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THE COST OF SOCIAL WELFARE:
ISRAEL IN COMPARATIVE PERSPECTIVE

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עלות שירותיה של הרווחה:
ישראל במבחנים השוואתיים

מיכאל שלב, ג'וני גל ושגית אזרי-ויסל

ניר מדיניות מס' 2012.16

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Data collected by the OECD make it possible to compare the share of national resources devoted to social welfare (including health and housing) in Israel with other advanced economies from 1995-2007. Compared to the five Western European countries included in this research, Israel’s public social expenditure is low, and in most areas except health, it is similar to the United States. The Israeli government spends relatively little in areas which have the potential for improving the long-term economic well-being of citizens: active labor market policies, housing and support for families with children. The retirement income provided by the state through the social security system is much less generous than in Europe, but spending on public employee pensions is high. The overall magnitude of public social expenditure in Israel fell during the 2000s, at a rate without parallel in the other countries. Retrenchment has been marked in programs that mainly serve the economically vulnerable. Private spending on health and pensions is rising, but remains far below the US and some European countries.

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Early in 2010, in preparation for Israel joining the OECD, the organization published a comprehensive review of Israel’s social and labor market policies (OECD 2010). The report emphasized that Israel’s poverty rate is higher than that of any other OECD member country. While arguing that changes in policies related to the labor market would be critical for attacking problems of poverty and inequality, the report also emphasized that public social spending is lower in Israel than in OECD countries (with the exceptions of Turkey, Mexico and Korea) and stated, “Cutting Israel’s very high rate of poverty will only be achieved with extra resources.”

In light of these observations about social spending in Israel, it is important for policy makers and the public to have a clear picture of where Israel stands in a comparative perspective. Did the OECD appropriately take into account differences in demographic needs and economic resources relative to other countries? Assuming that Israel’s commitment to social security and redistribution is indeed lower than in other economically developed countries, is this true for all the social needs or only for some? It may also be asked whether Israel’s below-average allocation of public resources to social purposes is offset by above-average spending that is private and voluntary in nature.

Evaluations of Israeli social policy by OECD experts are not the only source of criticism in recent years. In July 2011, only a year and a half after the OECD warned Israel, “Each country gets the poverty rate it is prepared to pay for,” massive numbers of Israeli citizens mobilized in the streets of Israel behind a demand for less inequality and more social justice. The leaders of the protests and their expert advisors accused the government of retreating from its responsibility for the economic welfare of citizens, neglecting the needs of the disadvantaged and the middle classes alike. They called for revitalization of the welfare state in Israel, and argued that Israel had fallen behind the progressive European countries which it once sought to emulate. Here, too, questions are raised about the level and composition of Israel’s social spending from a comparative perspective, but with an additional emphasis – on trends
over time. In which areas, and in relation to which countries, has Israel fallen behind the welfare states of other advanced countries?

1. Background

The Data

By taking advantage of new data that has become available as a result of Israel’s membership in the OECD, this chapter seeks to furnish the best available evidence for addressing these questions. One of the most important activities of the OECD is to collect and disseminate standardized, high-quality economic statistics. Since 1996, the organization has also been responsible for what it calls the “Social Expenditure Database,” SocX for short. The most recent available SocX data include detailed measures for Israel for the years 1995 through 2007 (for other OECD countries the series extends further back in time). Although some information is also available for more recent years (Adema, Fron, and Ladaique 2011), its scope is limited and in any event it would be inappropriate to compare Israel to Europe and the United States in the years since 2008, because most of the other countries were deeply affected by economic slowdowns due to the international financial crisis. Using the available detailed data up to 2007, it is possible not only to locate Israel today in the international table of advanced economies, but also to characterize Israeli trends over more than a decade in relation to developments in other countries.

The SocX system is unique because it combines, in a single framework, components of social welfare that were never previously integrated in a cross-national database (Castles 2005; Adema and Ladaique 2009). First, both arms of the welfare state – services and transfer payments – are included. Second, the role of tax concessions is recognized as an alternative to public provision of services and cash benefits alike. Third, the OECD strives to encompass not only public expenditure in the framework of the welfare state, but also private
spending on collective social protection, whether voluntary or imposed by government.

Along with these impressive achievements, SocX has characteristics and limitations which it is important to note. As far as public social expenditure is concerned, the OECD concept of what is “social” parallels the conventional definition of the welfare state as comprising public provision of services like health, housing and childcare, but not education. Similarly, SocX covers all the standard transfer payments by public authorities, whether based on social insurance (e.g., unemployment benefit), social assistance (like Israel’s Income Security program), or some other criterion (e.g., benefits to the blind). The basic underlying idea is that “social” schemes are distinguished by being financed collectively. However, when this principle is applied to private spending, it rules out many instances that from a purely functional viewpoint are often thought of as social. Examples are voluntary and unsubsidized individual private pensions, or private purchases of services like childcare or medical consultations.

One final technical point must be emphasized. Under the SocX approach to transfer payments, in any given year the cost of a social program is not based on what it actually costs regardless of who pays for it. Instead, the calculation refers to how much money is transferred to beneficiaries. This distinction is particularly salient in the area of old-age allowances and pensions, which in all countries are the most expensive transfer programs. Since countries vary greatly in both their age structure and how pension contributions are fixed, there could be a substantial difference between the ranking of countries based on the amount of contributions they collect each year, and how much money they pay out. SocX only refers to the second of these.

In general, in addition to the fact that the logic underlying the OECD database is not always consistent with accepted approaches, SocX has practical limitations. Simply put, not all countries (including Israel) provide the OECD with complete and fully-compatible data. Accordingly, this chapter takes a conservative approach. It focuses
mainly on specific programs and much less on data based on a combination of different factors. Some indications are given of differences across countries in total social expenditure, but due to the technical and practical limitations of the data on private social spending, no estimates are given of its share in total overall social expenditure. Detailed information regarding the concepts and methodology underlying the SocX database, as well as definitions of the different types of social programs which it distinguishes (with Israeli examples) can be found in the Appendices to this chapter.

A final important characteristic of the current study is that the presentation of findings does not include all of the OECD countries for which data are available. To make it easier for readers, the focus is on comparing Israel to half a dozen OECD countries whose welfare states represent the diversity among developed economies with long-established democratic regimes.

**Overview**

Figure 1 gives a preliminary indication of the wide variation across OECD member states in the proportion of the national product devoted to financing the welfare state. This figure refers only to public social expenditure, which Wilensky (1975) described as the “welfare effort” of governments. The relative amount invested in welfare in Israel (15.5 percent of gross domestic product) is one of the lowest, below the English-speaking countries where the lowest spending is 16-18 percent of GDP. The range of values for Western European countries (except for Switzerland and Iceland) is 20-28 percent, and eight of them devote at least one quarter of their economic resources to public social welfare which is 10 percentage points above the Israeli level. The six countries other than Israel shown with red bars are those on which the chapter focuses. As can be seen, they represent the full spectrum of welfare state expenditure.
Figure 1

**Total public expenditure**

as percent of GDP, 2007

Table 1 includes a range of more specific indicators based on expenditure taken from the SocX database, and also includes estimates of private expenditure in the two areas – health and pensions. The comparison is based on five important areas of social welfare, and two additional areas combined under the general heading “other risks.” Where appropriate, subdivisions are included to distinguish between public and private programs, or to take into account important differences between types of programs that operate in the same functional area (e.g.,

**Source:** Taub Center for Social Policy Studies in Israel.

**Data:** OECD.

![Graph showing total public expenditure as a percentage of GDP for various countries, 2007.](image-url)
government support of the labor market through unemployment benefit versus active programs like retraining which are designed to assist the unemployed in improving their chances in the labor market). These titles are defined in Appendix 2, and each is discussed separately in later sections.

