

Welfare Wealth and Well-Being

Socio-Economic Policy: An Integrated Approach



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Basic Questions in Economics:

- What to produce?
- How much to produce?
- At what cost?
- How should it be distributed?

Positive Interaction

<u>Economic</u>		<u>Social</u>
Employment, Human Capital	<	Education
Economic Essentiality	<	Health
Labor Force Growth	<	Handicapped Integration
Multi-Generational Savings	<	Pension
Aggregate Demand Growth	<	Improve Income Distribution
Economic Prosperity	>	Public Expenditure
Prices Stability	>	Personal Planning Ability

Negative Interaction

<u>Economic</u>		<u>Social</u>
Prices Stability	>	Unemployment
Globalization	>	Lack of Work
Budget Pressures, National Debt	<	Public Expenditure Growth
Negative Incentives	<	Generous Allocations
Hi-Tech Sector	>	Gaps Widening

Main Reasons for Government Involvement

- Externalities;
- Market failures;
- Social equity/social justice.

Economic Advantages of Transfer Payments

- Shifting income to segments of the population with higher consumption patterns;
- Stimulating the economy by increasing aggregate demand.

Policy makers tend to ignore these advantages in favor of policies that reduce the size of the social sector as a means of stimulating the economy

Evidence from Israel

What is the policy based on?

Underlying the policy are a series of unsubstantiated assumptions*

*Based on Zvi Sussman's paper "The Share of Public Expenditure in GDP in View of the Need to Increase Defense Spending"

Assumption 1:

The public sector is a “burden” to the economy

The public sector is not a “burden”; it generates important public goods

- It contributes to the narrowing of social inequality and poverty;
- It invests in essential education and health care services that the public would not consume adequately if it had to pay for them solely from personal income.

Assumption 2:

Limiting the public expenditure spurs
growth

Israel's public sector in its current size
does not significantly impede growth

Israel's public sector does not exceed the
accepted levels that characterize many
developed countries

Tax Burden, 2005

(Percent of GDP)

Ireland	30.2
Greece	35.7
Portugal	37.1
Israel	38.3
Netherlands	39.3
Austria	42.9
Finland	44.3
Norway	44.9
Belgium	45.6
Denmark	49.6
Sweden	50.7

Public Expenditure, 2005

(Percent of GDP)

Ireland	35.8
Norway	36.1
Portugal	47.6
Greece	47.7
Belgium	49.1
Austria	49.5
Israel	50.8
Finland	50.9
Denmark	54.0
Sweden	57.2

Government Expenditure and per Capita GDP

1995 prices	GDP per capita	Government exp. per capita
2001	52,977	43,849
2004	52,787	38,993
2006	56,055	42,478
Annual average percent change		
2001-2004	-0.1	-3.8
2004-2006	3.0	4.4

Assumption 3:

Faster growth narrows socio-economic disparities and fights poverty

Growth Does not Narrow Disparities and Reduce Poverty

Between 2003-2005 per capita GDP grew 6%.
During these years the disparities widened

Per capita income (NIS, 2005 prices)	Lowest decile	Highest decile
2003	2,374	20,373
2005	2,501	23,046
% of change	+5%	+13%

