

PRIORITIES IN THE GOVERNMENT BUDGET¹

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This study shows that Israel's current low level of public expenditure has resulted in a severe decrease in the level of public services provided to Israel's citizens, even beyond the need to finance Israel's exceptional defense expenditure. The study shows a decrease in expenditure on school students in the past fifteen years, parallel to an increase in the developed countries, which has opened a substantial gap to Israel's detriment. Expenditure per student in Israel is less today than in the OECD countries, even though Israel spends more on education (as a percentage of GDP). With regard to healthcare, Israel's situation seems relatively better than the OECD countries, even though the rate of expenditure on healthcare is lower on average than the OECD countries. Israel is able to supply a high level of health services thanks to its young population, which has less need for such services. At the same time, Israel is below the OECD median according to an alternative index of health services to the consumer (standardizing the healthcare expenditure per consumer according to the capitation formula). In any event, trends over the past fifteen years reflect deterioration in the supply of health services. The most striking difference is in the area of welfare. Israel is in 23rd place out of the 28 OECD countries in welfare expenditure (countries with available data). The low place of social insurance in the list of priorities is particularly conspicuous in light of the great inequality that exists in Israel. The low position does not seem to match the Israeli public's preferences as reflected in public opinion surveys.

1. INTRODUCTION

Does Israel invest enough in education? Does Israel allocate appropriate resources for healthcare? Does Israel spend enough on security? These are questions that trouble every Israeli citizen. The aim of this paper is to present the priorities in the government's budget over the past fifteen years from a comparative international perspective. The ability to compare Israel's priorities with those of the other developed countries is a new development

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that has emerged thanks to Israel having joined the Organization for Economic Cooperation and Development (OECD) three years ago.² In the analysis of priorities, this study will integrate Israel's unique characteristics, such as the ongoing conflict with Arab countries, the diversity of the Israeli population and the absorption of immigrants, and will not content itself with a mere comparison of Israel to the OECD average.

The term priorities is common in the public discourse, but it is not always clear what the users really intend. In this study we describe two dimensions of priorities: first, the overall public expenditure from which the overall tax rate is also derived. This dimension reflects a decision on the extent of the government's involvement in supplying a broad range of public services, as opposed to the private alternative. Every expenditure item requires taxes for financing it today or in the future, so that this is also a decision on the overall long-term tax rate.

The second dimension of priorities is the allocation of the government's budget for various purposes such as security, education, healthcare and social insurance that the public desires. Here we will adopt a bird's-eye view: we will compare the importance of a certain purpose, like education, in the list of priorities, but will not discuss the desirable internal composition of the education budget (such as early childhood education versus higher education).

An examination of the priorities will include all the expenditure items of the general government, something that ensures intellectual discipline that is not always evident in the public discussion. One sometimes gets the incorrect impression that it is possible to simultaneously place a large number of goals at the top of the list of priorities. But, as every football supporter knows, only one team can be at the top at a given time. It is only natural that the discussion on priorities comes up against the public's diverse views. On an election day, the public splits into parties, among other things, according to the list of priorities that each party proposes.

An analysis of priorities, as reflected in practice in the government's budget, makes it possible to lay the foundations for a discussion on the big question: is the Israeli taxpayers' money being allocated to promote those purposes that contribute to social welfare? This paper will attempt to wrestle with the more difficult question: what is the desirable composition of government expenditure in Israel? This investigation will be undertaken on the basis of an in-depth survey that examined the Israeli public's attitudes, which enables us to compare priorities in the government budget with the public's worldview.

² The use of the term "developed countries" is a linguistic approximation indicating that most of the countries in the OECD are developed. The OECD includes countries that are richer and more developed than Israel, but also countries whose per capita GDP is far less than Israel's, such as Mexico and Turkey. We feel that comparison to all the OECD countries is preferable to a selected group of countries within the OECD. Nevertheless, we will present a comparison of aggregate expenditure with the OECD as a whole, as well as with selected countries.

2. PRIORITIES IN THE (BROAD) GOVERNMENT'S BUDGET – A FIFTEEN-YEAR VIEW

a. Methodological comments

This study focuses on priorities that are reflected in the government's expenditures. The size of the resources is the major way of examining whether the government attributes importance to achieving a certain goal. At the same time, the government can achieve goals by means that do not necessarily have budgetary implications. Regulation is an additional means at the government's disposal for reaching desirable goals. Thanks to regulation, the government has a large impact, for example, on pension savings, as a result of imposing an obligation on the employer and the employee to allocate part of salaries for pensions.

The government also uses the tax system to express the importance it attributes to a certain purpose. The government can increase a person's income by providing financial support, which will appear on the expenditure side of the state budget, or by means of tax credits, which do not appear in the state budget. The analysis of priorities only on the basis of government expenditures provides an incomplete picture, because of the other means the government has at its disposal, as mentioned, such as regulation and the tax system. This disadvantage we will leave to others to elaborate.

The allocation of public resources is a necessary, but not sufficient condition for achieving a certain goal. The ability to reach the goal is dependent to a large extent on the functioning of the institutions that are meant to translate the financial inputs into social outputs. This study focuses on the allocation of the inputs and does not examine the effectiveness of government bodies in translating financial resources into achieving national goals.

In order to examine the changes in priorities that have taken place over time, it is necessary initially to answer the following questions: Which variables represent the priorities in the budget? What is the index for comparison over time? For what time period are the changes examined? Which public bodies are included in the term "government"?

(i) The reflection of priorities in the budget

Alternative viewpoints exist according to which one can judge the government's priorities as they are reflected in the budget. Because of space limitations, this study will not include an examination of priorities according to individual incidence of government expenditure. A classification of public expenditure according to individual incidence, that is to say, personal characteristics of the country's residents, is an acceptable way of examining the government's priorities. This approach compares the resources given from the state budget to one group in the population versus another—such as expenditure on education in the Jewish sector versus the Arab sector, healthcare expenditure on a resident in the center of the country compared to the periphery, tax credits to males as opposed to females, the tax on the wealthy versus the poor, or allowances to the ultra-Orthodox as opposed to the non-ultra-Orthodox. It is only natural that the demand for this type of classification has grown, particularly in a sectoral society, parts of which are in conflict.

It is easier to undertake a classification of this kind for public services that are consumed personally, such as an allowance, but it is difficult, if not impossible, to categorize public expenditure that is consumed collectively, such as security and public order. In reality, even a public expense that is consumed personally could bring benefit to others, which makes it difficult to correctly classify public expenditure according to personal characteristics. A person who obtains a flu vaccination free of charge not only reduces his own chances of contracting the illness, but also of those who did not receive the vaccine. A similar argument can be made regarding expenditure on education (particularly primary education), even if it is consumed personally. As we said, this study will not examine priorities according to personal incidence.

The division of the government's budget by economic categories is perhaps the most widespread way of expressing priorities, and is featured in all the economic publications in Israel and worldwide. The classification of government expenditure for current consumption and for investment appears in all the publications of the international institutions, such as the Organization for Economic Cooperation and Development (OECD), and local statistical bodies, such as Israel's Central Bureau of Statistics. A classification of this kind is ostensibly meant to provide information on allocation in favor of present needs (government consumption and current transfers), as opposed to allocating sources in favor of future needs (government investment).

This distinction, however, is essentially artificial, because government consumption also includes investment in the accumulation of human capital.³ The allocation of sources for building roads, which is likely to potentially increase the sources at the disposal of future generations, is considered an investment, while the investment in education, which is also expected to broaden the sources at the disposal of future generations, is not defined as investment. The economic classification of government expenditures, therefore, does not do a good job in reflecting the extent of investment in the present generation as opposed to future generations.

Even though the classification of public expenditure on consumption and investment continues to appear in all the publications, it is hardly ever used to examine priorities. A classification of government expenditure according to the purpose of the public expenditure has, to a large extent, replaced the artificial classification of consumption and investment as an appropriate way of reflecting priorities in the government budget. In this version, the resources allocated are examined according to the goals that the government wishes to achieve, such as security, education or health. This study adopts this classification of public expenditure as a major way of examining the priorities of the Israeli government.

(ii) The index for comparing over time

Comparing priorities in the government budget according to the resources allocated to each goal at two points in time necessitates choosing an index from the multiplicity of possible indices.

³ This division was appropriate for an era in which economic growth was driven mainly by the accumulation of physical capital.

The natural tendency is to use the share of a certain expenditure item in the budget as an index of importance. This study does not use this index because it is insensitive to the size of the budget. This disadvantage becomes significant especially in the event of considerable changes in the size of the budget, as happened in Israel during the study period. To demonstrate the above, assume that the overall state budget at the start of the period is 400, and is divided equally between two uses only: half to health and half to education. If the overall budget is cut to 200 without changing the weight of health and education, the share of health (and education) in the overall budget will show stability in priorities, even though the budget for each has been cut by 50 percent.

The disadvantage of the use of the budget share is also relevant for international comparison. The substantial differences in the size of overall expenditures between South Korea and Denmark, for example, disqualifies the use of the share-of-the-budget index as a way of reflecting priorities. The budget share will obscure the essence if we compare these countries, because if the two countries spend an identical percentage of the budget for a specific purpose, then in reality Denmark spends double the amount from the national income for that specific purpose. This exercise shows that the share of a particular expenditure in the budget is not sensitive to the size of the budget, and this is its great disadvantage. Because of this disadvantage we have not used the budget share in this study to reflect priorities.

This study also does not use the real per capita public expenditure at two points in time to examine whether the government has increased or decreased resources for a specific purpose, such as education. This index is appropriate for an economy that is not growing, or for comparing between two close time periods during which the economy expanded slightly. An index of this kind is less suitable for comparing over a decade or more, because it does not reflect the relative importance that is measured according to the weight of the specific purpose in the sources.

The weight of the expenditure for a specific purpose in the GDP (or the national income) is one of the most frequently used indices for comparing over time and between countries. The weight of the expenditure in the GDP has an advantage in international comparison of priorities, because it is free from the need to translate each country's expenditure into a uniform currency. This index is also appropriate for comparing priorities between households.