Table 1. **Social expenditure in 2007: Israel and six OECD countries**
by category, as percent of GDP

<table>
<thead>
<tr>
<th>Expenditure type</th>
<th>Israel</th>
<th>US</th>
<th>Germany</th>
<th>Spain</th>
<th>UK</th>
<th>Netherlands</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Child allowance</td>
<td>0.7%</td>
<td>0.0%</td>
<td>0.7%</td>
<td>0.1%</td>
<td>0.8%</td>
<td>0.6%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Other</td>
<td>1.3%</td>
<td>0.7%</td>
<td>1.2%</td>
<td>1.1%</td>
<td>2.5%</td>
<td>1.4%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Labor market</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment</td>
<td>0.3%</td>
<td>0.3%</td>
<td>1.4%</td>
<td>2.1%</td>
<td>0.2%</td>
<td>1.1%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Encouraging employment</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.7%</td>
<td>0.7%</td>
<td>0.3%</td>
<td>1.1%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Other risks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Survivors</td>
<td>0.7%</td>
<td>0.7%</td>
<td>2.1%</td>
<td>0.6%*</td>
<td>0.1%</td>
<td>0.2%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Disability</td>
<td>2.9%</td>
<td>1.3%</td>
<td>1.9%</td>
<td>2.5%</td>
<td>2.4%</td>
<td>2.9%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Housing</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.6%</td>
<td>0.2%</td>
<td>1.4%</td>
<td>0.4%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Health</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public</td>
<td>4.3%</td>
<td>7.2%</td>
<td>7.8%</td>
<td>6.1%</td>
<td>6.8%</td>
<td>6.0%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Private</td>
<td>0.5%</td>
<td>5.6%</td>
<td>1.0%</td>
<td>0.5%</td>
<td>0.1%</td>
<td>0.6%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Tax expenditure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Old-Age</td>
<td>5.3%</td>
<td>9.6%</td>
<td>9.3%</td>
<td>6.5%</td>
<td>10.3%</td>
<td>8.7%</td>
<td>10.6%</td>
</tr>
</tbody>
</table>

* This percent is for 2005.
Table 1. (continued) **Social expenditure in 2007: Israel and six OECD countries**
by category, as percent of GDP

<table>
<thead>
<tr>
<th>Expenditure type</th>
<th>Israel</th>
<th>US</th>
<th>Germany</th>
<th>Spain</th>
<th>UK</th>
<th>Netherlands</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total share of GDP for these items</td>
<td>17.1%</td>
<td>27.5%</td>
<td>28.3%</td>
<td>22.4%</td>
<td>25.4%</td>
<td>23.9%</td>
<td>28.3%</td>
</tr>
<tr>
<td>Total share of GDP (excluding health)</td>
<td>12.3%</td>
<td>14.7%</td>
<td>19.4%</td>
<td>15.8%</td>
<td>18.4%</td>
<td>17.4%</td>
<td>21.7%</td>
</tr>
<tr>
<td>Total share of GDP: all SocX categories</td>
<td>18.0%</td>
<td>28.6%</td>
<td>29.7%</td>
<td>22.7%</td>
<td>26.7%</td>
<td>27.9%</td>
<td>30.2%</td>
</tr>
</tbody>
</table>

**Programs for the elderly**  
allocation per elderly person, as percent of GDP per capita

<table>
<thead>
<tr>
<th>Social pensions (public)</th>
<th>21%</th>
<th>25%</th>
<th>36%</th>
<th>33%</th>
<th>34%</th>
<th>31%</th>
<th>38%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupational pension (private)</td>
<td>10%</td>
<td>35%</td>
<td>4%</td>
<td>0%</td>
<td>29%</td>
<td>24%</td>
<td>12%</td>
</tr>
<tr>
<td>In-kind benefits (public)</td>
<td>2%</td>
<td>0%</td>
<td>0%</td>
<td>3%</td>
<td>3%</td>
<td>5%</td>
<td>13%</td>
</tr>
<tr>
<td>Pension and benefits for civil servants (public)</td>
<td>21%</td>
<td>17%</td>
<td>7%</td>
<td>4%</td>
<td>0%**</td>
<td>0%**</td>
<td>0%**</td>
</tr>
</tbody>
</table>

** In the UK, Netherlands and Sweden, civil service pensions are not administered by the state, and are therefore classified by the OECD as private occupational pensions.

**Source:** Taub Center for Social Policy Studies in Israel.  
**Data:** OECD.
To compare spending across countries, the effects of differences in their size and wealth are controlled by calculating the ratio of expenditure to gross domestic product (GDP). However, some areas of social spending – especially on the elderly – are sensitive to the demographic profile of a country’s population. For this reason, the detailed items of old-age spending in the bottom rows of Table 1 have been adjusted to a per elderly basis. They are discussed in detail in the next section.

The countries chosen for the purposes of comparison reflect the approach to comparative analysis of welfare states pioneered by the sociologist Gosta Esping-Andersen (1990) in his book *The Three Worlds of Welfare Capitalism*. This book distinguished three fundamentally different approaches to social welfare that have developed in the advanced economies of the West. Each of these is characterized by a cluster of policies denoted as a “welfare state regime.” In the liberal welfare state regime (liberal in the economic sense), most closely approximated by the United States, the government aims to maximize individual responsibility and minimize the role of the state in social welfare. The social-democratic regime, epitomized by Sweden and the other Nordic countries, is essentially the mirror image of the liberal model. The state offers a wide array of cash benefits and publicly provided services, many of which are targeted to citizens at large and not just the needy. In accordance with these expectations, for eight of the 13 indicators in Table 1 the US and Sweden represent the extreme values (highest or lowest) recorded for the six countries examined. In particular, the Swedish state does much more for the elderly while the US relies heavily on private pension solutions; expenditures on private medicine are very high in the US while almost nonexistent in Sweden. The same is true of “tax expenditures” (revenues that governments forfeit due to income tax exemptions and reductions for social purposes). Strong contrasts are also observed in public expenditure on family benefits and services, labor markets, and disability (those with handicaps, sick leave, occupational injury, and illness). Spending on these four disability
programs combined account for a staggering 10 percent of Sweden’s GDP, more than four times the American ratio.

The third welfare regime, termed “conservative,” is characteristic of Continental and Southern Europe, represented here by Germany and Spain. This type of welfare state has historical roots in efforts by authoritarian regimes and the Catholic Church to defuse nascent workers’ movements and forestall the rise of democracy. Its social policy trademarks are reliance on social insurance schemes designed to protect the earning power of male wage earners, which offer varying levels of protection for different groups (with the most favorable treatment traditionally reserved for civil servants). The conservative regime reflects a preference for community and family responsibility over either the state or the market. This profile can be seen in some of the indicators measured here for Germany and Spain – namely, the marginal role of private (occupational) programs in the pension field, the magnitude of spending on unemployment insurance, and the state’s modest commitment to services to families (especially programs geared to supporting the employment of mothers).

In order not to limit the present analysis to countries that exemplify Esping-Andersen’s three regimes, two hybrid cases have also been included. The Netherlands combines social-democratic and conservative features, and the United Kingdom was once a welfare state pioneer, but has altered course several times since Margaret Thatcher’s neoliberal reforms.

Locating the Israeli welfare state in relation to these affluent Western countries is challenging due to the distinctive features of the Israeli case: the commitment of the state (and earlier, the Zionist movement) to Jewish immigration, settlement and defense; the historic role of non-governmental organizations (like the Histadrut and the Jewish Agency) in the social welfare area; and the transformation of the Israeli political economy over the last three decades from statism and collectivism towards the neoliberal model (Rosenhek 2003; Shafir and Peled 2002). While some analysts have argued that Israel is mostly similar to the
Conservative welfare states (Stier, Lewin-Epstein, and Braun 2001; Gal 2010) in terms of the expenditure indicators measured by the OECD, it appears to be most similar to the United States. In order to divide Israel and other countries into distinct groups it is necessary to take into account the degree of similarity in their social spending profiles based on the range of indicators detailed in Table 1.\footnote{In order to avoid double-counting, total old-age spending was not included in the analysis.} This has been done here using a statistical technique called latent class analysis (Vermunt and Magidson 2002). Note that the larger the number of clusters (groups of countries) generated by this technique, the greater the similarity between the countries found in each cluster. In order to validate the apparent link between Israel and the United States, Israel’s classification should be tracked as the number of clusters is increased.