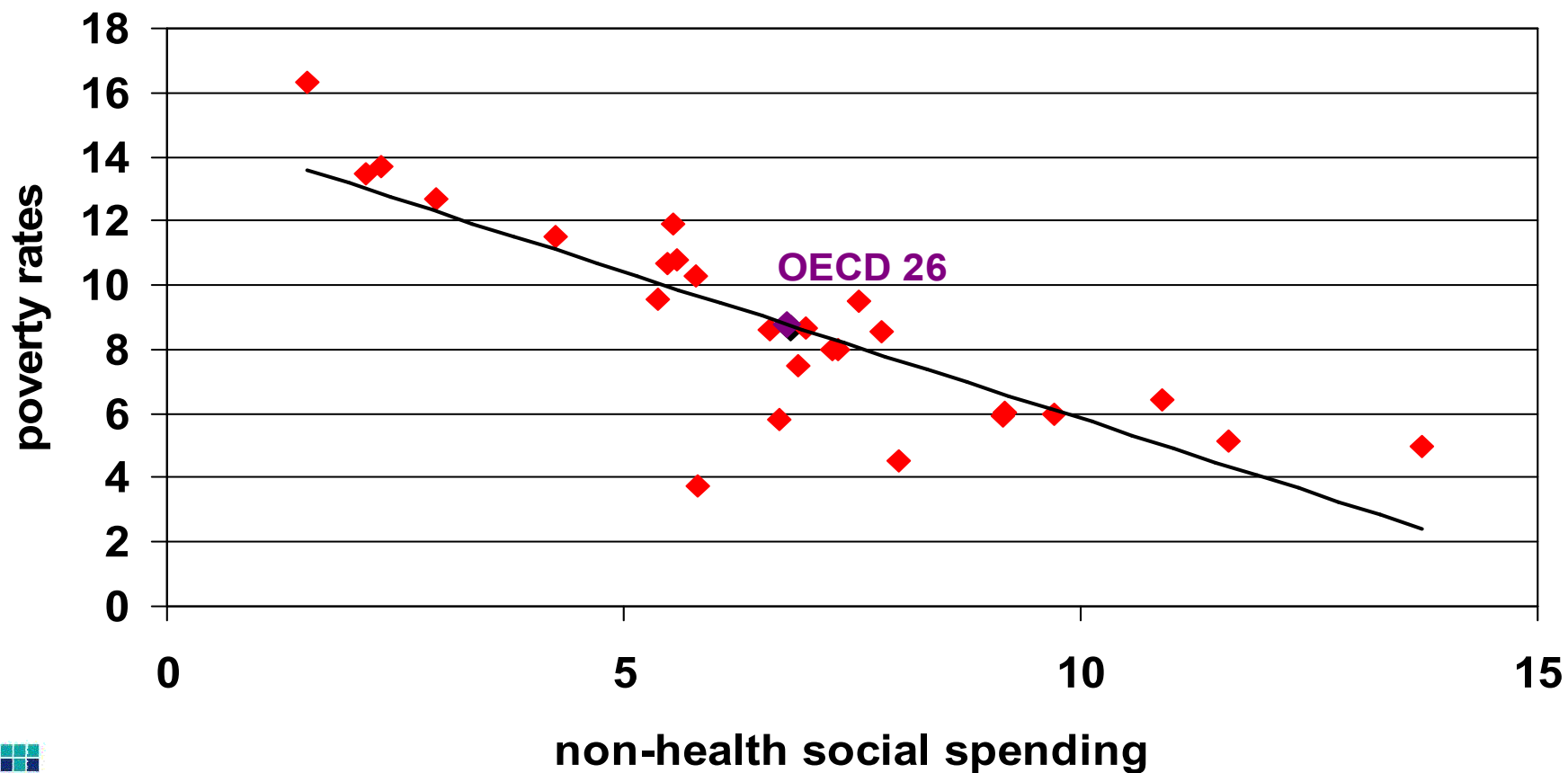
Assumption 4:

Child allowances push families into
poverty

It is not the Social Welfare System That Created the Most Frequent Form of Poverty: the Working Poor

- By the standards of other developed countries, Israel's welfare system is not oversized
- Comparison of the effect of welfare system size on poverty and disparities shows that a **larger** welfare system **reduces** poverty and economic disparities
- More than 40% of all poor families are “working poor”