(iii) Agencies included in the term "government"

Public services in Israel and other countries are supplied not only by the central government, but also by other public agencies such as the local authorities and public non-profit organizations. Looking at the priorities as they are reflected only in the state budget is liable to give a distorted picture of reality. On the expenditure side, the state budget constitutes only about half of the government's broad activity in relation to the public.⁴ Substantial differences exist between countries and over time in the importance of local government in supplying

⁴ 2009 Bank of Israel Annual Report, Statistical Appendix, Receipts and Expenditure of the Components of the General Government, 1988-2009 (Table F-Appendix 9 [1]).

public services, and a comparison of priorities in only the central government budget is subject to a significant bias.

An examination of priorities solely on the basis of central government data raises a further difficulty in the Israeli context. The classification of expenditures in the state budget does not follow the accepted rules of data-collecting agencies such as the Central Bureau of Statistics. The Ministry of Finance is an executive body, and as such is not always strict about basic statistical rules. Thus, for example, the classification of expenditures according to purposes is not always uniform over time, which makes it difficult to make a useful comparison. Furthermore, the Ministry of Finance faces the temptation of classifying expenditure according to considerations that are likely to serve it in determining policy.

This study will present the priorities as they are reflected in the expenditure of the general government, which includes the central government, the local authorities, public non-profit institutions like universities and health maintenance organizations (HMOs), the National Insurance Institute, and the National Institutions.⁵

b. Major developments in the past decade

The study will focus mainly on the changes that have taken place in the distribution of general government expenditures by purpose over the past fifteen years. The decision to focus on the recent period is due mainly to the change in perception regarding the desirable extent of government involvement in the economy. The economic program that was introduced in 2003 constitutes an important marker in the realization of the new perception. Limiting the discussion to the recent period is also a function of the fact that the development of the scale and composition of government expenditure in earlier periods has been dealt with extensively in other studies (Ben-Bassat, 2001; Zeira et al., 2009). A further important consideration is the availability of comparative data with other developed countries. In the wake of Israel's joining the OECD in 2010, data on the Israeli economy became part of the OECD's database. This development enables us to compare Israeli data to that of other developed countries according to the same definitions, but only from 1995 onward.

The OECD records the expenditure items according to the same rules for all the countries, including Israel. These rules differ to some extent from those of Israel's Central Bureau of Statistics (hereinafter: CBS), and thus a gap is created between the data published by the CBS and the data on Israel in the OECD databank. The OECD includes nominal (as opposed to real) interest, and gross (as opposed to net) purchases in public expenditure, and does not include depreciation. In recent years, the share of public spending in Israel according to the OECD data is about 2 percent of GDP higher than the share of public spending published by

⁵ The term "National Institutions" refers to the World Zionist Organization, the Jewish Agency for Israel, the Keren Kayemeth LeIsrael – Jewish National Fund and Keren Hayesod. These Institutions played a fundamental role during the period prior to the establishment of the State of Israel in 1948. While their role had lessened after 1948, they continue to provide public services, especially in the absorption of Jewish immigrants in Israel.

the CBS, the most salient difference being in two items: healthcare expenditure and general public services (which includes interest expenses).

Because of these differences, this section will describe the priorities over time according to the CBS data, while in the next section we will describe the priorities over time and from a comparative international perspective according to the OECD data. It should be emphasized that the trends according to the two data sources are similar, but differences exist in intensity, as will become apparent in the following section.

(i) Overall public expenditure

The most salient development in the past decade is the decrease in overall government spending from 2003 onward. The worldview that supports a reduction in government involvement is reflected not only in words but also in actions. Overall government spending was relatively stable from 1995 to 2003, but since then, over a relatively short period, government spending has decreased by about 7 percent of GDP (Table 1). This decrease is equivalent in size to all of Israel's spending on education, and attests to the magnitude of the change that has taken place over the past decade.

Since 2003 government spending has decreased, encompassing nearly all components. It can be said that the decrease in government spending was divided roughly equally between interest payments on government debt, defense spending, and social spending (education, health, and social insurance). Each of these contributed a third. While the decreased weight in defense spending and the decrease in interest payments on debt constitute a continuation of the trends originating in the economic stabilization program of 1985, the decrease in social spending, and particularly assistance to the poor population, is something new.

(ii) Education, health and welfare services

Education spending (as a percentage of GDP) at the end of the review period is about 8 percent less than in 1995, with the decline starting in 2003. The weight of healthcare expenditure in GDP is also less today than it was in 1995, but here the decrease began at the end of the 1990s and accelerated since 2003. Healthcare expenditure (as a percentage of GDP) is about 11 percent less than in 1995.

Welfare spending is spread over several budget items, the main one being social security and social assistance. The accepted classification of government expenditure according to purpose does not provide a complete picture of the development of assistance to the weak population. The social security and social assistance item includes components that are only weakly connected to assistance to the poor population, and does not include expenditures such as subsidizing basic commodities and encouraging employment in the periphery, which are included in economic services and in housing. Expenditure on social insurance and social assistance includes transfers for actuarial balancing of the pension funds, and expenses connected to security, such as pensions to standing-army personnel and grants to demobilized soldiers (Table 2). Despite this, these expenses are included in this item because of the accounting rules according to which every financial transfer from the government to households is recorded as social insurance and social assistance.

A better estimate of the scale of assistance to the poor population can be obtained if we deduct from the social security and social assistance item the expenditure that is not connected to the poor population, and add the expenditure for economic services and housing. Table 2 shows that there has been a substantial decrease in the scale of assistance: expenditure dropped from 14.5 percent to 12.4 percent of GDP between 2003 and 2009.⁶

Another way of viewing the development in welfare is to tally all the civilian spending items without interest, education and healthcare (which were covered previously). Civilian spending on welfare includes social insurance and social assistance, housing and community, economic services, religion and culture, and environmental protection. The intensity of the decrease in welfare spending is similar to that which we saw in healthcare—a decrease of 12 percent compared to 1995. This decrease reflects a slight increase in social security and social assistance spending (which is connected, as described above, to the nationalization of the pension funds and not the allowances), and a sharp decrease in subsidies for basic commodities and for creating employee posts. In the area of welfare as well, 2003 was the year in which the drastic cuts were instituted.

For the purpose of this study we built three additional aggregate indices for education, healthcare, and welfare that are meant to give another view (different than the share of the spending in GDP) of the development of the level of services in each of these three areas. The share of spending in GDP provides information on the extent of importance of the specific area in the list of priorities according to the (average) tax rate of the national income that is required in order to finance it. This index, however, does not provide information on the quality of the service that Israeli citizens receive. For example, the quality of educational services is likely to change even if the share in GDP of the public spending on education remains stable, for instance because of changes in the demographic composition of the population.

For this reason we also used the ratio between education spending and the percentage of children aged 0–14. This ratio is approximately equivalent to the expenditure per student relative to per capita GDP, and provides an additional dimension of the place of education in the list of priorities. This index is sensitive both to changes in the sources at the disposal of the economy, and to the demographic composition of the population. According to this index, the importance of education decreases in the list of priorities even if the spending per student remains stable in the situation in which per capita GDP increases (or, alternatively, when the spending per student decreases while the per capita GDP remains constant).

Likewise, a parallel index was calculated for the healthcare services, equal to the share of healthcare spending in GDP divided by the percentage of people aged 65+ in the population. This index is equal to the health expenditure for the elderly divided by the per capita GDP. The use of this age group is intended to reflect the more intense use of healthcare services by the elderly. In practice, the division of resources in the Israeli health system also recognizes the elderly population's greater need for healthcare services. According to the capitation formula in Israel, which is used to calculate the budgets for the HMOs, a person above age 65

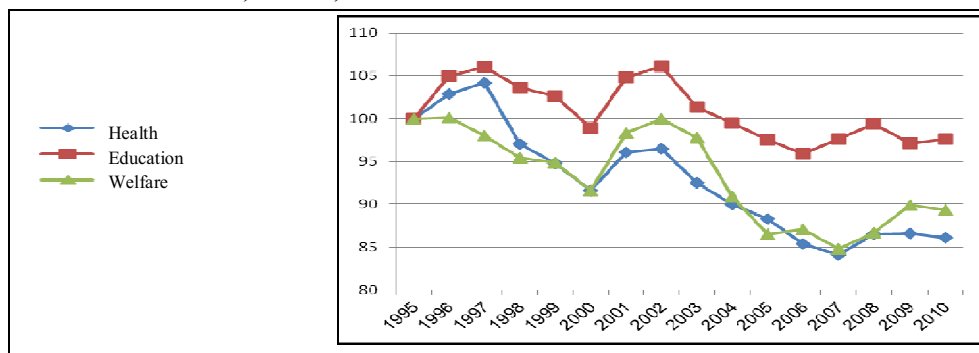
⁶ Lack of data does not enable us to make the calculation for 2010.

credits the HMO with an average budget 3.8 times greater than people under 65 (including babies).⁷

Finally, we also constructed a similar aggregate index for welfare services (including social insurance and social assistance, housing and community, economic services, religion and culture, and environmental protection) that is equal to the share of welfare spending in GDP divided by the (simple) average of the percentage of people aged 65+ in the population, and aged 0–14.⁸ This index is an estimate of the relationship between welfare expenditure for the needy and per capita GDP. Note that it is sufficient to use the share of welfare expenditure in GDP, which is the index already presented above, if the welfare expenditure is distributed uniformly among the different age groups in the population.

Figure 1 shows that throughout the review period the health services index (healthcare expenditure on the elderly as a percentage of per capita GDP) fell at a greater rate than the share of healthcare expenditure in GDP, a result of the aging of the population. Against this, the decrease in educational services (spending per student as a percentage of per capita GDP) was far more moderate than the contraction in the share of education spending in GDP, thanks to the decrease in the share of the young population in the past fifteen years. Welfare expenditure was adversely affected in a similar way according to the two indices. The developmental course over time of the three services seems to be similar: a decrease from 1995 to 2000, an increase between 2001 and 2002, and then a sharp decrease that was curbed around 2007. There has been an improvement in the three areas during the past three years, but the health index and the welfare index are still far from their level of fifteen years ago.

Figure 1
Indices of Education, Health, and Welfare Services



SOURCE: Central Bureau of Statistics and authors' compilations.