Figure 2 presents results for two, three and four clusters. The first result (for two clusters) groups Israel with the US and other countries, while at the next step (three clusters) the two countries form a separate subgroup. As expected, the three clusters identified at this point fit Esping-Andersen’s typology of three different social policy families. When four clusters are generated, the UK – characterized earlier as an ambiguous case – forms a separate cluster. (As shown in Table 1, when it comes to the minimal role of the state in labor markets and the magnitude of private pensions, the UK is much more like the US than Sweden.) Israel, however, remains firmly positioned alongside the US.

In one important parameter of expenditure, the cost of healthcare, Israel and the US are polar cases: the gap between them equals 8 percentage points of GDP. In general, spending on healthcare varies widely from country to country, partly for demographic reasons and partly due to differences in the method of healthcare provision and its cost-efficiency. When this problematic category is set aside, it is easy to see the resemblance between the US and Israel – primarily because these are the only countries that spend under 15 percent of their national GDP on social programs other than health. Nevertheless, so far as the other
country clusters are concerned, aggregate social spending is not necessarily a reliable indicator of the distinctions between welfare regimes. In particular, although social-democratic Sweden is the highest spender, conservative Germany is next – before Spain, an additional example in this study of the conservative welfare regime.

Figure 2

Grouping countries by social expenditure indicators

Data: OECD.

While the statistical analysis reflects unmistakable resemblances between Israel’s social expenditure configuration and that of the United States, they are certainly not identical. For example, while private services in Israel have a significant role in pensions and a recently expanding role in healthcare, expenditure on both is still far below expenditure in the US. On the other hand, since public spending on
families and disability in the US is so extremely low, Israel clearly spends more than the US in these areas (but not compared to countries outside of the liberal welfare regime). These divergences in Israel from the liberal welfare regime reflect specific aspects of the Israeli context, such as the state’s generosity towards disabled military veterans and its demographic interest in supporting Jewish families with children. What Israel and the United States have in common, compared to other countries is: (1) a particularly modest level of public support (both transfers and services) for the elderly, with the exception of civil servants; (2) a non-intervention government approach to the labor market; and, (3) almost no state involvement in housing. Of course, expenditure patterns do not necessarily reflect important qualitative differences between welfare states (Castles 1994). In this respect, a notable feature of social welfare in Israel is the role of benefits targeted towards specific groups which the state wishes to recognize and reward, such as soldiers and new immigrants. This reliance on benefits for special categories which is designed to reinforce loyalty to the state (Friedman and Shalev 2010; Gal 1999) is difficult to capture using the type of indicators prepared by the OECD and analyzed here.

To conclude the discussion on the similarities and differences between Israel and the other countries in the area of welfare, it is important to note that Table 1 and Figure 2 are based on the SocX data for 2007. An identical analysis was carried out for 1995, the earliest year for which the SocX series provides data for Israel. The results of this analysis are not shown here, but the statistical analysis reveals exactly the same pattern of country clusters found in 2007 (Figure 2). When the seven countries are ranked on all of the indicators, it emerges that between 1995 and 2007 Israel experienced only two significant shifts – it fell from first position to third on child allowances, and rose from sixth place to third in

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2 However, the 1995 data for Israel are not fully comparable to those of 2007. Figures are not available for tax expenditures, and the first available year for one of the other indicators is 2001.
spending on disability. In general, changes of this magnitude in countries’ social expenditure profile were rare over this period.\(^3\)

2. General Trends in Social Expenditure

The following section presents general trends in social expenditure over time, this time focusing on the welfare state, that is, on public expenditure. Particular areas of social expenditure (including private expenditure) will be presented in more detail later.

Figure 3 presents all expenditures classified as public by the OECD. As Table 1 shows, in 2007 Israel ranked the lowest, slightly below the United States. Looking at the period as a whole, public expenditure exhibited a downward trend in Sweden and the Netherlands while expenditure in the US, UK and Germany remained stable. The trend in Israel was unique; public expenditure was stable during the latter half of the 1990s, rose sharply in 2001 (due to significantly increased social security transfers, notably during a recession), and since 2003 has declined steadily to a level lower than in 1995.

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\(^3\) With the seven countries ranked on all indicators, shifts of more than two ranks occurred in only six of the total of 91 cells in the grid.
There is reason to suspect, however, that Israel’s international ranking and, possibly, its social expenditure trends over time are heavily influenced by two factors mentioned earlier in this chapter. First, public health expenditures in Israel, a significant component (almost 30 percent) of total social expenditure, are low – although it could be argued that this reflects the health system’s relative efficiency rather than insufficient allocation of resources. Second, as shown in the previous section, Israeli public-sector employees enjoy particularly generous old-age pensions, although it could be argued that these should not be treated as part of the welfare state, and should be related to as a component of employment conditions in the public sector. Figure 4 eliminates the effect of these two problematic factors. As the figure shows, the narrower definition of public social expenditure places Israel above the United States but not closer to Europe. The figure also highlights the two polar cases, Sweden
and the United States, and brings Germany closer to the rest of Europe. General trends over time are not significantly affected.

Figure 4

**Total public social expenditure**
excluding health and civil service pensions
as percent of GDP, 1991-2007

Data: OECD.

Before examining detailed data on programs, it is important to relate to the demographic differences between the countries, a factor with significant effects on social expenditure. As Table 2 shows, Israel’s demographics differ significantly from the rest of the developed countries. The differences are especially marked compared to Germany; the share of the population under 20 in Israel is almost double the share in Germany, while the share of persons over 65 in Germany’s population is almost double their share in Israel. This second fact has special significance for old-age pensions and health expenditures.
Table 2. **Distribution of citizens by age groups, 2009**

<table>
<thead>
<tr>
<th>Country</th>
<th>Population (millions)</th>
<th>Children</th>
<th></th>
<th>Elderly</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>5-19</td>
<td>Under 5</td>
<td>65-74</td>
<td>75+</td>
</tr>
<tr>
<td>Israel</td>
<td>7.5</td>
<td>10%</td>
<td>26%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Sweden</td>
<td>9.3</td>
<td>6%</td>
<td>18%</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>16.5</td>
<td>6%</td>
<td>18%</td>
<td>9%</td>
<td>7%</td>
</tr>
<tr>
<td>Spain</td>
<td>45.9</td>
<td>5%</td>
<td>14%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>UK</td>
<td>60.9</td>
<td>6%</td>
<td>18%</td>
<td>9%</td>
<td>7%</td>
</tr>
<tr>
<td>Germany</td>
<td>81.9</td>
<td>4%</td>
<td>15%</td>
<td>12%</td>
<td>9%</td>
</tr>
<tr>
<td>US</td>
<td>306.7</td>
<td>7%</td>
<td>20%</td>
<td>7%</td>
<td>6%</td>
</tr>
</tbody>
</table>

**Source:** Taub Center for Social Policy Studies in Israel.

**Data:** OECD.

### 3. Social Old-Age Expenditures

**Basic Concepts and Definitions**

In all the nations surveyed, with the exception of the United States, old-age spending is the largest category of social expenditure, with health expenditure ranking second (see Table 1).

Figure 5 presents an international comparison of old-age social expenditure over the past few years. For each country two sets of data are presented: total old-age expenditure in GDP and expenditure per elderly person. The data show that in terms of expenditure relative to the national “pie,” Israel ranks last, with total old-age expenditures of only 5.5 percent of GDP – about half their level in Sweden. Five of the seven nations are clustered fairly closely, between 9 percent (the Netherlands) and 11 percent (Sweden). Total expenditure depends, however, on the size of the senior population. The second measure is of expenditure per
elderly person as a share of GDP per capita. Three nations rank very differently on the two measures, with Israel and the US moving up and Germany falling down the ranking. In fact, on the second measure Israel ranks above Spain and even Germany. Whereas on the first measure the US ranks in the middle of the seven countries, on the second measure it ranks highest by a wide margin (and significantly higher than Israel).

Figure 5

**Social expenditure on the elderly**

2005-2007

<table>
<thead>
<tr>
<th>Country</th>
<th>As a percent of GDP</th>
<th>Per elderly person, as a percent of GDP per capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Israel</td>
<td>65%</td>
<td>10.7%</td>
</tr>
<tr>
<td>Spain</td>
<td>7.0%</td>
<td>8.9%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>42%</td>
<td>10.4%</td>
</tr>
<tr>
<td>US</td>
<td>62%</td>
<td>8%</td>
</tr>
<tr>
<td>Germany</td>
<td>75%</td>
<td>6.7%</td>
</tr>
<tr>
<td>UK</td>
<td>9.7%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Sweden</td>
<td>66%</td>
<td>6.7%</td>
</tr>
</tbody>
</table>

*Data:* OECD.