Relative Poverty Among the Working-age Population and Social Spending, 2000*

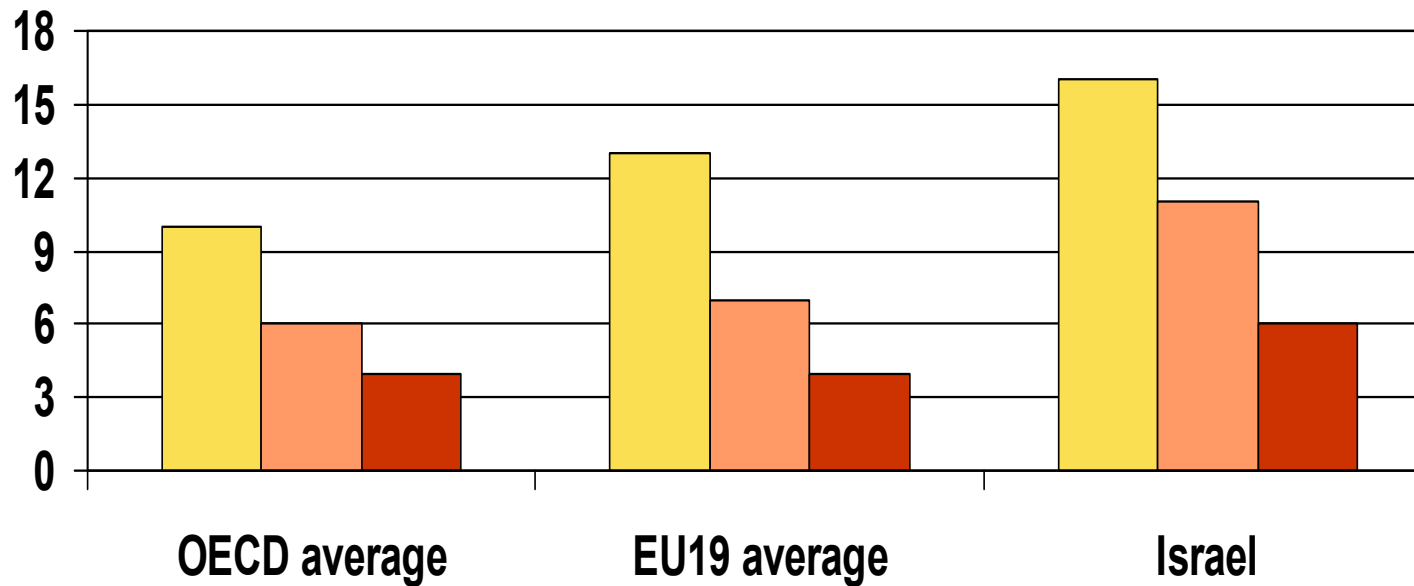


*Source: Michael Förster and Marco Mira d'Ercole "Income Distribution and Poverty in OECD Countries in the Second Half of the 1990s "

There is a strong connection
between social developments
and economic gains

Education Plays a Crucial Role for the Accumulation of Human and Social Capital for Economic Growth