⁷ The capitation coefficient starts at 1.55 for babies up to 12 months, decreases to 0.4 for people aged between 15 and 24, and climbs to 4.06 for people above age 85.

⁸ Welfare payments to the elderly constitute close to half of the social insurance budget. For the purpose of sensitivity analysis, the welfare expenditure index relative to GDP was also calculated on the basis of the weighted average of the 65+ population (with a weight of two-thirds) and the 0–14 population (one-third). The welfare services index falls even further (2 percentage points) if the weight of the elderly in the needy population is increased.

The education index was calculated as the weight of education expenditure in the GDP divided by the weight of the population aged 0–14. Similarly, the health index is equal to the weight of health expenditure in the GDP divided by the weight of the population aged 65+. The welfare index was also calculated as the ratio of the weight of welfare expenditure in the GDP (see the definition in the text) to the average weight of the population aged 65+ and 0–14 in the population.

The three indices were standardized to 100 in 1995 to facilitate comparison between them.

3. A COMPARATIVE INTERNATIONAL LOOK AT PRIORITIES: ISRAEL AND THE OECD COUNTRIES

This section aims to examine the extent to which Israel's priorities are similar to those of other developed countries. The extent of overlap or lack of overlap does not attest to desirable or undesirable policy. The examination is intended to provide a background picture to the discussion in the following section on the more crucial question of the extent to which the priorities are compatible with the needs of Israeli society and the economy.

In the past year, thanks to Israel having joined the OECD in 2010, it has been possible for the first time to use a uniform basis of definitions to compare priorities in Israel to those in the OECD countries according to actual expenditure of the general government over the past fifteen years. In light of the findings in Section B, in which we saw that government spending decreased by 7 percent of GDP from 2003 to the present, the emphasis in the comparison will be on Israel's situation at the end of the decade compared with the period up to 2003. Table 3 presents a view of priorities in Israel versus those in the OECD.

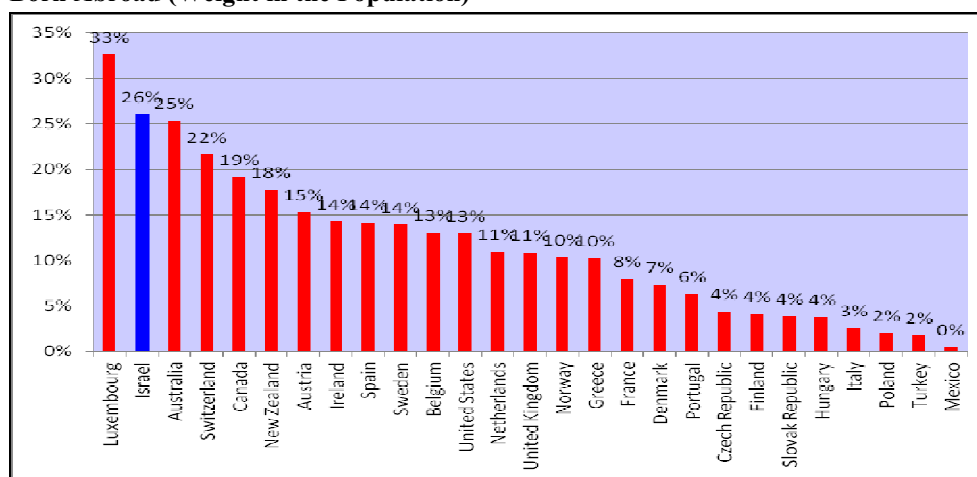
The reason for comparing the size of government spending and its composition in Israel to the club of developed countries is due, first and foremost, to the similarity in the level of economic development. Israel's per capita GDP is around 90 percent of the average per capita GDP in the OECD countries, as of 2007. The logic of the comparison arises from the growing need, in times of globalization, to maintain Israel's competitive ability against its major competitors, most of which are OECD countries (Israel competes less with developing countries). The size of government spending relative to GDP is the index that best represents the long-term tax rate required to finance these expenditures. The size of government spending creates two conflicting effects on a country's competitiveness vis-à-vis its competitors: an adverse effect because of the tax rate, and a positive effect by virtue of the scale of investment in physical and social infrastructure.

Comparing the size and structure of government spending in Israel against the OECD countries also reflects the position that the average in the developed countries is an expression of collective wisdom that should be taken into account. There is nothing sacred in the average of the OECD countries, but it serves as a benchmark that begs examining the justification for a significant deviation, if such exists. Substantial differences exist between countries regarding the extent of government involvement and the composition of the government's spending, which are likely to arise from a multiplicity of factors, such as differences in demographic composition, differences in the level of economic development,

or gaps in worldviews concerning the desirable extent of government involvement in the economy and the method of intervention.

An analysis of the composition of government spending in Israel has to take into account the factors that set Israel apart from other countries. Three major factors characterize Israel and will receive attention in investigating Israel's priorities: the ongoing struggle with the Arab countries, which necessitates a high level of defense spending and intensifies the tension between parts of the population, especially between the Arab and the Jewish populations; a country of immigrants, most of whom originated in countries with a low level of economic development (after Luxembourg, Israel has the highest percentage of people born outside the country in the club of developed countries (Figure 2)); and the large cultural diversity that is characteristic of Israel, with two populations (Arabs and the ultra-Orthodox) that are characterized by a high birthrate and a low rate of participation in the labor force. These three characteristics have a decisive effect on the structure of Israel's public spending.

Figure 2
Born Abroad (Weight in the Population)



SOURCE: OECD.Stat.

The share of overall public expenditure in Israel's GDP in 2009 was lower than most OECD countries, despite Israel's relatively heavy spending on defense (Table 4a).⁹ Removing or including the countries that in the past were part of the Communist bloc hardly changes the comparison regarding Israel. As such, the following discussion is based on the OECD average including these countries. Israel occupies an even lower place in the table of developed countries if we deduct defense spending from the overall expenditure (OECD,

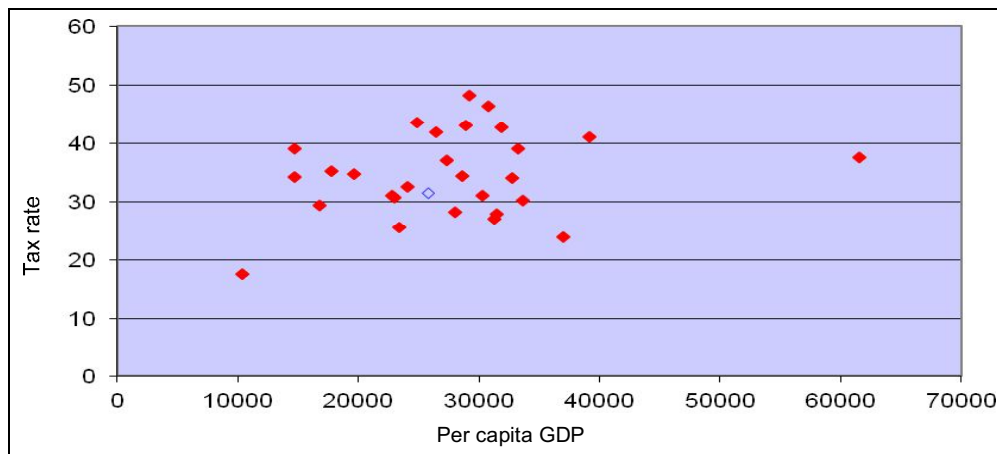
⁹ The weight of public expenditure in GDP in relation to Israel is not identical to the previous section, because, as mentioned, the OECD uses different recording rules than those of Israel's Central Bureau of Statistics. The weight of public expenditure in Israel according to OECD data is about 2 percent of GDP higher than that published by the CBS. Bear in mind that the OECD data regarding Israel are not reliable for the years prior to 1998.

2010, p. 65). Israel's low place in 2009 is affected, however, to some extent by developments connected to the global economic crisis. Compared with Israel, the share of public spending in GDP in the OECD countries rose during the crisis, both because of the more severe blow to GDP and because of the substantial fiscal expansion that was intended to deal with the crisis. At the same time, Israel remains in the lower part even if we assume that this increase in the share of public expenditure in the GDP of the OECD countries is transitory.

The intensity of the process of reducing the size of government spending relative to GDP, which we saw in the previous section, is also conspicuous in comparison with the development of government spending in the OECD countries (Table 4b). At the end of the 1990s government spending in Israel was 5 percent of GDP higher than the OECD average, and this gap was closed in 2008. The marked decrease in government spending since 2003 reflected to a large extent a change in perception of the desirable extent of government involvement in the economy (Dahan, 2011).

It could be claimed that Israel's level of spending reflects difficulties in collecting taxes, and that this is why Israel's level of per capita GDP is relatively low compared to other developed countries. As Figure 3 shows, there is no clear connection between the level of per capita GDP and the tax rate among the developed countries. Even though earlier research confirmed the existence of this connection, it is only significant when the developed and the developing countries are lumped together. The claim that the source of the low level of public services lies in high collection costs does not obtain significant support in the OECD data.

Figure 3
The Tax Rate (%) and Per Capita GDP (US dollar) in Developed Countries



Y-axis: Tax Rate; X-axis: Per Capita GDP

SOURCE: OECD.Stat.

Note: The uncolored point represents the Israeli data.

An examination of the overall cost of taxation (collection cost and deadweight loss) from a comparative international viewpoint requires separate research. Nevertheless, in order to examine whether there is any clear indication in Israel of particularly high collection costs, we used an accepted measure of the effectiveness of tax collection that measures the connection between the statutory tax rate and the percentage of taxes collected in practice (income tax revenues relative to GDP). This index is meant to indicate difficulties in tax collection if a wide gap exists between the legally defined tax rate and the collection of taxes in practice, and shows that Israel is not exceptional in this regard.

Furthermore, the development described in this study is that Israel has reduced its social services in tandem with moving from a high to a low tax rate. This is consistent with the view that the decrease in services does not reflect the government's failure to collect taxes, but rather is the outcome of public policy. We should note, however, that a decision of this kind could still be a consequence of the high costs of tax collection.

