**Chapter 28: Welfare**

During the first years of Israeli statehood, welfare payments to its needier residents were limited. As relatively poor country, Israel did not have the luxury of introducing a generous welfare policy. At the same time, however, Israel’s government understood that its citizens had a right to welfare, even in light of the difficult conditions that the fledgling state was facing. Benefit payments were provided to Jews who had been injured in the War of Independence, and the government introduced a rationing and austerity policy that allowed every citizen to buy basic food products at the same fixed price. Income disparities and poverty rates were low. After the austerity period ended, the main tools of Israel’s nascent welfare policy were generous subsidies on basic food products, public transport, and water. Meanwhile, the state assisted unemployed citizens through self-initiated work schemes, based on the principle that labor should be the main source of household income. Israel’s National Insurance Institute was established as a social security body only in 1954, and its activities were limited at first. The state did devote resources to developing education, health, and professional training systems, assisted by the Histadrut, which provided a range of social services via its various institutions. The Histadrut’s network of day care centers, small discount supermarkets, libraries, and sports clubs, which had been established during the British Mandatory period, were available for use by Histadrut members (which, in practice, comprised most of the country’s residents).

The riots that broke out in Wadi Salib in Haifa in 1959 in reaction to the shooting of a Moroccan Jewish immigrant by Ashkenazi police officers sparked social welfare thinking for the first time. Some years later, in 1971, the Black Panthers protests by second-generation Jewish immigrants from North Africa and the Middle East accelerated the process of building a welfare state. By that time, Israel had grown wealthier and its security situation had improved in the wake of its victory in the Six-Day War. In the wake of the Black Panthers demonstrations, Prime Minister Golda Meir appointed the “Prime Minister’s Committee for Children and Youth in Need,” (1972), which recommended regulating universal allowances and increasing social services in education, housing, employment security. The ensuing changes marked Israel’s adoption of the principles of a European-style “welfare state,” albeit within the constraints of Israel’s economic situation.

However, due to the economic crisis that followed the Yom Kippur War in 1973, the government slowed down its implementation of the social policies it had developed prior to the hostilities. When the first Rabin government came to power in June 1974, it pushed forward with these social policies, despite the rise in defense spending that had increased the budget deficit. When Menachem Begin’s Likud party came to power in June 1977 and replaced the Rabin government, it failed to adjust social spending to fiscal limits. As a result, the budget deficit soared. It was clear that it would not be possible to maintain a high defense budget alongside soaring spending on subsidies and social security.

The 1985 Economic Stabilization Plan curbed Israel’s rampant inflation but had a negative impact on social spending, including subsidies on basic commodities, education, welfare, and health. The decision to end food subsidies, a politically sensitive move, was possible thanks to the unity government’s broad consensus that Israel needed to change its priorities. In short, the government realized that economic recovery was more important than social services. Even so, pressure from ultra-Orthodox political parties pushed the government to agree to increase child benefits unequally for each child.

In the first decade following the 1985 Economic Stabilization Plan (until 1996), social inequalities in Israel largely remained unchanged, despite budget cuts. In 2003, after the economic crisis had abated, then-Finance Minister Binyamin Netanyahu introduced his Economic Protective Wall financial plan. Netanyahu took a neoliberal approach, slashing child and unemployment benefits and income security (“work allowances”), and reducing government spending on education, health, and welfare under the slogan of feeding the “thin man” (the private sector) by slimming down the “fat man” (the public sector). There was a dispute over whether it was necessary for the government to cut benefits for older people and people with disabilities, as these groups did not participate in the labor market.