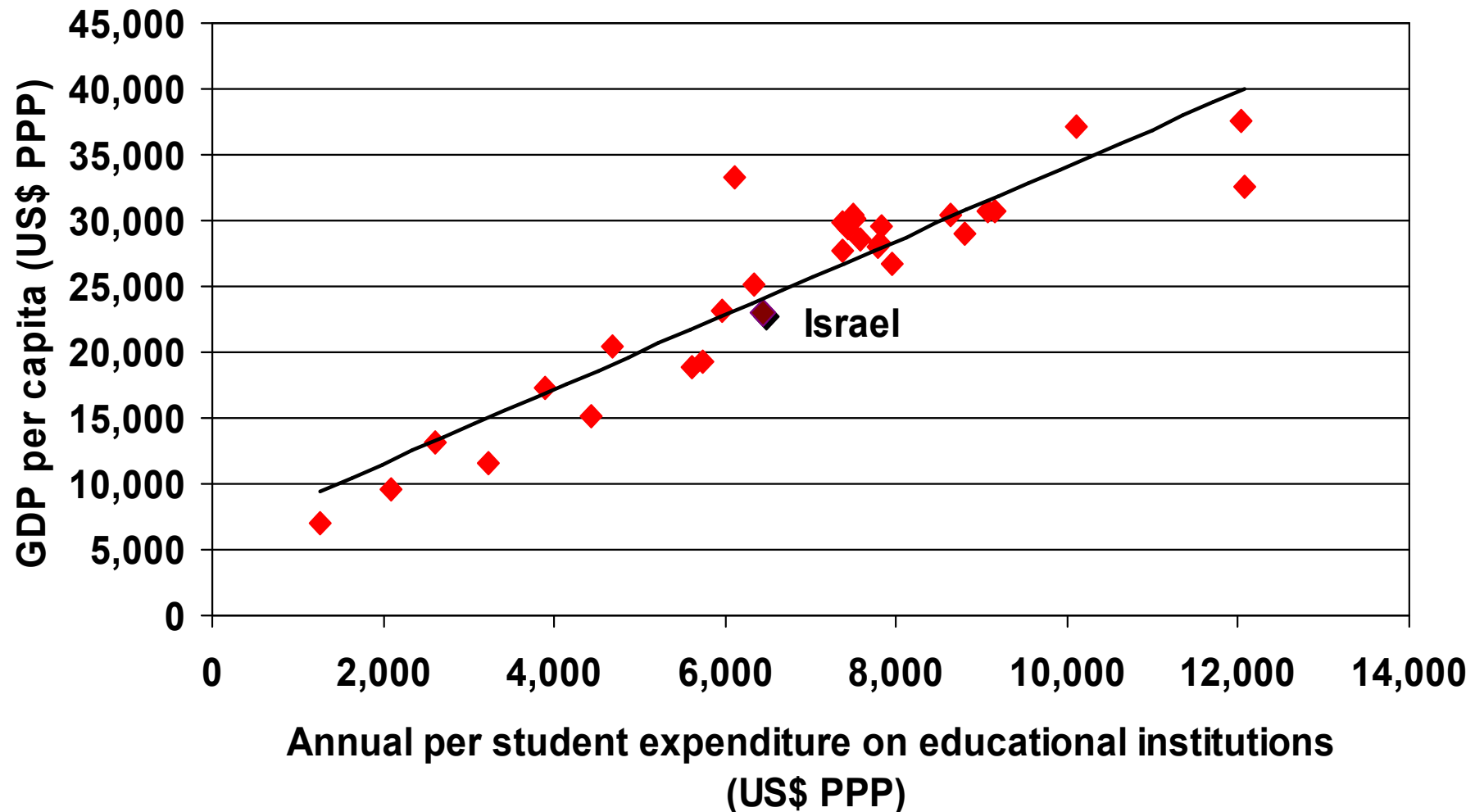
% unemployed ages 25-64



The level of education influences the ability to participate in labor be employed