The division of government spending at a level of detail of ten goals is used in this study to examine priorities in Israel compared with the developed countries. The study fully presents the development over time of each of the ten spending items in Israel and the average in other developed countries, as well as a comparative look at these countries in 2009. With regard to public order, environmental protection and general public services (which include mainly interest payments), spending in Israel and its development over time are not substantially different from those in other developed countries (Table 4a). For this reason, we will focus on four areas: defense, healthcare, education, and welfare.

a. Defense Spending

The geopolitical situation is one of the salient characteristics that differentiates Israel from most of the other developed countries. The ongoing conflict between Israel and its neighbors, which began even before the state was established, requires considerably higher defense spending than that of the OECD countries. Following the Six Day War in 1967, Israel's defense spending jumped from 7 percent of GDP to 20 percent, and in the wake of the Yom Kippur War in 1973 it rose to more than 30 percent of GDP. This not only had a profound effect on the standard of living, but also led to a severe fiscal crisis, so that by the mid-1980s Israel was on the verge of bankruptcy. In the wake of the peace agreement with Egypt, which was signed and implemented from 1978 to 1985, defense spending contracted from a level of 20 percent of GDP in 1985 to its current 6.5 percent. Even with the substantial decrease in defense spending, Israel spends significantly more than other developed countries, which allocate only about 1.5 percent for this purpose (Table 4a).

Israeli citizens did not, however, bear the full brunt of the defense spending burden. American civilian and military assistance, which began in smaller amounts in 1949, became significant only after the Yom Kippur War. Cumulatively, the military grant reached more than 50 billion dollars by 2006, and the civilian grant reached more than 33 billion dollars.¹⁰ In addition to the assistance from the US government, Israel has received large amounts of

¹⁰ In addition to the grants, Israel was also given large amounts of surplus equipment, as well as R&D funds (Bart, 2007).

money over the years from Diaspora Jewry, which helped to bear the fiscal burden of absorbing the waves of immigration and financing the confrontation between Israel and its neighbors.

The scale of the assistance from foreign governments and Diaspora Jewry (transfers to public institutions) in recent years has been about 2 percent of GDP, which has enabled Israel to partially finance its surplus expenditure for security needs. However, assistance to other countries is one of the characteristics of a developed country. In this respect, Israel is exceptional, particularly in the scale of the assistance it receives. Developed countries generally allocate about one percent of GDP to external assistance, while in contrast, Israel is on the receiving end. Mexico, whose level of economic development is substantially lower than that of Israel, is in second place among OECD countries (after Israel) in the list of countries obtaining external assistance.

Surplus defense spending after deducting external assistance is estimated at about 2 percent of GDP.¹¹ This expenditure has to be financed by imposing surplus taxes on Israeli citizens or by reducing civilian spending for educational, healthcare, and welfare services, if the government wishes to maintain a similar average tax rate to that of other developed countries. This is the essence of the decision about priorities: Who will bear the burden of the surplus defense spending? As presented above, the share of overall public expenditure, which represents the long-term tax rate, has reached a lower level than the average of OECD countries. The overall tax rate in practice is also lower in Israel than in other developed countries.¹² The lower spending and tax rate necessarily dictate lower civilian spending compared with those countries, even more than would be required for Israel's surplus defense spending (after deducting the external assistance).

b. Healthcare Spending

The share of spending on healthcare (as a percentage of GDP) is lower in Israel than in the OECD countries. In 2008 the share in Israel was about 5.5 percent of GDP, while the OECD average was 6.4 percent of GDP (Table 4a). However, the need for healthcare services is significantly dependent on the age structure. Israel is a young country, and therefore needs to spend less than a country with a large percentage of elderly people. The percentage of people aged 65+ in Israel is slightly less than 10 percent, while the OECD average is about 13 percent (Table 5a). Only Turkey and Mexico have a lower percentage of elderly than Israel.

As opposed to educational services, which are provided to a defined age group, healthcare services are consumed by the population as a whole, but more intensively by the elderly population. For this study we built two estimates of the level of healthcare services: one according to the ratio of the share of healthcare spending to the percentage of people aged 65 or more in the population, as we did in the previous section; and the other according to the ratio of the share of spending on healthcare to the weighted index of population composition

¹¹ The surplus expenditure is the difference between Israel's security expenditure (6.5 percent of GDP) and that of other developed countries (1.5 percent of GDP) and after deducting the external assistance that the public sector in Israel obtains (2 percent of GDP), as well as the assistance given by other developed countries (one percent of GDP).

¹² OECD.Stat, 7/2/2011.

as per the weights of the capitation formula used in Israel. It is easy to see that the first estimate is equal to the healthcare spending for the elderly (in percentages of per capita GDP). However, this index does not reflect the healthcare services that the elderly receive. The choice in this estimate reflects the considerable differences in the consumption of healthcare services. The elderly consume healthcare services far in excess of their share in the population. This index should therefore be seen as the upper limit, since healthcare services are provided to the population as a whole. The lower limit is the share of healthcare spending in GDP, which assumes that healthcare services are consumed uniformly by all age groups in the population. Between these two limits is the index of healthcare spending according to the weights of the capitation formula.

The two indices of the level of healthcare provide a mixed picture of the place of healthcare in Israel's priorities compared with those of the developed countries. According to the index of healthcare spending for the elderly, Israel is above the average of OECD countries, while according to the standardized healthcare expenditure in terms of the weights of the Israeli capitation formula, Israel is slightly below the average (Table 5b). Healthcare enjoys a relatively high position in the priorities if judged according to the index of expenses per elderly person. Support for this can be seen in the achievements of the Israel healthcare system relative to other countries according to aggregate indices such as life expectancy and infant mortality rates. In any event, Israel attributes far more importance to healthcare than what is implied in the share of healthcare spending in GDP. The gap between the indices reflects the fact that Israel has a young population relative to the other developed countries, and can therefore provide a higher level of healthcare services with a smaller share of healthcare spending. Nevertheless, both indices offer a similar picture of the deterioration over time in the level of healthcare services that the Israeli public sector provides relative to other developed countries.

In the course of the study it emerged that the central database of the Organization for Economic Cooperation and Development (OECD.Stat) shows a higher level of Israel's healthcare spending (as a percentage of GDP) compared with the data on Israel in the OECD health report (Table 5).¹³ According to the health report data, the level of healthcare services in Israel—measured according to healthcare spending for the elderly as a percentage of per capita GDP—was significantly higher than the average of the other developed countries at the start of the period, but decreased sharply in the past decade. Following this decrease, Israel is closer today to the OECD average according to the index of healthcare spending for the elderly (as a percentage of per capita GDP).

c. Education Spending

Israel spends more on education than most of the developed countries. The share of education spending in Israel was about 7 percent of GDP in 2009, compared with 6 percent of GDP for that year in the OECD countries (Table 6b). Even though the share of education spending in

¹³ The health report data are closer to the data on public expenditure on healthcare of the Israel Central Bureau of Statistics. Some of the gaps are a result of differences in definitions of public expenditure that were described previously.

GDP in Israel is high, Israel's population is far younger than that of other developed countries, second only to Mexico in the share of its younger population and is even slightly younger than Turkey. About 29 percent of the Israeli population is aged 0–14, as opposed to about 19 percent in the OECD (Table 6).

As explained above, the share of spending in GDP provides information about the cost (tax burden) required to finance government activity in a particular area. This is an index of priorities in that it represents the share of the sources that a certain society is prepared to allocate for a specific purpose. At the same time, the index does not really reflect the level of potential services for citizens because of possible differences in the population composition, which is particularly true for Israel. The actual level of services is also affected by the extent of efficiency in translating budgets into outputs, a factor that is not dealt with in this study.

In the area of education, it is usual to use the expenditure per student in education divided by per capita GDP as an index of priorities.¹⁴ This calculation represents the level of potential educational services that the government provides relative to the overall sources in the economy. This index is not necessarily preferable to the share of spending on education in GDP, and should be seen as a complementary index. This index is actually equal to the ratio of the share of education spending in GDP to the percentage of students in the population. This index would produce an identical result from the viewpoint of priorities as would the share of education spending in GDP were the percentage of students in the population identical in all countries.

According to the OECD's education report, spending per student relative to the per capita GDP in Israel is lower in primary and secondary education, and higher in post-secondary education than in the rest of the developed countries (Table 6). This index of priorities places Israel in a far less complimentary position than the previous index that was based on the share of education expenditure in GDP. We can also see deterioration over the past decade in the spending per student relative to per capita GDP, particularly in post-secondary education. In the course of the study it emerged that the share of education spending in Israel's GDP in the OECD education report was lower than the share of education spending in GDP that was found in the OECD's central database (OECD.Stat).

To maintain consistency, we also built an aggregate index for educational services, which is equal to the share of education spending in GDP divided by the percentage of children aged 0–14, according to the data of OECD.Stat, which, as we said, indicated higher education spending. This index is (approximately) equal to the spending per student relative to the per capita GDP. The index gives an overall picture of the development of educational services without differentiating between primary and secondary education. According to this index, the spending per student in Israel (as a percentage of per capita GDP) was slightly below the average level of the developed countries up to 2002, but since 2003 it has deteriorated, and is today significantly lower than the OECD average (Table 6b). The deterioration in educational

¹⁴ This study does not use expenditure per student (quoted in uniform currency) for comparing priorities between countries, because of the gaps in per capita GDP. One cannot draw conclusions about differences in priorities by comparing, for example, a rich country such as the United States that spends more on education in dollar terms than its poor neighbor Mexico.

services would be even more severe were the aggregate index for educational services calculated on the basis of the OECD's education report.

The Israeli population is unique not only in its demographic composition, but also its national-ethnic composition, which has implications on the allocation of resources for education. Israel administers several parallel educational systems that are conducted in a different language and even with a different curriculum. It is difficult to estimate the additional cost that the diversity of the educational system entails (not to mention the question of whether the diversity is desirable). The difficulty is magnified when it comes to comparing with other developed countries. Israel is not the only country that is required to allocate additional resources because of diversity; other developed countries, like Belgium and Switzerland, also maintain educational systems in different languages.