Between the two indicators, expenditure per elderly as a share of GDP per capita is a better gauge of national old-age expenditure in practice, though it, too, suffers from a significant limitation. The per elderly measure includes three components: (1) the extent to which old-age pensions and services for the elderly cover the entire population (not all old-age support programs are universal, and the extent of such programs
differs significantly from one country to the next); (2) the accessibility and take-up of existing programs (partly determined by their universality; voluntary occupational pension programs will obviously not reach all of the working population); and, (3) the level of pension benefits or the actual cost of the services provided.

The ability to distinguish between the three components based on the OECD SocX database is very limited. Nevertheless, the database does make it possible to distinguish between public and private responsibility. Before turning to this discussion, it is important to clarify a few fundamental concepts concerning different types of social expenditure on the elderly.

Income security for the elderly can be examined from two perspectives: from the perspective of the individual and the authorities. From the individual perspective there are different ways to avoid loss of income after retirement including various kinds of pension and savings plans, not all of which are classifiable as social by OECD criteria. From the state’s perspective, there are two possible forms of public responsibility for the economic welfare of the older population: universal pensions and government-paid pensions to retired public employees. In addition, the government may provide or subsidize special health services for the elderly (e.g., nursing services in their homes or in geriatric institutions).

With regard to preventing loss of income, most countries offer three tiers of savings for retirement. The first tier is under the responsibility of the public social security system. In Israel, this includes a modest, uniform old-age pension paid to all retirement-age persons, and income security benefits, given to those without significant sources of income (as determined by the National Insurance Institute) other than the old-age benefit. The second tier is employment-based. It includes pensions and provident funds based on savings set aside by employees and usually also by their employers during their years of employment. (The current study does not relate to provident funds in Israel, which until 2005 were not intended specifically for retirement and the funds could be withdrawn
The third tier is voluntary and includes income from savings and supplementary private insurance. To the extent that those who save money are given tax incentives, the return on their savings is included in the OECD’s definition of social expenditure.

In discussing old-age benefits this chapter will adopt the international usage of the term pension, which includes not only “occupational” (employment-based) pensions but also transfer payments of the two aforementioned types (uniform old-age pensions and old-age income security benefits for those with no independent income). The latter will be labeled “social pensions.” Another issue is how to divide pension payments between public and private pension expenditures. Clearly, social pensions are to be classified as public. Whether occupational pensions are considered private or public depends, however, on the sector of employment and on the identity of the institution that pays the pension. The rule adopted by the OECD is that pensions paid to public-sector employees are considered public expenditures, on condition that the body paying the pension is in the public sector. Pensions paid to government and municipal employees are therefore classified as public if paid from current budgets, or if the employee and employer contributions to the retirement fund are publicly-managed.

In 2001, the State of Israel stopped adding new public-sector employees to unfunded retirement plans (plans financed by current government budgets), replacing such plans with commercially-managed retirement plans. This reform has yet to apply to current public-sector pensioners, thus there is still an almost complete distinction between former civil servants with public pensions and private-sector pensioners with private pensions. In the future, when the 2001 reform begins to apply to public-sector retirees, their pensions will be reclassified by the OECD from public to private expenditure. This situation illustrates the importance of distinguishing between the two types of occupational

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4 The decision to classify old-age income security pensions in Israel as old-age expenditures and not as part of the general public safety net system was made by the OECD.
pensions administered by private organizations: those intended for private-sector employees, and those intended for public employees, the latter being government-paid but privately managed.

Table 3 reviews the three major types of pension discussed. When applying this scheme in practice it is necessary to decide how to calculate pension expenditures of each type: based on the contribution of each one to total old-age spending, or else based on expenditure per pensioner. Unfortunately the second method is not feasible since international data are not available on the size of the retired population that distinguish between public- and private-sector pensioners.

<table>
<thead>
<tr>
<th>Funding/Type of pension</th>
<th>Social</th>
<th>Occupational</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private</td>
<td>—</td>
<td>Employment-based pensions paid by private organizations to private- or public-sector employees</td>
</tr>
<tr>
<td>Public</td>
<td>Social pensions (in Israel, old-age pensions paid by the National Insurance Institute, including income security pensions for those without other income)</td>
<td>Employment-based pensions paid by public organizations (in Israel, unfunded retirement plans for government and municipal employees, paid from current government budgets)</td>
</tr>
</tbody>
</table>
International Differences in the Composition of Pension Expenditures

Figure 6 presents the relative share of each type of pension expenditure without relation to the level of total expenditure on pensions. As the figure shows, social pension expenditures constitute less than half of total pension expenditures in Israel and in the United States – lower than in the other countries under comparison. Unlike in the US, though, in Israel the low share of social pension expenditures is not offset by high private expenditures on employment-based pensions. In Israel, this expenditure is just one-fifth of total spending, although this share is expected to grow significantly in the long-term due to the recent mandatory pension law. In the US, employment-based pensions constitute more than 40 percent of expenditure on pensions.

Figure 6
Composition of pension expenditure
2005-2007

Data: OECD.
The other two categories of pension expenditure apply to public-sector employees. Public spending on unfunded pensions (pensions paid from current budgets) is higher in Israel than in any of the other countries under comparison: 40 percent of all pension payments, some 2.1 percent of GDP (equal to the percentage of social pension transfers). In the United States this relationship is inverted; private pension spending is twice that of public employee pensions. In Germany and Spain, the percentage of unfunded pensions is even lower than in the US at 16 and 9 percent respectively. The remaining three countries provide for their public employees through employment-based pensions from non-government institutions; their pension expenditures are, therefore, classified as private in the OECD index. It is important to realize, however, that the government, as an employer, funds at least some of these pension expenditures. As the figure shows, whereas in the UK “private” pensions paid to public employees constitute approximately 20 percent of total pension expenditures (the same percentage represented by unfunded pensions in the US), in Sweden and the Netherlands they constitute a much lower share of total pension expenditures.

The main reason for the high share of government spending on public employee pensions in Israel seems to be the high cost of pensions paid to retired military and related personnel (mainly police); approximately 30 percent of the 2009 expenditures on public employees’ pensions in Israel were represented by pensions for retired military personnel (Dahan and Hazan forthcoming, Table 2).

As noted earlier, public old-age expenditures include not only social pensions and employment-based pensions for public employees (if paid by public institutions), but also additional non-pension transfer payments, for example, rent assistance, and, more significantly, in-kind benefits like various public services, home-help services for the elderly, assisted living, and public transportation subsidies. The distribution of these services is shown in Figure 7. Expenditure on old-age services is particularly high in Sweden (2.4 percent of the GDP) and negligible in the United States and Germany. It is also fairly low in Israel, only 0.2
percent of the GDP, although this figure does not include nursing payments paid by the National Insurance Institute which constitute 0.4 percent of the GDP and which the OECD index classifies as disability expenditures.\textsuperscript{5}

**Figure 7**

**Components of social expenditure on the elderly**

2005-2007

<table>
<thead>
<tr>
<th>Country</th>
<th>In-kind benefits</th>
<th>Occupational pensions for state employees</th>
<th>Pensions (excl. state employees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Israel</td>
<td>46%</td>
<td>60%</td>
<td>9%</td>
</tr>
<tr>
<td>US</td>
<td>47%</td>
<td>39%</td>
<td>26%</td>
</tr>
<tr>
<td>Sweden</td>
<td>26%</td>
<td>16%</td>
<td>15%</td>
</tr>
<tr>
<td>Germany</td>
<td>74%</td>
<td>83%</td>
<td>85%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>85%</td>
<td>85%</td>
<td>8%</td>
</tr>
<tr>
<td>Spain</td>
<td>6%</td>
<td>10%</td>
<td>9%</td>
</tr>
<tr>
<td>UK</td>
<td>9%</td>
<td>10%</td>
<td>5%</td>
</tr>
</tbody>
</table>

**Source:** Taub Center for Social Policy Studies in Israel.

**Data:** OECD.

\textsuperscript{5} Thanks to Yulia Cogan of the Taub Center for clarifying this issue.
**Pension “Generosity”**

In order to assess trends over time and differences between the countries, the index used must be comparable. The index shown in Table 1 of this chapter is used for this purpose. The term “pension generosity” describes the relationship between the average pension and the average standard of living in a country, measured as total pension expenditure per elderly citizen as a percentage of the GDP per capita. Note that the term “generous” is used here in a value-neutral and relative sense.