Since the 2000s, social inequalities in Israel have widened as gaps in income distribution have grown (as reflected in the OECD’s Gini coefficient measure of income inequality). This is a result of privatization, the globalization of Israel’s economy, cuts in welfare budgets, the weakening of trade unions, large rises in managerial salaries, and increases in remuneration for high-tech entrepreneurship and financial and legal knowledge. The increasing reliance on contract and migrant workers has harmed Israel’s lowest-paid employees. A new generation of businesspeople and entrepreneurs emerged who knew how to take advantage of the opportunities afforded by the globalization of Israel’s economy. In contrast, the large swathes of the workforce who had not been partners in these globalization processes and could not adapt to Israel’s competitive market economy were left behind. Social inequalities have deepened as a result of Israel’s transition from a public to a capitalist economy. This has had marked effects on its very diverse population, large sections of which—in particular its Arab and ultra-Orthodox citizens—have not benefitted from the globalization of the economy. The growth in social inequalities is reflected in Israel’s Gini coefficient scores, which rose from 0.33 in the 1990s to 0.392 in 2006, the peak year for inequality.

Two areas—defense spending and interest payments—compete with social spending for budget allocation. Israel’s high defense spending has been shielded from the reality of political and security risk management. The country’s high interest payments were a result of soaring government debt, mostly in the form of loans taken out to cover high defense spending in the decade after the Yom Kippur War. By the 2010s, a slow decline in defense spending and interest payments, coupled with debt refinancing measures, enabled Israel to increase its social spending.

Social spending is broadly divided into social investment and social protection. Social investment includes schemes to boost the skills of individuals and promote leadership, education, and early years care, while social protection involves providing benefits for those in financial difficulties (such as older people and people with disabilities). An examination of social spending in relation to GDP in various countries reveals a considerable gap between Israel and Europe. Since the 2000s, Israel’s welfare policy has been torn between two conflicting trends: Western Europe’s welfare state model, which provides state benefits and generous social services, versus the neoliberal approach taken by the United States, which is based on low social welfare expenditures. Israel has fluctuated between reducing its welfare budgets and expanding them (in particular after the wave of social justice protests that erupted across the country in 2011). In short, Israel does not have a consensus about its welfare policy.

In the 2000s, social spending amounted to only 15 percent of Israel’s per capita GDP compared to the OECD average of 21 percent. Data from Israel’s Taub Institute, which specializes in social economics, indicate that between 2016–2018, Scandinavian countries spent an average of over 11 percent of GDP on social investment schemes, compared with just 7–8 percent in Israel. Meanwhile, in the same period, Israel spent just 4 percent of per capita GDP on social investment schemes for working-age individuals, similar to rates in the lowest-ranked OECD countries. Further, Israel spends only 8 percent of its per capita GDP on education and early years care for children aged 0–4 years, compared to about 27 percent in the leading welfare states. Studies indicate that the main beneficiaries of social investment in Israel are the middle classes, and not less advantaged and less affluent population groups. Of the 41 percent of children in Israel who attend supervised daycare centers, around 24 percent are from middle class families and just 17 percent from less affluent and less advantaged groups. The beneficiaries of higher education in Israel are overwhelmingly non-ultra-Orthodox Jewish Israelis from medium to high socioeconomic backgrounds. In terms of public expenditure on pensions, in 2021 Israel spent about 4.7 percent, below the developed countries’ average of 7.8 percent.

The World Economic Forum (WEF) has noted that in the United Kingdom, it takes an average of five generations for a low-income family to attain an average income. In Denmark it takes just two generations. Israel is in the middle of these two extremes. The gap between Israel and an average welfare state is deepening, according to data examining spending in social protection programs. Since 2009, Israel has earmarked a smaller percentage of its GDP on social spending than any other OECD country. In terms of social mobility, Israel ranks 33 out of 82 countries in the world, according to data from the WEF. Israelis who work in the high-tech industry tend to improve their socioeconomic situation. However, Israel’s ultra-Orthodox and Arab populations, who make up about 5 percent, and young people who live in less affluent peripheral regions, and citizens from other less advantaged populations, are relatively underrepresented in the high-tech industry.