Because of the additional cost required to absorb new immigrants and the children of new immigrants in the educational system, the quality of educational services that Israeli citizens receive is lower than in a country that has the same level of spending per student (as a percentage of per capita GDP) and the same level of efficiency. At the same time, it is unclear how much extra Israel has to pay compared with other developed countries.

Because of the surplus costs arising from the ethnic-national composition and the absorption of immigrants, Israel's situation is worse than what emerges from the indices described above. We do not, however, have an assessment of how far Israel's position would drop were these two factors taken into account.

No systematic research has thus far been conducted to explain why Israeli children score poorly on international comparative tests. Possibly the educational system does not make the best use of the resources at its disposal (Ben-Dor, 2003), but perhaps these low scores are also the result of the diversity that "eats up" resources that other countries are able to devote to improving the quality of educational services.¹⁵

In summary, the two indices of priorities in education give a conflicting picture. According to the share of education in GDP, Israel is in a high position, while according to spending per student as a percentage of per capita GDP, Israel falls to the bottom of the developed countries.

d. Social insurance and social assistance

In judging according to the scale of government resources allocated to social insurance in comparison with the developed countries, Israel's priorities occupy a conspicuously low position. In 2008 Israel spent about 11 percent of GDP on social insurance, compared with about 16 percent of GDP in the developed countries (Table 4b). The gap to Israel's detriment grew significantly in 2009 due to expenditures the OECD countries allocated to deal with the global economic crisis, which may be only transitory.

In fact, social insurance is in an even worse position in Israel's priorities, seeing that this item includes expenditure arising from the security situation (such as grants to demobilized soldiers and benefits for bereaved families). On the other hand, it does not include

¹⁵ The surprising finding is that no firm connection has been established between spending per student and the scores on the international comparative tests.

expenditure items such as subsidies on basic commodities and encouraging employment in the periphery, which, as mentioned, are included in general services and in housing (Table 4). Table 4b shows that the gap to Israel's detriment grew to 7 percent of GDP, according to 2008 data, if we compare the overall welfare spending (social insurance, economic services, and housing and community).

As opposed to education and healthcare spending that is consumed mainly by two age extremities, direct financial assistance is given to all age groups: old-age allowances for the elderly, child allowances for families, unemployment benefits to the population of working age, and disability benefits for all ages. In order to estimate the generosity of the direct assistance to the needy, we calculated the child allowance relative to per capita GDP, the maximum number of days that an unemployed person is entitled to unemployment benefits, income-maintenance allowances relative to per capita GDP, and old age and survivors' payments for the elderly.¹⁶ Israel is below most OECD countries on the first three indices, and close to average on the index of old-age payments (Dahan, 2011).

(i) Inequality

Are there any grounds for the relatively low level of social insurance in Israel? The level of inequality cannot justify a low level of social insurance. Inequality in Israel is significantly higher than the average in OECD countries. The average Gini index of inequality in net income over the years 1999-2010 was 0.374 in Israel, as opposed to the OECD average of 0.316 (OECD, 2008). Only Mexico and Turkey have higher inequality than Israel.

The fear that greater assistance to the weak population will lead to an increase in net inequality because of negative incentives is unfounded. A statistical analysis of the data at our disposal showed a negative correlation among the developed countries between the dimensions of inequality in net income and the extent of assistance (Table 7). The negative correlation remained unchanged even when we control for per capita GDP and demographic composition. This finding is not self-evident. Assistance to the weak population creates two opposing effects on households' net income: While an allowance increases income, it acts at the same time to reduce the incentive to work with a consequent reduction in net income. The negative correlation between the share of welfare spending and inequality in net income hints (but does not prove) that the assistance increases the disposable income of the poor population even taking into account the negative effect of the allowance on the desire to work.

The deliberate use of the term "correlation" is a result of the reciprocal connection between inequality and social insurance. Social insurance not only affects inequality but is also affected by it. Greater economic inequality generates pressure to expand social insurance through the political system to the extent that public policy is responsive to all income groups. This direction of causation leads to a positive correlation between inequality and social insurance. However, the negative correlation that is found in this study as well shows

¹⁶ Old age and survivors' payments include pension payments to pensioners in the public pension system, and old-age allowances of the National Insurance Institute. The gaps between countries reflect also differences in the types of pension systems (public vs. private).

that the political transmission mechanism is not dominant, as already documented in the seminal work of Perotti (Perotti 1996).

(ii) Beliefs held by the public

An opinion survey conducted in the United States shows that people who tend to think that luck, connections and family affect income more than effort, education and ability, are far more supportive of redistribution, even when personal characteristics are controlled for (Alesina and La Ferrara, 2005). An analysis of behavior in games played in a laboratory also shows a similar picture in which participants in the experiment tend more to support redistributing wealth when the initial allocation is random, as opposed to cases in which the initial allocation is dependent on previous performance (Clark, 1998). Macroeconomic research also finds a positive correlation between the part of the population that believes that luck determines economic income, and the extent of social spending as a percentage of GDP. This correlation holds even when controlling for additional variables, such as inequality, per capita GDP, dummy variables of continents and the electoral system (Alesina and Angelotos, 2005).

Several studies in recent years have shown that the deep differences that exist between social policy followed in Europe and in the United States can be seen in the public's attitudes to the question of what determines a person's success in the economic arena. Americans tend to think that a person will succeed in extricating himself from poverty if he works harder, while Europeans attribute greater weight to the component of luck and the socioeconomic structure as explaining a person's success (Alesina and Glaeser, 2004).

A survey conducted in 2005 by the Israel Democracy Institute shows that the Israeli public's attitudes are far closer to those of the Europeans than the Americans (Table 8). For example, most of the Israel public (69 percent) feels that people are poor because of circumstances beyond their control, and only 20 percent feel that poor people are poor because they don't make sufficient effort (plus another 11 percent who "don't know"). In comparison, among European Union countries, almost three-quarters of the public (74 percent) does not think poor people are lazy, while in the United States only about 40 percent holds this opinion. Furthermore, when the Israeli public is divided into groups according to income, even among the highest income group, more than half of Israelis feel that people are poor because of circumstances beyond their control.

The survey respondents were also asked to what extent they are satisfied with the existing opportunities in Israel for poor people to progress by working hard. The overwhelming majority of the public answered that they were not satisfied. Even in the division according to income groups this result was maintained. In particular, in each income group, at least 70 percent of the public is dissatisfied with the opportunities in Israel for poor people to progress by working hard.

However, even though most of the public does not feel that the poor should be blamed for their situation, this view is not reflected in a willingness to pay additional taxes in order to reduce the rate of poverty in Israel. Only a third of the respondents would be prepared to pay additional taxes in order to reduce poverty in Israel. In the division according to income

groups, it was actually the two groups with the highest income that recorded the highest percentage of those who are prepared to pay additional taxes (about 40 percent).

It therefore transpires that the Israeli public's preferences are consistent with the scale of social insurance that is closer to those of European countries. This, of course, is based on the assumption that the social services spending in Europe indeed reflects the European public's preferences.

(iii) Social tension and priorities

The intersection of two characteristics that distinguish Israel from other developed countries could explain the relatively meager assistance that Israel provides its citizens. The ongoing conflict with the Arab countries and the heterogeneity of the Israeli population¹⁷ divide Israeli society into two groups: one that bears the burden of military service and another that is exempt from it.

The conflict with the Arab countries leads to tension of various degrees between the Jewish and the Arab population, as opposed to the tension between the non-ultra-Orthodox and the ultra-Orthodox Jewish sectors. The tension between the Jewish and the Arab population is not only a function of the unequal distribution of the burden of military service, but also suspiciousness on the part of some Jews about the loyalty of the Israeli Arabs. Some of the Jewish population even views the Arab population as a potential enemy, and relates to it as a "demographic problem" that has to be dealt with.¹⁸ This suspiciousness undermines the willingness of the Jewish majority to assist the poor Arab population, even if it is not to blame for its poverty. Because of the increasing difficulty of applying discriminatory policy (assistance that either directly or indirectly reaches only Jews), it would appear that part of the Jewish population is prepared to sacrifice the welfare of the Jewish poor in order to prevent the Arabs from enjoying this assistance. The sharp cut in child allowances is a clear example.

A vicious circle has been created. The tension between the population groups leads to relatively less assistance to Israel's poor population, and the meager assistance in turn acts to exacerbate the tension. It doesn't require much to realize that the Arab population's economic situation intensifies the feeling of alienation from and suspiciousness toward the Jewish population. Allocating more resources to the Arab population in areas such as employment and education may reduce the tension.

¹⁷ Israel is a country of immigrants. Between 1948 and 2009 the number of Jews living in Israel grew from about 700 thousand to six million. Even today, about a third of the Jews living in Israel were born outside the country. In the 1950s and 1960s, the country that was established by the various waves of immigration, nearly all from Europe, absorbed a substantial number of immigrants from Asia and North Africa, a population with different cultural characteristics to those who established the country. In the 1970s Israel absorbed waves of immigration from the Soviet Union, and with the fall of the Soviet regime, the country absorbed further large waves of immigrants. From the end of the 1980s Israel also absorbed immigrants from Ethiopia, albeit on a far smaller scale.

¹⁸ See, for example, Binyamin Netanyahu's speech at the 2003 Herzliya Conference.

The Jewish population itself is far from homogeneous. At present it seems that the major focus of tension in Jewish society is between the ultra-Orthodox and non-ultra-Orthodox.¹⁹ This tension is nourished by the unequal distribution of the burden of military service (the Arab population also falls into this category) and by the demand of the ultra-Orthodox sector for financing of its unique lifestyle, which, among other things, includes a long period spent outside the labor market in favor of studying in a yeshiva, and having relatively large families. The ultra-Orthodox, by virtue of being the balance of power in the political arena, have succeeded in obtaining special budgets, such as income maintenance allowances for married yeshiva students or augmented child allowances for the fourth and subsequent children, to the resentment of the non-ultra-Orthodox Jewish population. The political success of the ultra-Orthodox population is also derived from the political split in the non-ultra-Orthodox Jewish population concerning the desirable solution to the conflict with the Palestinians and the Arab countries.