Below upper secondary Upper secondary, non-tertiary Tertiary education

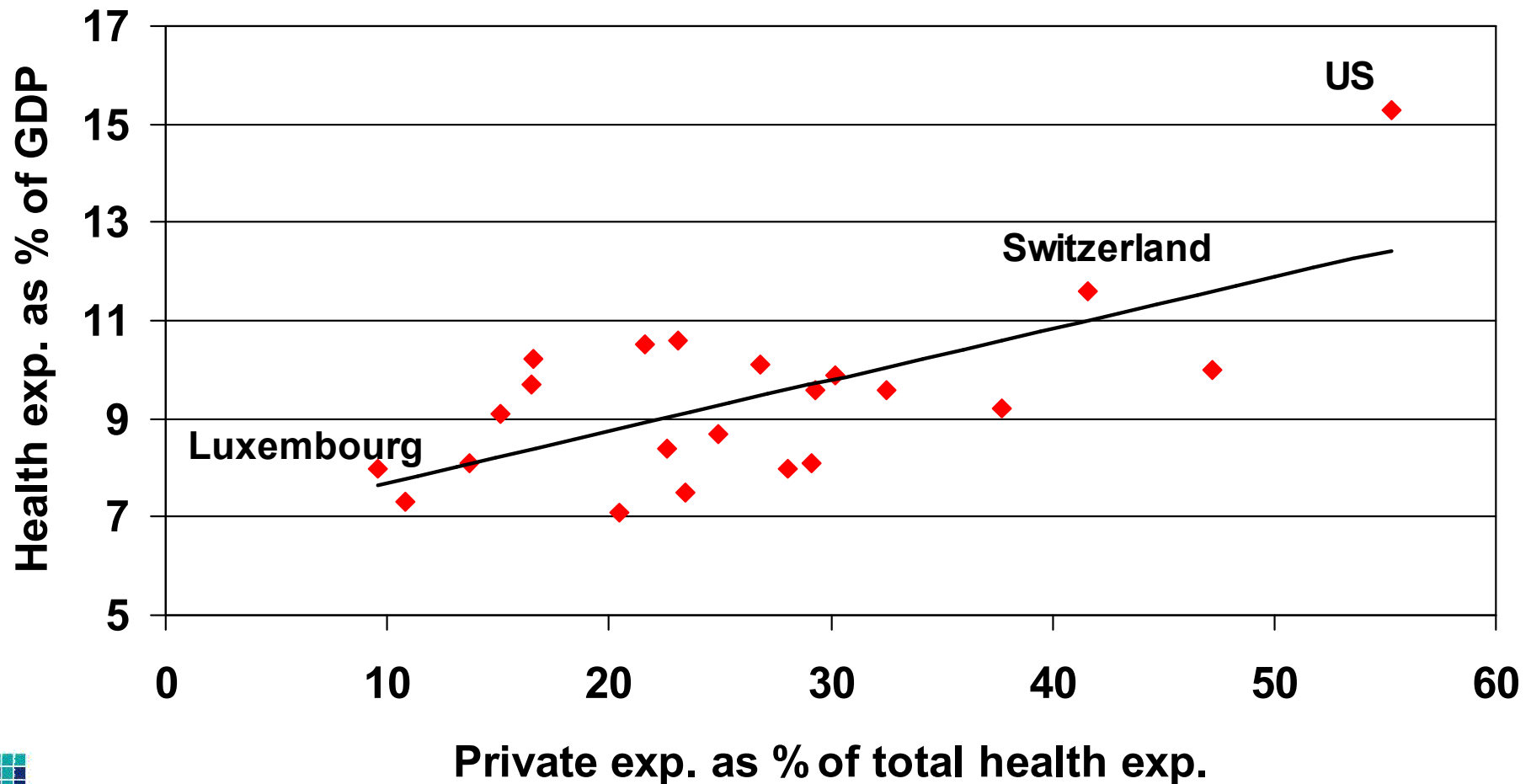
Positive Relation Between the Level of GDP and the Expenditure on Education in OECD Countries



A Healthy Population is Important for the Country's Economy

- Nearly 17% of temporary absences from work in Israel are sickness-related
- Among the employees who usually work part-time, 6% do so because of illness and disability
- These two indicators show labor-supply loss, and expenditure pressures arising from sickness-related absences from work

Positive Relation Between High Health Expenditure and low Public Expenditure as % of Total Health Expenditure