**Income inequality**

The Gini coefficient is an accepted measurement of a country’s income inequality. It is based on the comparison of cumulative proportions of a population against cumulative proportions of income they receive, and ranges between 0 (perfect equality) and 1 (perfect inequality). The Gini coefficient relates to wage-earners and not to the owners of capital, and it is clear that the main source of income inequality is concentrated in the accumulation of capital. The Gini coefficient measures disparities in financial income and does not take into account the value of social services, some of which were provided for free in the past. Since the 2000s, these services have become more expensive as a result of privatization, which has exacerbated inequalities. There are two measures of income inequality: gross income inequality, which refers to inequality arising from economic income before state intervention in the form of direct taxation and benefits, and net income inequality, which measures inequality after state intervention in the form of direct taxation and state benefits. The net Gini coefficient tells the story of Israel’s social disparities. When it was first calculated in 1979, Israel had a reasonable net Gini coefficient score of 0.3, which placed it squarely in the middle of the other OECD countries. In the 1980s, Israel’s net Gini coefficient score had risen to 0.32, and by the 1990s, it reached 0.33–0.35. From the beginning of the 2000s, the net Gini coefficient score began to rise again, reaching a peak in 2006 of 0.392. After the social justice protests of 2011 and the government’s corrective measures, Israel’s net Gini coefficient score fell. By 2019, it was 0.35, rising slightly in 2021 to 0.375 (for comparison, the OECD average for 2021 was 0.31). Meanwhile, in 2019, the disposable income share ratio of Israel’s top decile was 25.4 percent, the highest of all the OECD countries, and the difference in the income quintile share ratio between Israel’s ninth decile and its bottom decile was 4.8, lower only than that in the United States, indicating high levels of inequality.

The increase in net income inequality in the 2000s was partly attributable to the government’s policy of cutting allowances (so-called “work allowances”) and cutting direct taxation rates, which had a negative effect on income disparities. The cuts to work allowances mainly affected the two lowest deciles, while tax cuts benefited the upper decile, who saw their disposable incomes rise. A type of “scissors effect” was created, whereby the income gap increased significantly, with the lower deciles becoming less well-off and the upper deciles growing richer, thus increasing net inequality. In the 2000s, Israel scored the highest among OECD countries in terms of inequalities. Unlike in most OECD countries where governments managed to reduce inequalities through direct taxation and benefits, Israel did nothing to change this situation.

In the 2000s, the government faced a difficult situation. Labor force participation, especially among ultra-Orthodox men and Arab women, was low—a phenomenon that was attributed to high benefit payments. The “work allowances” policy increased the labor force participation rate and economic income, and reduced gross inequality. The following developments unfolded in this period: the labor market participation rate among Arab and ultra-Orthodox citizens increased, the process of absorbing Soviet immigrants in professions that matched their education and skills was completed, and the number of migrant workers granted permits to work in Israel was reduced, which had a positive impact on Israel’s Arab citizens who had been hard hit by the widespread employment of Palestinian and migrant workers.

Between 2001–2003, as the global economic recovered and Israel’s security situation improved after the end of the Second Intifada, Israel’s economy began to emerge from recession and gross inequality fell. However, net inequality rose as a result of the government’s program of tax cuts for the upper deciles and benefit cuts for the lower deciles. This development was one of the root causes of the social justice protests that erupted across Israel in the summer of 2011, as a result of which the government was pushed to end its direct tax cuts, raise the minimum wage and a number of benefits, and introduce a negative income tax. Even after these measures, Israel still scored poorly in terms of net inequality compared with other OECD countries. The World Inequality Report 2021 noted that, in terms of purchasing power parity (PPP), the average income in Israel was higher than in many countries in Western Europe but lower than the United States, while inequality in Israel was high compared to Western Europe, but similar to the United States. Israel also scores highly on the OECD’s poverty index, which defines a household as poor if its disposable monetary income (not including income in kind, i.e., income other than money income, such as employee benefits) is less than half of the median income. This definition uses a relative measurement of poverty, unlike that used in the United States, where poverty is measured by comparing a person’s or family’s income to the value of a pre-determined basket of basic needs updated annually People whose income falls under the threshold are considered poor.