The success of the ultra-Orthodox in obtaining special resources is perceived as a flagrant breach of the unwritten contract of the welfare state: well-off citizens are prepared to assist the disadvantaged groups, but only after the latter have made every possible effort to realize their earning ability. The legitimacy with which the non-ultra-Orthodox Jewish population views steps for reducing poverty—such as increasing child allowances or income maintenance—is compromised by the knowledge that part of the resources will reach the ultra-Orthodox population, which is not the traditional public of the welfare state.

These two sources of tension undermine the Israeli public's support for the welfare state. Experience worldwide shows that a divided public tends less to support a policy of income redistribution (Alesina and Glaeser, 2004). We raise here the hypothesis (which we will not validate) that the gap between the views of the Israeli public, which, like the Europeans, tends to support a policy of redistribution, and the meager social insurance in Israel, is inherent in the tensions between the non-ultra-Orthodox Jewish population on the one hand, and the ultra-Orthodox and the Arabs on the other. Even though most of the public feels that the reason for poverty is connected to circumstances beyond the control of the poor, and the vast majority of the public is dissatisfied with the existing opportunities in Israel for poor people to progress by working hard, there is no willingness to pay more taxes in order to reduce gaps. The non-ultra-Orthodox Jewish population fears that in practice the policy of redistribution is a transfer of resources from the non-ultra-Orthodox Jewish population to the ultra-Orthodox and the Arabs, the former being perceived as "parasites" and the latter as "fifth column".

¹⁹ Social tensions between people who originate from Asia and Africa ("Sephardic Jews") and those who originate from Europe and America ("Ashkenazi Jews") seem to be a thing of the past. These tensions were generated in the 1960s and 1970s by the feeling that the Ashkenazi establishment was ignoring the Sephardic Jews' severe social problems. The Black Panthers, the social protest movement that arose at the beginning of the 1970s, and the Shas political party, which was established against the backdrop of a feeling of discrimination by the ultra-Orthodox Ashkenazi Jews, and that sees itself as representing the Sephardic population, are expressions of these tensions.

4. CONCLUSION: WHAT SHOULD ISRAEL'S PRIORITIES BE?

We do not have a decisive answer to the question of whether the priorities in practice that were described in the previous sections match the Israeli public's preferences. At best we can suggest a limited assessment that constitutes a platform for public discussion on an issue that does not disappear from the agenda. Despite the way in which economic science is sometimes portrayed in the media, it makes no pretense of knowing what is best for society.

The share of overall public spending in Israel's GDP in 2010 was less than most OECD countries, despite Israel's relatively heavy spending on defense. The overall tax rate, which is derived from the scale of government expenditure, is also less than other developed countries. By virtue of the external assistance that Israel obtains from the United States and from Diaspora Jewry, the tax rate is even lower than that required by the scale of the spending. In practice, the decision on the size of government spending is the most significant for priorities. Decision makers confronted the option of imposing a higher tax in order to finance Israel's surplus defense spending, but chose a different path, deciding to spend less on education and welfare. In reality, the blow to these areas is even more severe because of the decision to reduce the size of overall government spending below the average of developed countries. The fiscal rule on which the state budget for 2011-2012 was built imposes slow growth of government spending relative to GDP growth.

The spending per student in Israel is low even though Israel spends more on education (as a percentage of GDP) than most developed countries, the reason being that Israel's population is far younger than that of other developed countries. Over the past fifteen years there has been a decrease in spending per student in Israel (as a percentage of per capita GDP), parallel to an increase in other developed countries. The result is that a considerable gap to Israel's detriment has been created in spending per student. Against the backdrop of the precarious position of social insurance, the relative regression in education is worrying because it is liable to push more people to the margins where the need for social insurance services is greater.

Regarding health, according to the index of healthcare expenditure per elderly person, Israel's situation seems good relative to other OECD countries, even though the average share of spending is less than that of the OECD countries. Israel is able to supply a high level of healthcare services thanks to its young population, which requires these services less. However, the trend of the past fifteen years endangers Israel's good position.

The low ranking of social insurance in Israel's list of priorities is particularly conspicuous in terms of the government resources allocated for this purpose compared with other developed countries. Israel spends significantly less than most of the OECD countries. The gap to Israel's detriment reaches about 7 percent of GDP if we tally the resources allocated to the area of welfare (social insurance, economic services, and housing and community), and this without taking into account defense spending that is included in the social insurance budget item.

It would seem that the Israeli public's preferences, as reflected in the in-depth surveys by the Israel Democracy Institute, are far closer in their socio-economic attitude to the Europeans than to the Americans. Evidence, based on examining economic policy in the developed countries over a long period, indicates a firm connection between the public's

social preferences and social expenditure. The salient finding that the level of expenditure on social insurance in Israel is significantly lower than the OECD average, apparently does not match the Israeli public's preferences. This is further shown by the Israeli public's dissatisfaction with the extent of economic gaps and of poverty. Possibly the inconsistency between the public's preferences and the low social expenditure can be traced to the tension between different parts of Israeli society.

The low social spending, and in its wake the high level of inequality, contribute to raising the tension, which in any event is high. In light of the trends of the past fifteen years, the gap between the size and composition in practice of government and the public's preferences may even have widened, particularly regarding the social security net in Israel. It would seem that without a profound change in policymakers' perception regarding the role of social insurance, the inequality will remain at a high level (and possibly even increase), a factor that heightens fears about the extent of social cohesiveness and stability.

Table 1a
General Government Expenditure in Israel, by Purpose (Percentages of GDP)

Year	General Public Services	Security	Public Order	Economic Services	Protecting Environmental Quality	Housing and Community Services	Healthcare	Culture and Religion	Education	Social Insurance and Social Assistance	Overall Expenditure
1995	8.7	8.7	1.6	4.7	0.7	1.8	5.2	1.8	7.6	11.1	51.8
1996	8.3	8.9	1.6	4.4	0.7	1.7	5.4	1.8	8.0	11.4	52.1
1997	8.4	8.7	1.6	3.9	0.7	1.3	5.4	1.8	8.0	11.8	51.6
1998	8.4	8.5	1.6	3.5	0.7	1.2	5.1	1.7	7.8	11.9	50.3
1999	7.9	8.4	1.6	3.5	0.6	1.1	4.9	1.6	7.6	11.9	49.2
2000	7.5	7.9	1.6	3.2	0.6	0.9	4.8	1.6	7.3	11.9	47.2
2001	7.5	8.2	1.7	3.2	0.6	0.9	5.0	1.6	7.7	13.0	49.6
2002	7.1	9.3	1.8	3.4	0.6	0.9	5.1	1.6	7.8	13.1	50.8
2003	8.0	8.7	1.8	3.2	0.6	0.9	4.9	1.6	7.4	12.9	50.1
2004	7.6	7.9	1.7	3.2	0.6	0.7	4.8	1.4	7.3	12.1	47.3
2005	7.0	7.8	1.7	2.8	0.6	0.8	4.7	1.3	7.1	11.5	45.3
2006	6.6	7.7	1.6	3.2	0.6	0.7	4.5	1.4	7.0	11.2	44.7
2007	6.5	7.2	1.6	3.0	0.6	0.6	4.5	1.4	7.1	11.1	43.6
2008	5.6	7.0	1.7	3.1	0.6	0.5	4.6	1.5	7.2	11.3	43.0
2009	5.5	6.5	1.7	3.1	0.6	0.5	4.6	1.5	7.0	11.9	43.0
2010	5.6	6.5	1.8	3.0	0.6	0.5	4.6	1.5	7.1	11.9	43.1

SOURCE: Central Bureau of Statistics and authors' compilations.

Note: The public services item includes interest payments that in percentages of GDP were 6.4 in 1995, 5.9 in 2003, and 3.7 in 2010.

Table 1b
General Government Expenditure in Israel, by Purpose (Percentages of GDP)

Year	Interest Payments	Security	Government Services	Social Expenditure	Overall Expenditure
1995	6.4	8.7	3.9	32.9	51.8
1996	5.8	8.9	4.1	33.4	52.1
1997	6.0	8.7	4.1	32.9	51.6
1998	6.0	8.5	4.1	31.8	50.3
1999	5.6	8.4	3.9	31.3	49.2
2000	5.5	7.9	3.6	30.2	47.2
2001	5.5	8.2	3.7	32.1	49.6
2002	5.0	9.3	3.9	32.6	50.8
2003	5.9	8.7	3.9	31.6	50.1
2004	5.6	7.9	3.7	30.0	47.3
2005	5.0	7.8	3.7	28.9	45.3
2006	4.7	7.7	3.6	28.7	44.7
2007	4.6	7.2	3.5	28.3	43.6
2008	3.6	7.0	3.6	28.8	43.0
2009	3.7	6.5	3.5	29.3	43.0
2010	3.7	6.5	3.6	29.2	43.1

SOURCE: Central Bureau of Statistics and authors' compilations.

Note: Government services include expenditure on public order and general public services (excluding interest).

Table 2
Assistance to the Poor Population in Israel (Current Prices and Percentages of GDP)

	1995		2003		2009	
	NIS million	% GDP	NIS million	% GDP	NIS million	% GDP
1. Social security and social assistance	32,018	11.1	69,613	12.9	91,432	11.9
Of which:						
1.1 Government employees' pensions	2,352	0.8	6,802	1.3	9,604	1.2
1.2 Grant to demobilized soldier	191	0.1	571	0.1	813	0.1
1.3 Pension to standing army personnel	1,625	0.6	3,398	0.6	4,000	0.5
1.4 Rehabilitation – Ministry of Defense	1,748	0.6	3,384	0.6	4,384	0.6
1.5 Assistance to the pension funds	-	-	31	0.0	5,409	0.7
2. Social insurance without (2=1-1.1-5)	26,102	9.0	55,427	10.3	67,222	8.8
3. Economic services	13,484	4.7	17,459	3.2	23,818	3.1
4. Housing and community services	5,286	1.8	5,083	0.9	3,993	0.5
Overall assistance (5=2+3+4)	44,872	15.5	77,969	14.5	95,033	12.4

SOURCE: Central Bureau of Statistics and authors' compilations.