**Social Pensions**

A long-term comparison between the seven countries under discussion shows pension generosity to be consistently lower in Israel than in all other countries including the US. As can be seen in Figure 8, following an adjustment in National Insurance Institute benefits in 2001, pension generosity in Israel (including income security pensions for low-income individuals) reached a high of 26 percent of GDP per capita but has since steadily declined, reaching 21 percent of GDP per capita in 2007. This decline has had serious consequences for many Israeli elderly whose post-retirement income consists entirely of social pensions; according to JDC-Eshel data (Mashav database), 65 percent of Israeli elderly do not have employment-based pensions.
Employment-Based Pensions

The OECD distinguishes between two types of private employment-based pension expenditure: mandatory and voluntary. Employment-based pension expenditures are voluntary in most of the countries, with the exception of the UK and the Netherlands, where the largest part of the expenditure is voluntary and an additional portion is mandatory.

A mandatory pension law was enacted in Israel in 2008. Since the available data do not go beyond 2007, however, all employment-based pension expenditures have been classified as voluntary. It is important to note that pension expenditures are considered private if the funds are managed by a non-governmental organization. The OECD’s data for Israel do not currently include private employment-based pensions; the missing data have been taken from the Pensions Department of the

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Data: OECD.
Capital Markets, Insurance and Savings Division at the Israel Ministry of Finance, whose reports are based on annual administrative data from all retirement funds (old and new) paying pensions over the relevant year.

As Figure 9 shows, in 2007 private occupational pension expenditure per elderly was 10 percent of the GDP per capita, placing Israel second to lowest on this measure. Ranking highest on this measure are the US and the UK, although it is important to note that in these two countries high employment-based pensions compensate for low social pensions (see Figure 6). Israel, by contrast, ranks low with respect to both types of pension, resembling the US in the low generosity of its social pensions and Sweden in the low generosity of its employment-based pensions.

Figure 9

Value of private occupational pensions*  
per elderly, as percent of GDP per capita, 1991-2007

<table>
<thead>
<tr>
<th>Country</th>
<th>1991</th>
<th>1993</th>
<th>1995</th>
<th>1997</th>
<th>1999</th>
<th>2001</th>
<th>2003</th>
<th>2005</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sweden</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Israel</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* This data is not available for Spain.

Data: OECD.

One explanation for the UK’s high rate of private expenditure is that in the UK public employees’ pensions are managed by private companies and are therefore defined as private.
Although these figures have been presented as reflecting pension generosity, this is not entirely accurate since employment-based pensions are not universal. While no comparable data from other countries are available, in Israel low average expenditures may reflect circumstances where some workers lack employment-based pensions but have generous pensions of other types. Several studies have shown that inequality in the availability of employment-based pensions is more radical than income inequality itself (see for instance, Kristal, Cohen, and Mundlak, 2010). Moreover, according to a study based on a 1997 Central Bureau of Statistics survey (Levanon 2004), only 26 percent of Arab Israeli men receive employment-based pensions, compared with 65 to 70 percent of the Jewish population. The study also indicates significant differences between average pension amounts among different segments of the Jewish population.

4. Other Social Expenditures

A. Policy Regarding Families

Social spending on families comprises two categories: benefits in the form of transfer payments and services. Child benefits are paid in all countries under discussion except the United States. In Israel, family benefits include maternity grants, paid maternity leave, child support and benefits for single-parent families, like study grants. Family services include funding for nursery schools, public daycare centers, child and family welfare services, and juvenile rehabilitation programs.

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7 The present section will not discuss one relevant measure, housing assistance, since (with the exception of the UK) public expenditure in this category is insignificant relative to GDP; in Israel, as in the United States, it is negligible (see Table 1 and the relevant discussion in the introduction).

8 The US offers child tax credits in an amount determined by the number of children in a family, similar to tax credits for working mothers in Israel.
Social spending on families was, on average, 2.5 percent of the GDP between 1995 and 2007 but declined toward the end of that period, down to only 2 percent in 2007. Not explained by demographic changes, this decline is due to child benefit cuts.

Figure 10 compares child benefit expenditures as a percentage of GDP in different countries. Until the early 2000s, Israel was exceptional in the scope of resources allocated to child benefit expenditures – approximately 1.5 percent of the GDP. Since 2001, this spending has decreased by half, down to typical European levels (excluding Spain).

Figure 10
Child allowances*
as percent of GDP, 1991-2007

- Netherlands
- UK
- Sweden
- Germany
- Israel
- Spain

* The US does not have a universal child allowance.

Data: OECD.
Figure 11 shows the relation between Israel’s child population and the country’s total child benefit expenditures for 2007. While Israel has a much larger child population (relative to the size of the total population) than other Western countries, Israel’s child benefit expenditures were comparable to those of Germany, the UK, the Netherlands, and Sweden.

Figure 11

**Relationship between children in the population and the level of child allowances, 2007**


Data: OECD.
Figure 12 compares other benefits and services to families with children in the different countries. Here Israel fares moderately; Sweden and the UK today spend roughly 2.5 percent of GDP. Israel and the other European countries spend approximately half of this amount, and the United States spends only 0.66 percent of GDP (and does not pay universal child benefits either).

**Figure 12**

_**Social expenditure on families**_

excluding child allowances, as percent of GDP, 1991-2007

Data: OECD.
**B. Labor Market**

Labor market expenditures again are comprised of two categories: unemployment benefits and active labor market programs. Unemployment benefits mainly consist of unemployment insurance benefits. Some countries also offer severance pay, compensation for early retirement for cost-saving reasons, etc., although spending on such programs is negligible relative to spending on unemployment insurance benefits. In Israel, this category includes only unemployment benefits paid by the National Insurance Institute. At 0.5 percent of the GDP, Israel’s average unemployment expenditure for the period under discussion was rather modest, placing Israel alongside the US and UK.

An obvious question is whether Israel’s low unemployment expenditures reflect low unemployment or merely a failure to offer the same unemployment benefits as in some of the other countries. A comparison between unemployment rates in the different countries shows that Israel ranked high; from 1999-2003, Israel ranked second in unemployment (after Spain), and from 2003-2007, Israel declined to third place following a change from a time of plenty to scarcity. At the same time, the steady decline in unemployment expenditure during this period reflects severe damage to the program’s accessibility and generosity (Gal 2008). It should be noted that in the most recent years under discussion, the Netherlands, Sweden and Germany also decreased their unemployment expenditures, although these remained much higher than in Israel (at least twice Israel’s level in terms of percentage of GDP).
Figure 14 highlights Israel’s exceptionally low unemployment expenditure (relative to unemployment rates) compared with other Western countries. (Note that the data refer to 2007, before the rise of unemployment in many countries due to the global financial crisis.) As the figure clearly shows, Israel had the lowest unemployment expenditures of all countries with high unemployment rates (7 percent or higher).

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9 In some of the countries (not including Israel) the expenditure line does not include the cost of severance pay which is paid by the state. For more information see Appendix 2.
With respect to active labor market social policies, the gap between Israel and the other liberal countries versus the remaining countries under discussion stands out, as Figure 15 shows. Active labor market programs include: employment provided by government and municipal authorities, occupational training programs directed towards specific populations or encouragement of their employment through subsidies to employers, incentives to entrepreneurs, employment creation initiatives, and the like. According to OECD data, the government in Israel invests very little in active labor market programs; in this respect Israel is like the US and unlike most of the other countries under discussion – especially Sweden.
and the Netherlands, but also Germany and Spain. The gap between Israel and other countries was even larger in the past, when Swedish active labor market expenditure peaked at almost 3 percent of the GDP.

![Expenditure on active labor market policies](image_url)

**Figure 15**

**Expenditure on active labor market policies**

*as percent of GDP, 1991-2007*


Data: OECD.

