

Foreword

by the Director General

The year 2010, to which this survey relates, marks another year in a whirlwind that began with the crisis in the United States during 2007, which spread and plagued many countries throughout the world during 2008 and 2009. During 2010, it had appeared that Israel was succeeding in extricating itself from the bear hug of this crisis. Now we are witnessing a wave of global uncertainty, which receives expression, inter alia, in the increasing volatility in prices of the public's shares and assets on the stock exchanges worldwide, including in Israel. The standard of living in Israel rose satisfactorily, according to the development of the GDP per capita (except during the recession in 2009), particularly in an international comparison. Nonetheless, the socio-economic situation in Israel is deficient – again, particularly in an international comparison – and indicates that a profound revision is needed. With the outbreak of the wave of protest in Israel during 2011, a rare opportunity has arisen to bring about significant improvement in this situation.

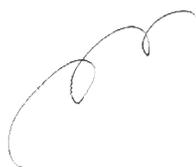
In this survey, one can see that the NII has made progress in promoting an important subject for the entire population of insureds, now and for those who have yet to be born: examination of the financial strength of the social security system. The analysis in the first chapter indicates a problem that threatens the level of social security for future generations if policy-makers fail to contend with the threat. The NII's Research and Planning Administration prepared the groundwork for the task of correcting policies by building a model that enables alternative policy measures to be considered in order to facilitate an informed selection from among the options.

It is interesting, particularly in light of the wave of public protest, to read the analysis of the benefits and direct taxation policy presented in this survey, with its long-term perspective. As in the NII's previous reports, this survey reports about important matters requiring attention at this time, particularly the need to restore progressiveness to the direct taxation system.

The government has decided to expand the income tax grant program (also known as “negative income tax”) in 2012 to all regions of the country, after having operated it recently in pilot regions only. Although it is still too early to evaluate the extent of the program's impact, it is already clear that the assistance offered by the program is inadequate to improve the participation rate in the work force by broad strata in the population, and that the assistance must be increased. On various occasions, the NII has urged that more intensive use be made of this tool in terms of improving the benefits being provided by it, so that the income increment to families working at low wages will be more significant and will constitute a greater incentive to draw new populations into the labor market. We emphasize that the active employment policy that the government needs to institute at this time does not rely solely on financial support; the crisis may

also serve as an opportunity to increase the wage-earning capacity of populations lacking necessary skills in the labor market, so that, upon completing the program, and with renewed economic growth, they will be able to integrate into the work force and extricate themselves from their distress. The investment in physical infrastructure is also needed in order to increase access to the labor market by various populations, as well as for the sake of their overall benefit. And if all these are not enough, far more resources need to be allocated to the middle class, even if defining this stratum is problematic. All of these needs require an allocation of billions of shekels. Here is the place to stress that all of these changes should be done without deviating from the budget; i.e., so that each program will be funded by a cutback in some other place. This principle is particularly critical considering the increasing uncertainty as to the financial stability of governments – from Greece to the United States.

This survey constitutes an opportunity for me to commend the professional work of those performing social security tasks throughout the country, and to express the hope that the advancement of such tasks in all spheres will gain the support of the government and the public at large.

A handwritten signature in black ink, consisting of several fluid, overlapping loops and curves, positioned above the printed name.

Esther Dominissini

Director-General

Preface

Towards the end of the process of preparing this Annual Survey, during the summer of 2011, a wave of social protest swept over the country. At the time these words are being written, it appears that an epic opportunity is emerging for a complete turnaround in the incessantly widening socio-economic gaps and a reversal of the trend in the direction of narrowing those gaps.

In light of the inevitable delay between the occurrence of phenomena and the receipt of the latest data about them, significant time will pass until it becomes possible to measure the impact of the policy, if and when implemented, on the economic situation of the “middle class” and the poor.

It appears that we have been witnessing a phenomenon in recent years, whereby the evolution of information technology has caused a “shortening of time” – the ability to respond via social networks, such as Facebook, Twitter, etc, motivates the public to respond to events, and, as a result, also spurs events themselves, due to the cyclical reciprocal input between policies and responses. The simulation models of the type built by the Research Administration ahead of time are essential in order to sustain the logic of the policy. The Research and Planning Administration will issue a status report shortly about the progress in this effort.

The data on the second half of 2011, when the public protest broke out, are expected to be published only in September 2012, while the data on 2012 will be received only during 2013. Therefore, there will be a significant time elapse until we will be able to evaluate the socio-economic situation resulting from the wave of protest and the policy response.

The Research and Planning Administration is working diligently on a comprehensive socio-economic program that will be submitted for public debate in the near future. Besides the customary components, such as implementing an enhanced negative income tax policy, reducing V.A.T. and offsetting it from the progressive direct taxation, the investment in daycare centers, etc., the program contains one section that is more controversial, which advocates instituting improvements in the set of subsistence benefits. I believe that a program designed to battle poverty and social gaps that is deserving of its name must not skip over a reform of the subsistence benefits for the needy of working age: the objectives of such a reform are to increase the vertical (progressive) justice within the scope of the existing budget of the income support benefits system (which today is a budget of approximately NIS 2.5 billion), while adding temporary financing to prevent any short-term adverse impact on the existing benefit recipients, and enabling the reform to be carried out in the customary manner in such instances.

This survey reviews the benefits policies and the collection of national insurance contributions from the social perspective and provides a detailed report on the NII's activities in 2010.

The first chapter reviews the main developments in the social security and direct taxation systems in Israel, and spotlights main issues addressed by the Research and Planning Administration during the past year. During this period, the Administration focused on building a model to analyze the financial strength of the social security system in Israel, while scrutinizing the repercussions on the social strength in Israel.

The second chapter presents the developing trends of welfare payments in Israel, and adds a few supplements to recent publications on the subject of poverty and the inequality of income distribution in Israel. Since no new information has accumulated since the publication of the report on the dimensions of poverty and social gaps, or the updated report published mid-year on the developments during the first half of 2010, the chapter focuses mainly on select issues relating to the state of poverty and social gaps – this time, the correlation between poverty and employment, and an analysis of the impact of the benefits and direct taxation policies on inequality.

The third chapter addresses developments in the various insurance branches, with the majority of the changes in payments and number of recipients deriving from three factors – economic development, demographic changes and legislative amendments.

The fourth chapter discusses developments in the area of collection of national and health insurance contributions, which also derive from economic and demographic processes and relevant legislative amendments.

There are three appendices to the survey in English: the insurance branch tables, a survey of the sources of data, and tables providing additional details on poverty and inequality.

I would like to thank the staff of the Research and Planning Administration, who worked diligently in preparing the survey and bringing it to press. Special thanks go to Ms. Rafaela Cohen for professional editing, to Ms. Maya Orev-HaTal for the Hebrew language editing and for producing the Hebrew edition, and to Ms. Sarah Gargi for producing the English edition. Thanks also to Ms. Nira Amir for the typesetting and technical production of this survey.



Dr. Daniel Gottlieb

Deputy Director-General for Research and Planning