Table 3
Structure of General Government Spending

	Israel		OECD	
	2008	2009	2008	2009
1. General public services*	9.6	9.6	9.5	10.4
2. Defense	7.3	6.7	1.6	1.5
3. Education	7.4	7.2	5.5	6.0
4. Health	5.5	5.6	6.4	6.9
5. Social insurance and welfare**	14.5	15.2	21.5	23.8
Overall public spending	44.3	44.3	44.4	48.7
Overall tax rate	33.8	31.4	34.8	34.1

SOURCE: OECD.Stat 30/1/2011

* General public services include general public services (particularly, interest payments, public order, environmental protection, culture and religion.

** Social insurance and welfare includes social insurance, economic services, housing and community.

Table 4a
Types of Spending by Country, 2009 (Percentages of GDP)

Country	Types of Public Expenditure										
	Overall Expenditure	Public Order	Interest Payments and Other	Environmental Protection	Religion and Culture	Security	Health-care	Education	Social Insurance and Social Assistance	Economic Services	Housing and Community
Austria	52.32	1.57	6.86	0.53	1.07	0.82	8.21	5.80	21.80	4.95	0.71
Belgium 08	49.98	1.74	8.48	0.58	1.22	1.12	7.40	5.92	17.79	5.37	0.35
Canada 06	39.24	1.57	7.28	0.55	0.89	1.01	7.33	7.18	9.16	3.36	0.92
Czech Rep.	45.93	2.16	4.72	0.73	1.45	1.11	7.99	4.99	14.02	7.55	1.21
Denmark	58.42	1.18	7.55	0.51	1.75	1.48	8.81	8.01	25.42	3.11	0.60
Finland	56.21	1.50	7.41	0.35	1.22	1.66	7.98	6.63	23.88	5.05	0.52
France	55.99	1.32	7.18	0.87	1.66	1.86	8.28	6.17	23.52	3.10	2.05
Germany	47.50	1.67	6.12	0.65	0.66	1.16	6.87	4.37	21.64	3.62	0.74
Great Britain	51.63	2.80	4.46	1.08	1.19	2.75	8.48	6.96	18.06	4.34	1.50
Greece 08	49.04	1.22	8.75	0.60	0.38	2.07	5.20	3.17	20.55	6.78	0.32
Hungary	50.46	1.97	10.32	0.65	1.42	0.81	5.02	5.27	18.29	5.52	1.19
Iceland	50.86	1.63	10.17	0.67	3.70	0.04	8.32	8.54	11.28	6.01	0.49
Ireland 08	42.45	1.83	3.22	1.27	0.75	0.49	7.90	5.40	13.83	5.35	2.41
Israel	44.27	1.72	5.53	0.61	1.72	6.73	5.58	7.23	11.89	2.75	0.51
Italy	51.87	1.98	8.66	0.91	0.90	1.58	7.47	4.77	20.35	4.41	0.85
Japan 08	37.15	1.43	4.74	1.24	0.12	0.93	7.48	3.91	13.00	3.70	0.60
Luxembourg	42.17	0.99	4.31	1.09	1.91	0.30	5.04	4.96	17.96	4.82	0.80
Netherlands	51.35	1.99	7.74	0.93	1.49	1.46	6.81	5.99	18.12	5.75	1.06
New Zealand 05	39.09	1.90	5.21	1.29	1.10	1.00	6.47	7.26	10.08	4.09	0.70
Norway	46.32	1.03	4.82	0.65	1.38	1.73	7.69	6.02	17.91	4.37	0.71
Poland	44.40	1.95	5.68	0.69	1.32	1.08	5.13	5.59	16.46	5.34	1.16
Portugal	48.17	2.23	7.07	0.71	1.11	1.44	6.98	6.60	17.41	3.98	0.65
Slovakia	41.51	2.57	5.42	0.68	1.08	1.49	7.77	4.32	12.24	5.17	0.76
South Korea 08	30.45	1.33	4.29	0.96	0.76	2.72	3.94	4.95	3.78	6.64	1.08
Spain	45.80	2.14	5.18	0.96	1.76	1.04	6.75	5.01	16.12	5.62	1.21
Sweden	55.16	1.43	7.49	0.36	1.20	1.50	7.43	7.28	22.96	4.70	0.80
Switzerland	33.74	1.72	3.69	0.54	0.75	0.82	1.78	5.77	14.26	4.21	0.21
USA 08	38.74	2.23	4.93	-	0.31	4.60	7.95	6.43	7.51	4.09	0.69
OECD average	48.70	1.78	6.52	0.71	1.44	1.54	6.92	6.01	18.18	4.72	0.89
OECD average*	49.49	1.68	6.51	0.72	1.47	1.65	7.03	6.26	18.91	4.42	0.84

SOURCE: OECD.Stat, 7/2/2011.

* Excluding the former communist bloc: Hungary, Slovakia, Poland and the Czech Republic.

Table 4b
Types of Spending – OECD Average vs. Israel, 1995-2009 (Percentages of GDP)

Year		Types of Public Expenditure										
		Overall Expenditure	Public Order	Interest Payments and Other	Environmental Protection	Religion and Culture	Security	Health-care	Education	Social Insurance and Social Assistance	Economic Services	Housing and Community
1995	OECD	49.40	1.67	8.48	0.77	1.13	2.13	5.92	5.70	16.53	6.38	1.36
	Israel	52.78	1.51	8.73	0.70	1.97	8.91	5.65	7.94	11.07	4.48	1.82
1996	OECD	47.79	1.66	8.41	0.78	1.14	2.10	5.98	5.65	16.35	5.13	1.16
	Israel	53.11	1.56	8.29	0.69	1.98	9.03	5.89	8.29	11.43	4.22	1.71
1997	OECD	45.97	1.65	7.77	0.72	1.16	1.93	5.96	5.64	15.67	4.75	0.98
	Israel	52.59	1.56	8.47	0.72	1.96	8.85	5.97	8.29	11.77	3.69	1.32
1998	OECD	45.78	1.63	7.97	0.73	1.17	1.85	5.99	5.65	15.36	4.88	0.94
	Israel	51.47	1.58	8.42	0.69	1.88	8.67	5.79	8.08	11.90	3.29	1.17
1999	OECD	44.96	1.62	7.41	0.73	1.17	1.80	6.03	5.60	15.30	4.80	0.90
	Israel	50.45	1.54	7.93	0.62	1.78	8.61	5.72	7.97	11.94	3.26	1.08
2000	OECD	43.69	1.55	7.02	0.72	1.09	1.88	5.71	5.30	14.86	4.69	0.86
	Israel	48.50	1.55	7.51	0.59	1.71	8.23	5.60	7.62	11.88	2.97	0.86
2001	OECD	44.10	1.60	6.95	0.71	1.10	1.84	5.89	5.43	15.05	4.67	0.84
	Israel	51.08	1.65	7.55	0.63	1.80	8.52	5.96	8.06	12.98	2.99	0.94
2002	OECD	44.95	1.63	6.72	0.71	1.15	1.87	6.03	5.63	15.62	4.71	0.86
	Israel	52.21	1.75	7.14	0.63	1.78	9.56	6.03	8.09	13.14	3.16	0.92
2003	OECD	45.00	1.62	6.46	0.71	1.19	1.83	6.24	5.77	15.66	4.62	0.90
	Israel	51.59	1.74	8.06	0.65	1.76	8.97	5.99	7.67	12.87	2.94	0.93
2004	OECD	44.17	1.61	6.25	0.70	1.19	1.74	6.26	5.67	15.38	4.51	0.86
	Israel	48.59	1.70	7.63	0.62	1.54	8.10	5.85	7.52	12.05	2.89	0.69
2005	OECD	43.90	1.61	6.22	0.72	1.16	1.70	6.33	5.63	15.27	4.39	0.87
	Israel	46.59	1.68	7.02	0.62	1.49	7.99	5.75	7.26	11.52	2.47	0.80
2006	OECD	43.45	1.61	6.04	0.69	1.15	1.68	6.42	5.50	15.20	4.31	0.85
	Israel	45.89	1.64	6.62	0.60	1.57	7.96	5.53	7.14	11.22	2.92	0.67
2007	OECD	42.69	1.59	5.87	0.69	1.14	1.64	6.20	5.35	15.13	4.28	0.80
	Israel	44.94	1.66	6.51	0.61	1.60	7.51	5.42	7.28	11.09	2.69	0.58
2008	OECD	44.42	1.65	5.94	0.70	1.17	1.63	6.41	5.46	15.50	5.13	0.82
	Israel	44.30	1.68	5.60	0.66	1.66	7.26	5.51	7.40	11.30	2.70	0.53
2009	OECD	48.70	1.78	6.52	0.71	1.44	1.54	6.92	6.01	18.18	4.72	0.89
	Israel	44.27	1.72	5.53	0.61	1.72	6.73	5.58	7.23	11.89	2.75	0.51

SOURCE: OECD.Stat, 7/2/2011.

Table 5a
Healthcare Spending by Countries, 2009

Country	Percentage Aged 65+ (Percentages of GDP)	Healthcare Expenditure (Percentages of GDP)	Healthcare Expenditure for the Elderly (Percentages of GDP)	Healthcare Expenditure According to the Capitation Coefficient
Austria	17.40	8.21	47.39	68.1
Belgium 08	17.57	7.40	42.89	61.5
Canada 06	14.11	7.33	55.34	66.4
Czech Rep.	15.38	7.99	53.07	69.4
Denmark	16.80	8.81	54.07	74.8
Finland	17.30	7.98	47.22	66.8
France	16.71	8.28	49.85	69.8
Germany	20.39	6.87	33.85	53.7
Great Britain	16.52	8.48	51.92	71.9
Greece 08	18.90	5.20	28.02	42.0
Hungary	16.71	5.02	30.41	42.3
Iceland	12.39	8.32	68.33	77.5
Ireland 08	11.89	7.90	68.63	74.8
Israel	10.17	5.58	55.41	55.0
Italy	20.55	7.47	36.55	58.2
Japan 08	23.13	7.48	33.82	56.4
Luxembourg	14.60	5.04	34.67	44.4
Netherlands	15.47	6.81	44.88	59.2
New Zealand 05	13.25	6.47	53.90	60.6
Norway	15.15	7.69	51.66	67.4
Poland	13.49	5.13	38.19	46.2
Portugal	17.49	6.98	40.69	58.1
Slovakia	12.78	7.77	61.49	71.2
South Korea 08	10.96	3.94	38.20	38.2
Spain	17.36	6.75	39.34	56.1
Sweden	18.46	7.43	41.12	60.7
Switzerland	17.17	1.78	10.54	14.9
USA 08	12.97	7.95	62.54	73.1

SOURCE: OECD.Stat, 7/2/2011.