**Income Security**

In the OECD SocX database, the term “income maintenance” is used to denote what is more accurately termed “income security”: safety net programs (previously called “welfare” in Israel) designed to provide a minimum income to families and individuals whose income is below a minimal subsistence level (Koreh et al. 2007). In most countries, this category includes only direct transfer payments and not in-kind services; in the US, it also includes food stamps for low-income individuals.
International income security comparisons are difficult to make because programs designed to ensure minimum income are classified differently in different OECD countries. In Israel, income security programs targeting special populations – seniors, survivors and people with disabilities – are included separately under these “special” categories and not under the generic “income security” category. The only type of income security included under the generic category is benefits given to working-age individuals exclusive of disability or survivor benefits. Despite this limited application of the term, Figure 16 shows that in the most recent years surveyed, Israel ranked first among the countries surveyed in terms of income security as a percentage of the GDP. The comparison may be unreliable, however, due to the category’s different definitions. Conspicuous in this regard is the UK, which reports no income security expenditures despite having an Income Support program which parallels Israel’s. A comparison between income security generosity in Israel and seven other OECD countries ranks Israel relatively low, positioned close to or below the UK (Koreh et al. 2007: Figures 5-7). The in-depth study by Koreh, Gal, and Cohen shows that in the early 2000s (especially after revisions in 2002-2003), Israel’s income security generosity was among the lowest in all the countries surveyed, although the percentage of beneficiaries out of the total population was relatively high. These data reflect the central importance of the income maintenance safety net in Israel’s overall social security system, as well as the limited nature of the economic protection it provides (Gal and Achdut 2007).
Due to the methodological difficulties described, Figure 16 should be used primarily to follow long-term trends. As the figure shows, Israel has a unique profile, with income maintenance expenditure as percentage of the GDP rising significantly in the late 1990s, peaking in 2002, and then steadily declining by 50 percent. This decline was due to benefit cuts and reduced eligibility as well as to the partial (and temporary) shift to alternative “welfare-to-work” programs.

Figure 16
Public expenditure on income security*
as percent of GDP, 1991-2007

* The UK does not report expenditure on income security.

Data: OECD.
C. Social Tax Expenditures

Tax expenditures are revenues forfeited by the government in order to provide tax exemptions, credits, and deductions (henceforth tax benefits) to certain groups of people or to people who have undertaken certain economic activities. In Israel, tax expenditures for social purposes constitute approximately 20 percent of total tax expenditures and fall under the following categories:

1. Income tax exemptions on nearly all transfer payments, including those paid by the National Insurance Institute and the Ministry of Defense.

2. Exemptions for select groups: tax credits or partial income tax exemptions for recent immigrants, residents of “geographic national priority” areas, the blind and people with disabilities, students, recently discharged soldiers, etc. New immigrants and returning citizens are also exempt from paying some indirect taxes.

3. Income tax exemptions for families: single-parent families, working mothers, parents without earning power, and relatives of institutionalized patients.

4. Miscellaneous: VAT exemptions on fruits and vegetables, income tax deductions for charitable donations, etc.

Tax benefit assessments provided by each country usually underestimate the true extent of benefits because some tax benefits are almost impossible to assess accurately.
Figure 17 shows social tax expenditures as a percentage of the GDP. Data are taken from the OECD database and based on definitions developed by Adema and Ladaique (2009). Data on Israel are taken from the annual report of the State Revenue Administration at the Israeli Ministry of Finance, adjusted to Adema and Ladaique’s definitions.

Total social tax expenditures in Israel amount to 1 percent of the GDP. Heading the list is the US with almost double that percentage, followed by Germany. Sweden is at the bottom with no social tax expenditures, reflecting its clear preference for budgetary spending over tax benefits.
D. Other Risks

This section examines two types of program designed not only to protect citizens from general economic hardship but also (or especially) to compensate them for unfortunate events not under their control: the loss of a parent or spouse, and incapacity due to disability.

Survivor Benefits

As Figure 18 shows, Germany has by far the highest percentage of spending on survivor benefits. This is largely due to sharply rising expenditure in the wake of German reunification in 1990, prior to which Germany did not differ significantly from the other countries under discussion.

Figure 18
Public expenditure on survivor benefits
as percent of GDP, 1991-2007

Data: OECD.
Survivor expenditures are also very high in Israel and in the United States, where they constituted approximately 0.75 percent of GDP during the 2000s. Israel has two major survivor benefit programs: benefits provided by the National Insurance Institute (NII), and benefits to widows and orphans of fallen military personnel provided by the Ministry of Defense. Survivor benefits paid by the Ministry of Defense represent a stable share of more than one quarter of total survivor expenditures in Israel (averaging 28 percent). However, the cost of the two programs has followed different trends. Since 2002, NII expenditures have fluctuated significantly. Those of the Ministry of Defense have remained consistent over the years, except during 2006 and 2007 when the Second Lebanon War increased expenditures significantly.

**Assistance to Individuals with Disabilities**

Disability-related expenditures in Israel include programs under the auspices of the National Insurance Institute to support people with “general” disabilities or occupational injuries, special disability benefits and services (including rehabilitation and nursing) for disabled military veterans, and similar benefits and services to victims of acts of terror.

As Figure 19 shows, public expenditure to support people with disabilities differs significantly across countries, with Israel somewhere between the extremes of the United States (only 1 percent of GDP) and Sweden (5 percent of GDP). Over time, spending in Israel has increased, from 2 percent of GDP in 1995 to a high of over 3 percent in 2003. In recent years, Israel (tied with the Netherlands) ranked second on this measure after Sweden. Note, however, that in Israel disability expenditures includes old-age nursing care benefits equivalent to 0.5 percent of the GDP. Also contributing to Israel’s high ranking in this category are the generosity (relative to other disability benefits) and relatively large scope of the special programs for disabled army veterans. According to data supplied by the Israeli government to the OECD, Ministry of Defense benefits constituted 12.5 percent of total disability
expenditure in 2007, but Dahan and Hazan (forthcoming, Table 2) provide a higher estimate.

Figure 19
Public expenditure for people with disabilities
as percent of GDP, 1991-2007

Data: OECD.

5. Health Expenditure

As noted in the introduction, health is one of the two largest areas of social expenditure in OECD countries (alongside old-age). Health expenditure has been extensively analyzed in other Taub Center publications (e.g., Chernichovsky 2010; Chernichovsky and Regev 2012). The current report provides a brief overview of two aspects of health expenditure: Israel’s comparative international standing and the changing balance between private and public health.
First, it should be noted that the extent of national health expenditure in Israel (both public and private) based on the SocX database of the OECD is significantly lower than indicated by the data available to researchers until now provided by the Central Bureau of Statistics (CBS). The two sets of data diverge by approximately 3 percent of GDP, a discrepancy that will be explained shortly. With regard to long-term trends, both sets of data indicate declining health expenditures in the 2000s, although according to CBS data the decline began several years earlier (2002, compared with 2006 according to OECD data; see Chernichovsky 2010, Figure 4). In addition to total national expenditure it is important to distinguish between public and private expenditures, where opposite trends are discernible over time.

Figure 20 shows public health expenditure per standard person (according to a capitation formula weighting for national demographic profile by health risk level) as a percentage of the GDP per capita. In Israel, such expenditure constituted, on average, 4.95 percent of the GDP per standard person between 1995 and 2007, falling twice during this period, once each decade. After 2003, public health expenditure fell slightly in Germany and Sweden as well, but increased in the remaining four countries. In the years 2004-2007, Israel had the lowest public health expenditures of the seven countries under comparison. Countries that had similar expenditure levels (within 5 percent of Israel) early in this period experienced increases later on (approximately 0.5 percent in the Netherlands and in Spain, 1 percent in the United States and the UK). Germany had the highest public health expenditures throughout most of the period under review, although in 2006-2007 the United States exceeded it. Nevertheless, on average Germany retains the lead in this area. At present, public health expenditures in the United States are approximately 1.5 times their level in Israel.
Social expenditure on privately funded health care constitutes only a part of total private health expenditures. Israel’s Central Bureau of Statistics provides more comprehensive data, covering all private health expenditures (including private health insurance and spending on private physician fees, medications, surgery, supplementary health insurance, etc.). By contrast, the OECD SocX data presented here cover only spending on private health insurance with a collective component, e.g., insurance provided by employers or involving tax benefits. In Israel, this category covers supplementary insurance plans offered by the health funds or through employers. This difference between the OECD and CBS definitions is the main reason for the significant discrepancy noted in the previous section.
The most striking phenomenon shown in Figure 21 is the massive scope of private health expenditure in the United States, soaring in the early 2000s to 5.5 percent of GDP per capita. Sweden and the UK are on the opposite end of the spectrum with very low or negligible private health expenditure; Germany and the Netherlands are somewhere in the middle. In Israel, as in Spain, private health expenditure has increased steadily over the years, from a very low level to a more significant level of 0.5 percent of the GDP per capita. In Israel, however, this increase combined with steadily declining public expenditure, indicating a trend of encroaching privatization, whereas in Spain both types of expenditure, public and private, have increased steadily.