Israel has adopted the European definition of poverty, which means that as its highest earners (most of whom are in the high-tech industry) earn more, the net median income rises, and those at the bottom of the scale are defined as being poorer, even though their wages have also risen. The Israel National Insurance Institute’s poverty report has indicated that in the 1980s and 1990s, the proportion of Israeli families living under the poverty threshold was fewer than 20 percent of the total number of families. From the mid-2000s, the proportion of poor families jumped to 20.6 percent, a comparatively high rate when compared to other countries throughout the world. This figure dropped to 18 percent in the wake of measures to address inequalities in response to the 2011 social justice protests, but crossed the 20 percent threshold again in 2017. Meanwhile, in 2022, the proportions of ultra-Orthodox and Arab families living under the poverty threshold were 36 percent and 39 percent, respectively. Among Israel’s secular (nonreligious) population, the number of people living under the poverty threshold is about 16 percent (compared with the OECD average of 11.5 percent). From the mid-1990s, the average rate of return on labor fell, while the rate of return on capital increased, another expression of the rise of inequality in Israel.

Studies by Israel’s Taub Institute have found that academic achievement helps Jewish Israelis to reach the top deciles, while engaging in an independent occupation helps Israel’s Arab population to do so. Research by Prof. Momi Dahan[[1]](#footnote-1) has indicated that since the 2000s, income gaps between Israel’s Ashkenazi and Mizrahi (Sephardic) Jewish communities have narrowed, and the proportion of Mizrahi Jews in the top deciles has increased, as a result of reducing disparities in education and effective integration into the government and business.

**Social security**

After the Second World War, social security institutions began to be established as part of the welfare state, mainly in Western Europe. Israel’s National Insurance Institute (NII) was not established until 1954, in the aftermath of the tumultuous period prompted by the mass waves of immigration that followed Israel’s declaration of independence in 1948. While the idea of a social security institute had been raised by the leaders of the Jewish Yishuv prior to Israeli statehood immediately post-independence, the urgent needs of the state postponed any action to establish one. Social security systems are designed to prevent a sharp drop in consumption and quality of life as a result of old age, disability, decreased cognitive ability, death, orphanhood, or unemployment. There are two main schools of thought regarding national insurance. The first holds that national insurance should operate as an insurance company, albeit not a fully commercial one, and that a country’s national insurance institute should accumulate reserves (using an actuarial approach) to fulfil its obligations. The second maintains that the state does not need to accumulate full reserves in order to meet its obligations. Israel’s NII was founded according to the first approach. However, from the 1980s onwards, the Israeli government effectively adopted the second approach, according to which welfare is just one aspect of a government’s priorities, like education, health, or other social services.

In the early years of Israel’s national insurance system, there were only four categories of national insurance—old age, disability, bankruptcy, and maternity. The risk assumed by the NII was not reflected in its payments to the insured, although actuarial calculations were made to ensure the NII’s financial stability. From the 1980s, the concept evolved, and the NII became a government payment agent for welfare matters, with a weak connection to actuarial accounting. This was a result of the dynamics of the NII’s arrangements and relations with the Ministry of Finance, and also a practical political result of the government’s prioritization of its current needs regarding the various welfare issues that had emerged over the years. Israel does not have a formal model for national insurance. In some matters, the NII acts like an insurance company, such as for old age and disability savings, where its reserves are kept in bonds. In other matters, such as child support, the NII acts as a payments’ clearinghouse.

The erosion of the concept of national insurance began in the 1980s, when Israel decided to help immigrants who had not accrued pension or other national insurance rights in their countries of origin. These immigrants were deemed entitled to rights beyond the years they had worked in Israel. The NII gradually became a clearinghouse for the payment of a wide variety of welfare benefits (such as alimony and child support). For some years now, Israel’s national insurance funding has relied not solely on contributions from citizens, but from ongoing budgetary support as well. The state is required by law to pay old age, disability, and unemployment benefits regardless of the NII’s formal independence. In practice, there is no danger of the NII’s financial collapse, and benefit payments will be part of Israel’s national welfare priorities.

