measures that would improve the situation include:

- ✓ Training physician assistants and adding job positions for paramedics, medical technicians (for medical procedures such as EKG, blood tests, etc.), medical secretaries, and the like
- ✓ Adding medical resident positions in specialties that are short-staffed, or where shortages are expected to develop over the next five to seven years
- ✓ Improving the resident acceptance process and shortening medical residencies, in accordance with the norms of other developed countries
- ✓ Shortening the licensing process for physicians who studied abroad
- ✓ Considering additional compensation for physicians who study specialties that are understaffed, or who are willing to work in the country's geographic periphery
- ✓ Increasing payments to doctors who are willing to work full-time in the public healthcare system

Funding

- **Increase government funding and transfer money from payments for health fund supplemental insurance to the public healthcare system**

In order to meet these needs, public funding for the healthcare system must be increased. Two basic sources could supply this extra funding. One is a gradual and responsible increase of government funding for the system – subject to structural changes and improved performance – to 75 percent of total funding over the course of eight years. This level of public funding prevailed in Israel two decades ago, and is characteristic of OECD countries which, like Israel, offer national health insurance. It would entail a one billion shekel annual budget, beyond the increase required for demographic changes, health basket updating and investment in infrastructure.

Another possible funding source would be to transfer the money from supplemental insurance sold by health funds and bought by its members—amounting to NIS 3.5 billion per year –to the public healthcare system. This measure would not change total costs within the system by much, but would have a positive effect on the public system's efficacy, would prevent infrastructure duplication and would keep doctors from switching from the public to the private system.