Figure 21

**Private social expenditure on health***

per standardized person, as percent of GDP per capita, 1991-2007

* Sweden is not included because private health expenditure is negligible.

Data: OECD.
6. Conclusions

In the last few years both the OECD and the social protest movement questioned whether the Israeli welfare state is backed by sufficient economic resources to provide citizens with economic security and offset rising inequality. This chapter has presented new data that clarify how much Israel spends on social security, health and social services compared with other advanced economies. It is now time to sum up the answers provided by the OECD database to the questions posed at the outset. Does the government of Israel spend less on social security and social services than countries with comparable economic resources and demographic needs? If so, is this true of all types of programs? Is it possible that government spending is low because private spending compensates for a lean welfare state? From a long-term perspective, is there evidence that the government’s commitment to social welfare has been declining? If so, which areas have been most affected, and are trends in Israel similar to those in other countries?

The big picture is that Israel’s public spending on social services, relative to the size of its economy (GDP), is low in comparison with the world’s richer democracies. This is true even after setting aside health spending, which is relatively low in Israel. In fact, the Israeli pattern of welfare state expenditure in areas other than health is far more similar to the United States than the five Western European countries used as points of comparison in this research. Similar to the US, the Israeli welfare state concentrates on the goals of protecting citizens from risks or compensating them for unexpected misfortunes. The governments of both countries spend relatively little in areas which have the potential for improving the long-term economic well-being of citizens: active labor market policies, housing, and support for families with children. In the last of these areas it is true that Israel spends much more than the US on child allowances, daycare, and other benefits and services designed to support families. Nevertheless, the Israeli commitment in this area is far below the levels found in the UK and Sweden – and this is true even
though children are much more demographically significant in Israel than in any other advanced economy.

Aside from health, cash benefits and services to the elderly are by far the largest social expense. When differences between countries in the size of the elderly population are taken into account, Israel resembles the US in two important respects. First, the retirement income provided by the state through the social security system (which in Israel is combined with special social assistance benefits) is much less generous than the social pensions of other countries. A second common feature is the unusually high commitment of resources in both countries to budgetary pensions for public employees. Here the resemblance in the pension mix ends. In the United States modest public pensions coexist with even larger sums devoted to a private system of occupational pensions. The balancing role of the occupational system is far less evident in Israel, where private pensions may be generous but are relatively limited in their coverage. Optimists believe that this deficiency will be remedied in the future by a legislative change which nominally, at least, has made it mandatory for workers to participate in an occupational pension scheme. At present, however, the combination of generous occupational pensions for relatively privileged public- and private-sector workers, along with the thin protection provided by the universal component of the pension system, necessarily results in considerable inequality among pensioners.

From a dynamic perspective, it is striking that the overall magnitude of public social expenditure in Israel fell during the 2000s at a rate without parallel in the other six countries in this study. The five years after 2002 saw continuous declines, totaling more than 3 percentage points of the domestic product. The latest available estimate (a projection for 2012) is 15.7 percent of GDP, almost identical to the level in 2007, which is the last year investigated in the present study (Adema, Fron, and Ladaique 2011). Sweden, Germany and the Netherlands, which also experienced decreases in the cost of the welfare state (but milder ones than in Israel), had much higher starting and ending points than Israel.
The findings of this research show that retrenchment has cut across a number of different programs, which have in common that they mainly serve the most economically vulnerable segments of society: large families, the unemployed, retired people without occupational pensions, and families with income below the poverty line. Child allowances, formerly a bulwark of antipoverty policy, were dramatically cut; so was Israel’s spending on income security, the safety net for the poorest families. In both cases, no similar trend was observed in the other countries studied. In addition, the average value of social pensions declined without any compensatory rise in occupational pensions; and unemployment benefits fell continuously in years of both higher and lower unemployment. Declines in these last two areas were also found in some other countries, but even after benefits were cut, their expenditure was still far higher than in Israel.

Several other types of social programs surveyed here have managed to escape retrenchment. Public spending on families with children, which includes cash benefits for childbirth and maternity leave as well as childcare services, declined somewhat but at the end of the research period was no lower than it had been in 2000. Expenditure on survivors’ benefits is higher than in other countries (apart from the exceptional case of Germany), and in an unusual trend, it has been gradually rising. Finally, benefits to the disabled survived the cuts of 2003-2007, and while the previously sharply rising trend of spending in this area has ceased, it is still higher than in any of the comparison countries except Sweden. Several features appear to unite these diverse areas and distinguish them from those in which the government imposed benefit cuts. None of these programs are conditioned on beneficiaries having low income or suffering economic misfortune. In addition, the protection offered two of the risk groups – survivors and the disabled – depends on whether the misfortune was incurred as a result of military service. If so, the benefits and services offered are far more generous than those which cater to the “general” disabled or “civilian” widows and orphans, and it is
these politically robust programs which have been immune to retrenchment (Gal and Bar 2000; Friedman and Shalev 2010).

Finally, it is important to acknowledge the limitations of this research. Throughout the chapter attention has been drawn to the need to pay attention to definitions and other technical details when considering the findings. In some respects – most notably in the areas of private spending and tax expenditures – the Israeli data are not yet complete. Moreover, not all countries – including Israel – always adhere strictly to OECD standards when reporting their social expenditure. Readers should be equally cautious in inferring the policy implications of the similarities and differences documented here between Israel’s social spending and the levels found in other countries. It is particularly important to remember that the amount spent on social programs is not necessarily indicative of their effectiveness in meeting their stated aims, or their cost-efficiency. Moreover, positions in debates over social policy are inevitably shaped by both values and interests, some complementary and others contradictory. Last but not least, expenditure is only one dimension of social policy. The implications of any given spending level for a particular goal – whether it be reducing inequality or improving economic performance – are to a great extent dependent on the fine details of program design and implementation.
Appendices

Concepts and Methods Underlying OECD Data on Social Expenditure (SocX)

A common intuitive understanding is that what makes services or transfers “social” is the function that they perform. From a functional viewpoint, social programs protect individuals or families against risks. These risks could be income loss or inadequacy, other kinds of misfortune (such as illness), or some condition that is costly to individuals but regarded as socially desirable (like having a child or performing military reserve duty).

Formally, the OECD’s concept of social expenditure is based solely on operational criteria. A service or a cash payment is considered social – whether it is delivered by a public or a private body – if it involves some element of redistribution. This need not mean progressive redistribution, i.e., richer people subsidizing poorer ones. The OECD considers all transfer payments and services to be redistributive, and therefore social, unless they operate according to pure market principles. In the case of transfer payments, that would mean strict insurance principles – meaning that beneficiaries hold individual accounts, and pay fees based strictly on the actuarial risk of them actually taking up the benefit. Moreover, even if a benefit met these conditions, it would still be considered social if the government made it mandatory for individuals to take out insurance, or used tax incentives to subsidize people who insure themselves.