Another dilemma faced by national insurance institutes is whether benefits ought to be means-tested, with only the poorest entitled to them, or universal, and paid to everyone regardless of income. The current view in Israel is that some benefits should be universal and others means-tested. Israel’s middle classes feel that they do not receive adequate compensation for their social security contributions (e.g., in terms of pensions), and are less inclined to publicly support assistance when they do not see anything in return. In 1980, the government passed the Income Support Law, which provided a safety net in the form of benefits for people who found it hard to find work. In 2003, these benefits were eroded by the government’s Economic Defensive Shield policy, under the guise of a welfare-to-work scheme that aimed to push unemployed (including discouraged, long-term unemployed) people into work. The question of welfare payments versus labor market participation is one that most developed countries face. Each country must determine its own balance point. In the 2000s, Israel chose to pursue an aggressive policy of work over welfare. More recently, the coronavirus pandemic exposed a fundamental flaw in Israel’s national insurance system regarding how to deploy the existing unemployment benefits system to provide relief to immediate hardship faced by self-employed people and furloughed employees, who had effectively been forced into unemployment. In Europe, a different solution was found.

Recent years have seen proposals for dramatic changes in Israel’s welfare system via the concept of a universal basic income. This would involve the provision of an automatic, unconditional allowance to every citizen, replacing most benefits and creating a universal safety net. The amount of the income would be calculated according to the current level of benefits expenditure and financed by axing existing benefit payments and tax credits and making a limited increase in income tax. The proposal has several advantages, including cost savings, bureaucratic simplicity, and citizen-friendliness. It would likely reduce the number of people working in the shadow economy, and possibly have a positive effect on labor supply. The question arises of whether the upper deciles should also receive a universal basic income. Another question is why citizens who do not make any effort to work should be rewarded. One possible answer to these questions is that, in creating a wide social safety net, there is no choice but to also pay for a small number of people like those described above. The proposal is not perfect, and discussions around it are still theoretical. Situations like those described above will have to be dealt with on a case-by-case basis if this measure is ever implemented.

**Healthcare services**

Healthcare services are, in essence, an investment in the well-being of a country’s human capital and also an ongoing cost for the health of its residents. Healthcare services are significantly different from other goods and services. Healthcare is a public service that suffers from the inherent market failure in the imbalance in medical knowledge and information between manufacturers and suppliers (the doctors) and the insured (the patients). This requires government intervention. Basing healthcare services on market forces produces poor outcomes for consumers in terms of social justice and equality, and especially in terms of cost. Private healthcare systems are biased towards profit. They create unnecessary work, push up prices, and are expensive (the most prominent example is the United States, where national expenditure on health is about 17 percent of GDP, and healthcare provision and spending are not equally distributed among the population). A public healthcare system confers advantages on large organizations (such as Israel’s health maintenance organizations) that can operate as a single buyer and manage negotiations with service providers to benefit their service users.

Israel’s healthcare system was developed in the Jewish Yishuv in British Mandatory Palestine, before the establishment of the State of Israel. Its leaders were aware of the market failure inherent in healthcare provision and responded to these challenges by providing low-cost, readily available services to the general public of the Jewish pre-state Yishuv. This fledgling national healthcare system was based on the Clalit health maintenance organization (HMO), which was commonly known as Kupat Holim Clalit in Hebrew. Clalit was founded in 1911 as a socialist cooperative and provided low-cost and equitable services to its policyholders (in the same way as do Israel’s well-baby clinics, which provide a service for all that includes vaccinations and healthcare monitoring for babies and preschool children). Over time, other HMOs were founded alongside Clalit. As these grew, they were able to operate on the same principles, that is, as large providers that could leverage their purchasing power to buy healthcare services (doctors, nurses, hospitals, drugs, medical equipment, and other professional services) relatively inexpensively, and provide low-cost and equitable healthcare insurance for all. Israel’s HMOs provide both community healthcare services and a hospital referral system, and have had a positive impact on life expectancy and infant mortality rates.

In their dual roles as both healthcare provider and insurer, Israel’s HMOs have proven that a combination of public financing (private participation), independent management, a competitive structure, and proper regulation can work extremely well. There are very few examples of such healthcare models worldwide, but in Israel this structure has proved successful. Past weaknesses in the structure of Israel’s HMOs have been largely political, especially in the case of Clalit.