Table 5b
Healthcare Spending – OECD vs. Israel, 1995-2009

Year		Percentage Aged 65+	Healthcare Expenditure (Percentages of GDP)		Healthcare Expenditure on the Elderly (Per Capita Percentages of GDP)		Healthcare Expenditure According to the Capitation Coefficient	
			OECD HEALTH DATA	OECD. Stat	OECD HEALTH DATA	OECD. Stat	OECD HEALTH DATA	OECD. Stat
1995	OECD	13.04	5.40	5.92	42.04	42.28	49.79	49.96
	Israel	9.86	5.12	5.65	51.93	57.31	50.83	56.09
1996	OECD	13.18	5.44	5.98	41.85	42.32	49.82	50.22
	Israel	9.91	5.29	5.89	53.36	59.45	52.41	58.40
1997	OECD	13.31	5.37	5.96	41.71	42.49	50.92	52.66
	Israel	9.92	5.18	5.97	52.22	60.14	51.32	59.10
1998	OECD	13.43	5.43	5.99	42.02	42.37	51.29	52.82
	Israel	9.91	4.97	5.79	50.13	58.47	49.21	57.39
1999	OECD	13.53	5.53	6.03	42.60	42.51	51.86	53.15
	Israel	9.90	4.79	5.72	48.34	57.75	47.40	56.62
2000	OECD	13.64	5.50	5.71	42.04	40.50	51.41	50.27
	Israel	9.90	4.66	5.60	47.02	56.51	46.13	55.43
2001	OECD	13.74	5.73	5.89	43.67	41.68	53.34	51.72
	Israel	9.93	4.93	5.96	49.60	60.00	48.76	58.99
2002	OECD	13.86	5.95	6.03	45.10	42.53	55.44	52.94
	Israel	9.98	4.97	6.03	49.77	60.38	49.11	59.58
2003	OECD	13.97	6.18	6.24	46.06	44.11	57.59	54.95
	Israel	10.04	4.85	5.99	48.33	59.69	47.88	59.13
2004	OECD	14.10	6.21	6.26	45.93	43.75	57.67	54.91
	Israel	10.08	4.72	5.85	46.82	58.07	46.52	57.70
2005	OECD	14.26	6.23	6.33	45.43	43.81	57.82	55.40
	Israel	10.10	4.58	5.75	45.35	56.99	45.11	56.70
2006	OECD	14.41	6.20	6.42	44.95	43.58	57.32	55.91
	Israel	10.09	4.44	5.53	44.00	54.86	43.74	54.54
2007	OECD	14.55	6.16	6.20	44.70	41.65	56.95	53.76
	Israel	10.06	4.37	5.42	43.42	53.86	43.08	53.43
2008	OECD	14.78	6.40	6.41	75.40	42.38	58.75	55.32
	Israel	10.04	4.45	5.51	44.27	54.83	43.86	54.32
2009	OECD	14.99	-	6.92	-	44.53	-	56.54
	Israel	10.07	-	5.58	-	55.41	-	55.01

SOURCES: OECD.Stat, 7/2/2011. OECD Health data, 2010.

Table 6a
Education Spending by Country

Country	Percentage Aged 0-14 (2010)	Expenditure per Student in Primary Education (Per Capita % of GDP)	Expenditure per Student in Secondary Education (Per Capita % of GDP)	Expenditure per Student in Post- Secondary Education (Per Capita % of GDP)
Australia	18.40	17.27	23.50	39.15
Austria	14.90	23.52	28.89	40.82
Belgium	16.30	21.24	25.94	38.90
Canada	16.20	-	22.10	55.71
Czech Rep.	13.60	14.00	23.04	34.21
Denmark	17.90	25.26	26.64	45.33
Finland	16.50	17.65	22.16	38.41
France	18.30	18.60	29.33	39.31
Germany	13.60	16.00	22.61	39.85
Great Britain	17.40	23.52	25.44	44.24
Hungary	14.80	24.81	22.52	35.82
Iceland	20.80	26.51	22.98	25.63
Ireland	21.00	15.55	21.12	28.46
Israel	27.60	19.13	21.71	43.24
Italy	14.00	23.80	25.81	27.96
Japan	13.00	21.55	26.04	42.22
Luxembourg	17.80	16.96	21.74	-
Mexico	28.10	14.94	15.83	49.35
Netherlands	17.50	16.55	25.88	40.33
New Zealand	20.30	17.30	21.96	36.66
Norway	18.70	18.49	22.35	31.93
Poland	14.70	24.91	22.01	34.18
Portugal	15.50	22.14	30.19	45.93
Slovakia	14.80	17.26	15.88	28.30
South Korea	16.20	20.46	29.58	33.57
Spain	14.90	20.76	27.74	39.87
Sweden	16.40	22.67	24.86	49.91
Switzerland	15.00	22.04	33.45	49.96
USA	20.10	22.03	24.34	58.17

SOURCES: OECD.Stat, 7/2/2011. OECD, Education at Glance 2010.

Table 6b
Education Spending – OECD vs. Israel, 1995-2007

Year		% Aged 0-14	Expenditure per Student in Primary Education (Per Capita % of GDP)	Expenditure per Student in Secondary Education (Per Capita % of GDP)	Expenditure per Student in Post-Secondary Education (Per Capita % of GDP)	Education Expenditure		Expenditure per Student	
						Education at a glance (% of GDP)	OECD. Stat (% of GDP)	Education at a glance (per capita % of GDP)	OECD. Stat (% of GDP)
1995	OECD	20.7	-	-	-	5.50	5.70	26.00	29.80
	Israel	29.2	-	-	-	6.90	7.94	24.00	27.20
1996	OECD	20.4	-	-	-	-	5.65	-	29.82
	Israel	29.0	-	-	-	-	8.29	-	28.59
1997	OECD	20.2	-	-	-	-	5.64	-	29.62
	Israel	28.7	-	-	-	-	8.29	-	28.90
1998	OECD	20.0	18.49	25.58	44.36	5.50	5.65	28.00	29.91
	Israel	28.6	23.97	29.65	62.39	7.90	8.08	28.00	28.25
1999	OECD	19.8	18.87	24.74	44.82	5.40	5.60	28.00	29.91
	Israel	28.4	21.34	25.99	56.41	7.00	7.97	25.00	28.06
2000	OECD	19.6	18.95	24.74	42.81	5.20	5.30	27.00	28.54
	Israel	28.3	20.56	24.42	54.07	6.50	7.62	23.00	26.94
2001	OECD	19.4	19.59	25.66	42.35	5.40	5.43	29.00	29.46
	Israel	28.2	21.77	26.30	53.82	7.10	8.06	25.00	28.58
2002	OECD	19.2	20.39	26.16	43.14	5.60	5.63	30.00	30.83
	Israel	28.1	23.80	28.78	56.37	7.50	8.09	27.00	28.80
2003	OECD	19.0	20.50	25.96	43.27	5.70	5.77	30.00	31.74
	Israel	28.0	21.79	25.89	51.89	7.00	7.67	25.00	27.40
2004	OECD	18.8	20.35	25.33	40.22	5.50	5.67	30.00	31.42
	Israel	28.0	21.18	24.75	46.06	6.60	7.52	23.00	26.84
2005	OECD	18.5	20.70	25.47	40.26	5.50	5.63	30.00	31.67
	Israel	27.9	20.60	24.09	47.87	6.30	7.26	22.00	26.02
2006	OECD	18.3	20.17	24.66	39.97	5.40	5.50	30.00	30.61
	Israel	27.9	19.95	23.73	45.11	6.20	7.14	22.00	25.58
2007	OECD	18.1	20.18	24.33	39.91	5.30	5.35	30.00	31.30
	Israel	27.9	19.13	21.71	43.24	5.90	7.28	21.00	26.08
2008	OECD	17.9	-	-	-	-	5.46	-	32.21
	Israel	27.8	-	-	-	-	7.40	-	26.62
2009	OECD	17.7	-	-	-	-	6.01	-	35.95
	Israel	27.7	-	-	-	-	7.23	-	26.08

SOURCES: OECD.Stat, 7/2/2011. OECD, Education at a Glance 2010.

Table 7
Factors Explaining the Welfare Spending

Fixed	10.99 (0.72)	-2.98 (-0.19)	4.05 (0.26)	6.74 (0.34)
Weight of age 0-14	0.724** (2.57)	0.498 (1.68)		-0.531** (-2.67)
Weight of age 65+	1.492*** (4.77)	1.411*** (4.11)	0.922*** (4.87)	
Log per capita GDP	-2.251 (-1.45)	-1.289 (-0.78)	-0.382 (-0.23)	1.637 (0.86)
Gini Index of net income	-30.7** (-2.60)			
Adjusted R ²	0.66	0.48	0.45	0.18
No. of observations	30	30	30	30

The explanatory variable: Weight of welfare expenditure in GDP (average of the years 1999 to 2007).

The research population: 30 OECD countries (including Israel).

The statistic t appears in parentheses.

** Indicates significance at the 0.05 level.

*** Indicates significance at the 0.01 level.

Table 8
The Public's Opinion on the Reason for Poverty – Israel, Europe, and the United States

Certain people are poor because:	Israel	Europe	United States
Of chance or circumstances beyond their control	69	74	40
They don't make sufficient effort	31	26	60

Source: Israel: Opinion Survey, the Israel Democracy Institute, December 2005.

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Notes:

The category "they don't make sufficient effort" in Israel also includes those who answered that "they don't know".

People's opinions in the United States and Europe are also different with respect to the question of what determines income. In the United States 30 percent of the respondents felt that luck determines income, compared with 54 percent in Europe. Israel does not have any data on this question.

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