In practice, so far as public social expenditure is concerned the OECD concept parallels conventional definitions of the welfare state that include public provision of services like health, housing and childcare, but not education. Similarly, SocX covers all transfer payments by public authorities to individuals and households, which automatically pass the redistribution test because they are financed collectively (whether by general revenues or earmarked taxes). Conversely, the redistribution test
disqualifies voluntary and unsubsidized private pension insurance, purchasing a home, or paying for private childcare or a private medical consultation. However, in many countries governments subsidize these expenses through the tax system, which in theory renders them social. In practice, however, SocX only applies the subsidy criterion to transfer payments, not the purchase of services. As a result, while private pensions are included in social expenditure if they are tax-subsidized, spending on housing and medical services is not. In these cases, only the tax subsidy itself is regarded as social expenditure. Other inconsistencies between theory and practice result from the fact that in practice schemes that meet the redistribution criterion are not considered social by the OECD unless they cover risks that are conventionally understood as social. For example, SocX does not include group schemes for travel insurance or life insurance which are subsidized by employers or provided at below-market rates by insurers interested in volume sales.

One of the most important features of the SocX system is that it covers both private and public social expenditure, including private spending that is mandated by governments. However, in practice two important limitations apply. First, the coverage of private social spending is much less complete, and is far more variable across countries, than is the case for public expenditure. Secondly, the way that the OECD draws the distinction between public and private is based on conventions in the fields of national accounting and public finance. Whether spending is treated as public or private depends on the body that manages the flow of funds, not the body that finances them. While in many cases the provider and the financier are the same body, this is not always the case. Public social insurance institutions like Israel’s NII both distribute benefits and collect taxes which finance them. However, pensions received by civil servants, which are traditionally regarded as part of the social security system, exemplify the problem that can arise. Even if a government fully funds a pension plan for its own employees, the resulting benefits are only treated as public expenditure if the pension fund is managed by the government, or else a private financial institution manages the fund but
the government is responsible for any deficit that arises. Thus, for example, when new SocX data become available that reflect the privatization of civil servant pensions in Israel, public expenditure on these will be recorded as zero and they will be treated as a form of private spending.

Another fundamental feature of the treatment of transfer payments is that in any given year the “cost” of a social program is not based on what it costs whoever pays for it, but on how much money is transferred to beneficiaries. This is particularly salient to the area of pensions.

Finally, one of the most intriguing aspects of the SocX system is that it draws a distinction between “gross” and “net” public expenditure – with the difference between the two resulting from the deduction of any government revenues that can be linked to a social expenditure. For example, if transfer payments like child allowances or old-age allowances are taxed, the OECD’s net calculation is based on deducting the resulting income tax revenue from the amount which the government paid out in transfers. Indirect taxation (e.g., sales tax or VAT) is also deducted from the cost of transfer payments to the government, on the assumption that the recipients of cash benefits use them to finance consumption which is taxed. The resulting net calculations narrow the degree of variability in welfare state effort, making even the extreme cases of Sweden and the United States appear quite similar (Adema and Ladaique 2009). This chapter refrains from analyzing net spending because of the distorted impression this could create. The distributional effect of governments “taking back” part of their social spending through taxation depends not only on the extent of the return, but also on the progressivity of the taxes levied.

Methodologically, the OECD relies on local officials to supply it with data in accordance with frameworks devised at the organization’s headquarters in Paris, and there is reason to believe that it cannot always verify the quality and comparability of the information received. Comparability problems are particularly acute when new members join, as Israel did in 2010.
To balance the aspiration of strict comparability with the specificity of each national context, SocX publishes two separate sets of information: one using national concepts and the other based on a comparative framework. The former records the names of the programs underlying the data supplied by each country, and notes major gaps in comparability. In preparing this report everything possible has been done to validate the Israeli data included in SocX, not only by referring to SocX documentation but also by cross-checking its figures against local published and unpublished sources, and obtaining clarifications from the relevant authorities (typically the NII, the CBS, or the Ministry of Finance). For the other countries, SocX documentation has been inspected, comparisons have been carried out between the national and comparative data, and in some cases requests for clarifications were addressed to OECD experts, whose cooperation is gratefully acknowledged.
## Appendix Table 1. **Social Expenditure Categories in the OECD Social Expenditure Database (SocX)**

<table>
<thead>
<tr>
<th>Category</th>
<th>Program</th>
<th>Description</th>
<th>In Israel</th>
<th>Further comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Old-Age</strong></td>
<td>Social pensions</td>
<td>Publicly funded pensions, excl. public employee pensions</td>
<td>Old-age pensions paid by the NII, including income security pensions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Employment-based pensions</td>
<td>Privately funded pensions (employer + employee)</td>
<td>2001 data. No data provided by the OECD. All data taken from the Pensions Department, Capital Markets Division, Israel Ministry of Finance</td>
<td></td>
</tr>
<tr>
<td><strong>In-kind</strong></td>
<td>benefits</td>
<td>Services provided to seniors, not including nursing pensions</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Public</strong></td>
<td>employee pensions</td>
<td>Unfunded or publicly-managed funded pensions for public employees (including military personnel)</td>
<td>In the UK, Sweden, and the Netherlands public employee pensions are paid by privately managed pension funds and are classified as employment-based</td>
<td></td>
</tr>
</tbody>
</table>
## Appendix Table 1. (continued)

<table>
<thead>
<tr>
<th>Category</th>
<th>Program</th>
<th>Description</th>
<th>In Israel</th>
<th>Further comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Family</strong></td>
<td>Child benefits</td>
<td>Universal non-means-tested benefit to families with children</td>
<td></td>
<td>No such benefits provided in the United States. Spain offers an additional, means-tested benefit, included in the next sub-category (“Other”)</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>Maternity/paternity leave, maternity grant, family services (e.g., daycare)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Labor market</strong></td>
<td>Unemployment</td>
<td>Mainly unemployment insurance benefits and severance pay</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Active labor market programs</td>
<td>Programs to encourage employment (e.g., occupational training programs)</td>
<td>Including the Wisconsin Program and programs to encourage employment in special populations (e.g., people with disabilities, new immigrants).</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Appendix Table 1. (continued) Social Expenditure Categories in the OECD Social Expenditure Database (SocX)

<table>
<thead>
<tr>
<th>Category</th>
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<th>In Israel</th>
<th>Further comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Other risks</strong></td>
<td>Survivor benefits</td>
<td>Programs to provide support to surviving family members</td>
<td>Including special benefits to the parents, widows, and orphans of fallen military personnel</td>
<td>In Spain, changes in criteria increased survivor benefits significantly since 2005 at the expense of social pensions; data for the two subcategories are therefore not shown for recent years</td>
</tr>
<tr>
<td></td>
<td>Disability-related</td>
<td>Disability-related benefits, incl. benefits for the handicapped, occupational injury, and rehabilitation and nursing benefits</td>
<td>Including veteran disability programs and compensation for disabled IDF veterans</td>
<td></td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>Income security</td>
<td>Income security benefits for low-income individuals</td>
<td>Income security for special populations (e.g., seniors, surviving family members, etc.) is included in the relevant special categories</td>
<td></td>
</tr>
</tbody>
</table>
Appendix Table 1. (continued)

<table>
<thead>
<tr>
<th>Category</th>
<th>Program</th>
<th>Description</th>
<th>In Israel</th>
<th>Further comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Miscellaneous</td>
<td>In-kind services or low-income individuals and benefits other than income maintenance</td>
<td>Food banks, subsidies on public transport, welfare services, new immigrant rent assistance and grants</td>
<td>Welfare expenditures that do not fit in other categories</td>
<td></td>
</tr>
<tr>
<td>Housing</td>
<td>Public housing and programs of rent assistance</td>
<td>Assistance from Amigur only</td>
<td>US has no such expenditure</td>
<td></td>
</tr>
<tr>
<td>Health</td>
<td>Public Government expenditure on health services</td>
<td>Voluntary supplemental health insurance by statutory or private medical insurers (provided by employers or involving tax benefits)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Private Household expenditures on collectively funded or government-subsidized private health insurance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax benefits</td>
<td>Social tax benefits</td>
<td>Welfare benefits through tax exemptions, deductions, and credits to provide support to certain populations.</td>
<td>No data provided by the OECD. All data taken from the State Revenue Administration, Israel Ministry of Finance (see section on tax expenditures)</td>
<td></td>
</tr>
</tbody>
</table>


References

English


**Hebrew**


Ministry of Finance, Reports of the Pensions Department of the Capital Markets, Insurance and Savings Division, various years.