The State Health Insurance Law 1995 separated Israel’s HMOs from political bodies and transformed them into nonprofit and competitive entities. Israel’s healthcare system, which had originally taken a socialist approach, underwent competitive and operational changes over the decades, while always remaining a nonprofit system that provides. It has maintained a balance between providing a relatively efficient community healthcare and hospitalization system while remaining low-cost, universally available, equitable, and unbiased. Israel’s HMOs compete with each other under strict government regulation, and are financed by a special tax collected by the NII and redistributed among the funds according to a formula that calculates the profiles of the insured. The State Health Insurance Law 1995 made Israel’s healthcare system competitive by providing a “basket” of healthcare services to every citizen, with incentives for efficiency and improvements. The Law enshrined the rights of every Israeli to receive medical services of a reasonable quality, within a short waiting time and at a reasonable distance from their places of residence. The HMOs operate as nonprofit organizations and nonprofit insurance companies. Today, Clalit Health Services is the largest single healthcare insurer-provider in the world.

Israel’s HMOs excel in terms of their advanced information systems for patient medical data. In the age of artificial intelligence, this is an important resource for medical research and treatment follow-up, which benefits patients and helps in delivering preventative therapies. This data can also be used in research to help develop new technologies and drugs. A unique national strategic asset, it consists of raw and aggregated patient data that does not violate patient privacy. The HMOs maintain patient databases that enable big data analysis with excellent predictive ability with regard to patient behavior and reactions. This data can be used for the development of next-generation therapies and technologies, and is a valuable resource for multinational health and pharmaceutical companies. One of the reasons for Pfizer’s willingness to develop coronavirus vaccines quickly was the special structure of Israel’s HMOs, which allowed their patient databases to be used for follow-up and research.

While there is much to praise about Israel’s health system, we should not turn a blind eye to its problems, weaknesses, or difficulties, or indeed to any changes that need to be made now or in the future. Israel’s national expenditure on healthcare as a percentage of its GDP is lower than the OECD average (about 7.5 percent compared with the OECD average of 9 percent), and the number of nurses, doctors, and hospital beds per capita in Israel are among the lowest in the OECD. Israel’s healthcare system relies heavily on already trained new immigrants and students studying abroad. Some 60 percent of Israel’s newly-qualified doctors studied medicine at foreign universities, a high rate compared to other countries. Part of the solution is to increase the number of places for medical students at universities in Israel. At the same time, Israel’s medical system should carefully evaluate overseas medical programs.

Israel’s public health system is relatively efficient, with public expenditure in this area standing at only around 4.5 percent of GDP. However, public health funding is lower now compared with the past. This has contributed to equipment shortages and a decrease in the number of intensive care beds. The healthcare system has been pushed to the very limit of its capacity and has low redundancy. Hospital budgeting is carried out according to ownership rather than according to performance or objective measures, and this needs to change. Two healthcare systems have been created in Israel—a private, expensive system for the wealthy, and a public system that is not accessible to some parts of the public (but which is still good).

In the coming years, Israel’s aging population will pose new challenges for its healthcare system. The number of Israelis aged over 65 is projected to increase from 12.5 percent of the population in 2022 to around 16 percent by 2050. This, alongside an increasing number of Israelis aged over 75, the rising cost of innovative drugs, and pressures for salary increases for medical staff, may erode the efficiency of Israel’s healthcare system. Moreover, Israel’s healthcare system is currently weak in terms of its provision of mental health and geriatric medicine services. Addressing these issues requires increased health spending, the expansion of existing mental health and geriatric medicine services and departments, and more healthcare professionals, notwithstanding the shift to home hospitalization and care in the community.

Israel’s healthcare system, which suffered from shortages of PPE and intensive care beds during the coronavirus pandemic, nevertheless proved that it was able to adapt and operate quickly, efficiently, and professionally in a crisis. In opening coronavirus wards and treating patients, the system as a whole demonstrated a high level of flexibility and agility. Lessons from the pandemic have pointed to the need to improve doctor-patient communications, increase the number of hospital beds, and promote and improve home hospitalization services and remote patient care.

**Social protests**

The seeds of the social protests that swept across Israel in the summer of 2011 had been sown in the previous decade. The government’s neglect of less advantaged and less affluent population groups had caused existing social inequalities to deepen. Basic structural problems were not addressed. The first ten years of the new millennium were a “lost social decade,” and the resulting social problems did not disappear, but came back to bite the government in the form of mass social protests. Israel’s social disparities were exacerbated by the government’s Economic Defensive Shield program of 2003, which had slashed welfare and social services. Years of suppressed public discontent and anger finally erupted in mass demonstrations in July 2011.

As early as 2002, a protest camp of some 50 homeless men, women, and children sprung up on the grassy park at the center of Kikar HaMedina, Tel Aviv’s largest plaza, which is surrounded by expensive apartments and high-end luxury designer stores. Like the 2002 homeless camp, the 2011 social justice protests—which were variously dubbed the “cottage cheese protests” (in response to the high price of many basic products in Israel, in this case the price of cottage cheese), the “tent protests” (thus named because protesters pitched tents in city streets in protest at high rental prices), and the “stroller marches” (named after the young parents who attended protest rallies with young children in pushchairs)—shone a light on the gap between Israel’s macroeconomic achievements and its social realities, including the soaring cost of living, a housing crisis, and crumbling social services. The 2011 protests were initiated by Israel’s middle classes, who felt hard-hit financially. They complained that even though many middle-class households had two breadwinners, they were struggling to make ends meet. Discontented with the status quo, they were worried about their economic future. Although the middle class had benefitted more than Israel’s poorer residents from the country’s welfare policies, they were well aware that their country’s welfare state had been effectively dismantled. The cost of public services had skyrocketed, and the financial burden on young middle-class couples had increased. Initiated by young people, the protests focused on rising housing costs and the soaring cost of living.

This was a public expression of economic frustration. The protestors were not Israel’s poorest residents from its less affluent peripheral regions, but young middle-class people from the wealthier central Mediterranean coastal plain, who felt that Israel’s social services had been crippled and the social safety net weakened as a result of government economic policy in the 2000s. They were mostly protesting against the skyrocketing house prices that made buying an apartment almost impossible for most young, educated, working families. Many were angry at spiraling preschool education costs for their children, and harbored a deep sense of dissatisfaction with the government’s taxation and benefits policies. The protests, which began in Tel Aviv and other cities in Israel’s central coastal plain under the slogan “the people demand social justice,” quickly spread throughout the country. Large swathes of the Israeli public went out into the streets to demonstrate against cuts to benefits and social services. Reflecting the situation, Israel’s Gini coefficient score had risen from 0.35 in 2000, reaching a peak of 0.392 in 2006, and falling slightly to 0.384 by the time of the protests in 2011. However, the protests did not manage to become a sustained movement, mostly because their leaders had no political action plan. Indeed, the demonstrations petered out following the recommendations of the government-appointed Trachtenberg Committee, some which were actually implemented. However, the protests did manage to shift attitudes within the government and the business sector regarding social disparities and the cost of living, and succeeded in blocking measures to reduce the welfare state even more and to cut taxes for the wealthy.

Since the 2011 protests, Israel has seen a rise in public involvement in, and knowledge of, socioeconomic problems. Public bodies have been established to monitor and research socioeconomic issues, competition, and regulatory reforms. The protests affected the public, political, and media agendas, and brought about changes in how the government conducts itself, as well as increased awareness of the problem of private sector interest groups. Among the tangible achievements that came out of the protests were the introduction of free preschool education from the age of three, an increase to the minimum wage, tax credits for those with low incomes (a negative income tax), an increase in teachers’ salaries, and an expansion of preschool services. These developments did manage to somewhat blunt the negative trends that Israel had been experiencing. However, there were few achievements in terms of curbing housing costs, in spite of various plans sketched out by the government. The Economic Concentration Committee was established to reform economic concentration in certain economic sectors, an Open Skies agreement with the European Union was ratified in April 2013, and cellular pricing reforms were implemented. The 2011 social justice protests contributed to increased business regulation and increased competitiveness. There were changes in taxation and regulation in real estate, food regulations were amended, and a salary cap was introduced for senior officials in the financial system. Remedial measures were also taken to help the lowest deciles, even though the protests had been led by the middle classes. Inequalities fell in the decade after the protests, as reflected in the Gini index, which dropped from its peak of 0.39 to 0.355 in 2019.

**The third sector**

Among the many changes to Israel’s economy and society has been the development of a thriving third sector and civil society. This evolved from two processes: economic—a drop in public spending and a reduction in state involvement in social service provision; and social—public awareness of social services and social rights has grown. Meanwhile, from a political point of view, the development of Israel’s third sector and the growth of civil society has increased citizens’ exposure to advocacy issues within a democratic society. Civil society organizations have value in creating programs and ideas that the political system cannot, but which the state can adopt. Israel’s nonprofit social organizations have focused on service provision, while advocacy groups have become involved in issues arising from privatization, market liberalization, the globalization of the economy, the reduction of the welfare state, the rise of individualism at the expense of collective ideas, the expanding market economy, and widening socioeconomic disparities. Nonprofit organizations have been granted broad operational leeway to carry out certain government functions, which has meant that the government has been able to step back from operating in a number of social fields.

The growth of advocacy organizations has been an important part of the development of Israel’s civil society. It has led to an expansion of public discourse on rights, an increased desire for pluralism, and an understanding of the importance of environmental quality. The growth of advocacy and rights groups is a positive sign for Israel’s democracy and civil society. Activity and discourse in these areas has moved beyond the formal institutions of Israeli democracy.

Israel’s third sector has carved out a respectable niche for itself alongside the first sector (the government) and the second sector (the commercial sector). It encompasses a wide variety of organizations, including nonprofit associations, endowments, community interest companies, and social enterprises. Between 2015–2019, the scope of their activity, in a broad sense (including the large corporations operating in education and health) was estimated at about 10–11 percent of GDP. The third sector continues to grow and expand. Some 400,000 people work in it, alongside another 250,000 volunteers. In terms of funding, third sector activities and operations receive around 55 percent from government support, about 30 percent from sales of services, and 15 percent from donations, mostly from abroad. The government’s relationship with nonprofits and associations is complex. A significant part (some 45 percent) of the activities of these organizations is funded by the state and municipalities, prompting the question of why the government prefers this way of working. There are several explanations. By outsourcing work to the third sector, the government can reduce its commitments, make cost savings, improve employer-employee relationships, bring in private money as an addition to government funding, and create operational flexibility in social service provision, in contrast with the relative rigidity of government-provided services. The work that Israel’s nonprofits undertake reflects the government’s willingness to provide financial assistance for activities that are consistent with its policies. The expansion of Israel’s third sector into social service provision also dovetails with the government’s privatization policies. Nonprofits are a reflection of the involvement of civil society, private households, and businesses in the community, and help contribute to creating an active community life with a diverse and engaged population.

The third sector benefits significantly from the activities of businesses and households. Philanthropy is a significant part of the business community, which prefers organizations that make proper use of the funds available to them, both in routine times and in crisis situations. **There are around 1,000 philanthropic organizations in Israel whose worth totals some NIS 10 billion, which is very low in comparison to other countries.** In addition to the income they receive for providing services to the government and the public, Israel’s nonprofits are also funded by donations from private individuals and foundations in Israel and abroad. The administrative-financial discourse of the business world has penetrated the third sector, which has learned to use the resources at its disposal efficiently and rationally in order to operate at maximum productivity. Israel’s nonprofit organizations have adopted a managerial-financial policy for optimizing resources. They have a vision, strategic goals, a work plan, and a realistic budget. When economic crises occur, there is a slowdown in donations or payments from the government, and internal organizational thinking increases. Social financial entrepreneurship has developed the concept of impact, which is measured in terms of a combination of economic and social-environmental profit that creates lasting social change.

1. Momi Dahan. Income inequality in Israel: Developments and recommendations. (2021). In: In A. Ben-Bassat, R. Gronau, & A. Zussman (Eds.), The Israeli Economy, 1995–2017: Light and Shadow in a Market Economy (pp. V-Vii). Cambridge: Cambridge University Press. [↑](#footnote-ref-1)