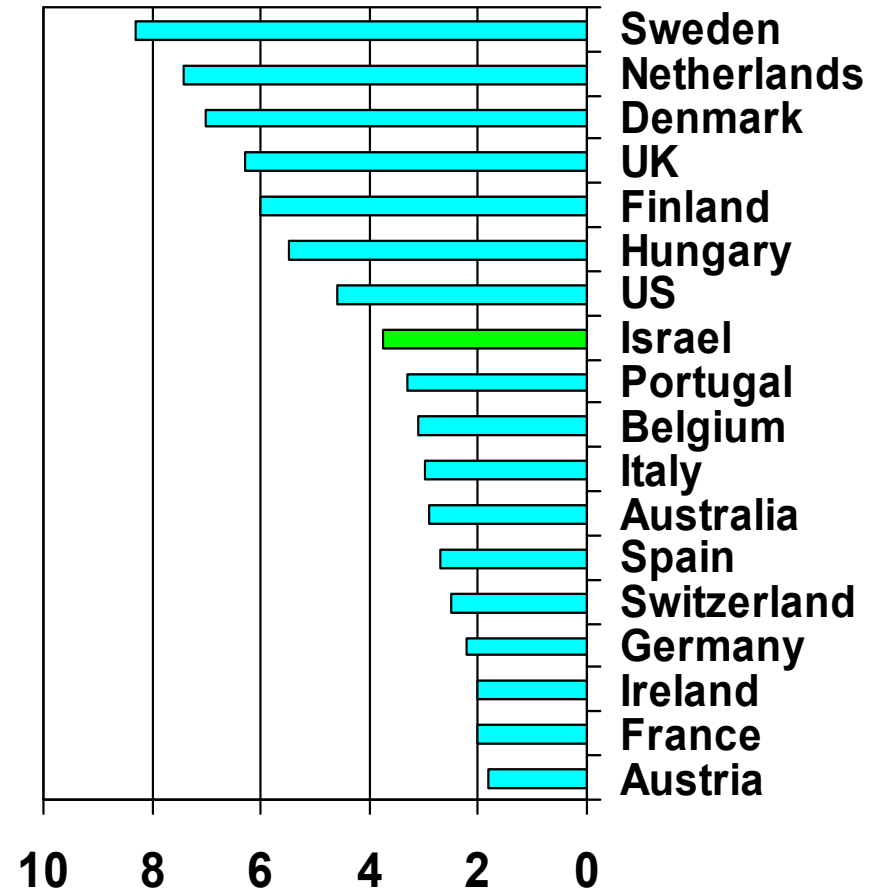
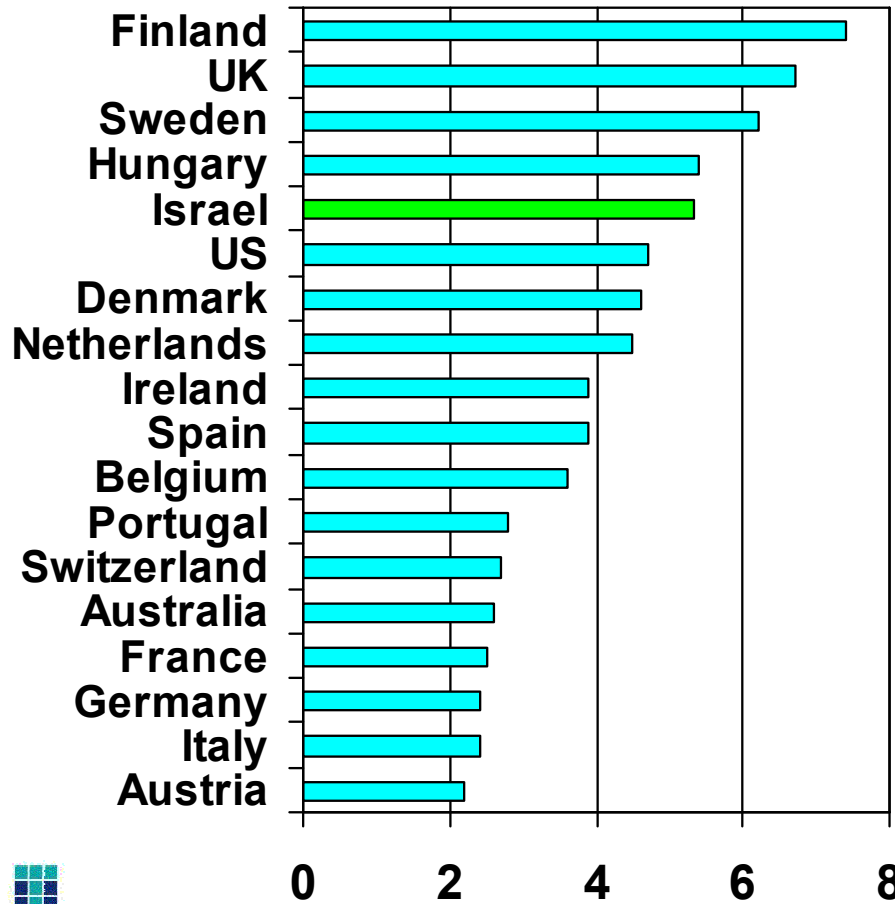


Sick and Disability-related Withdrawals From the Labor Market

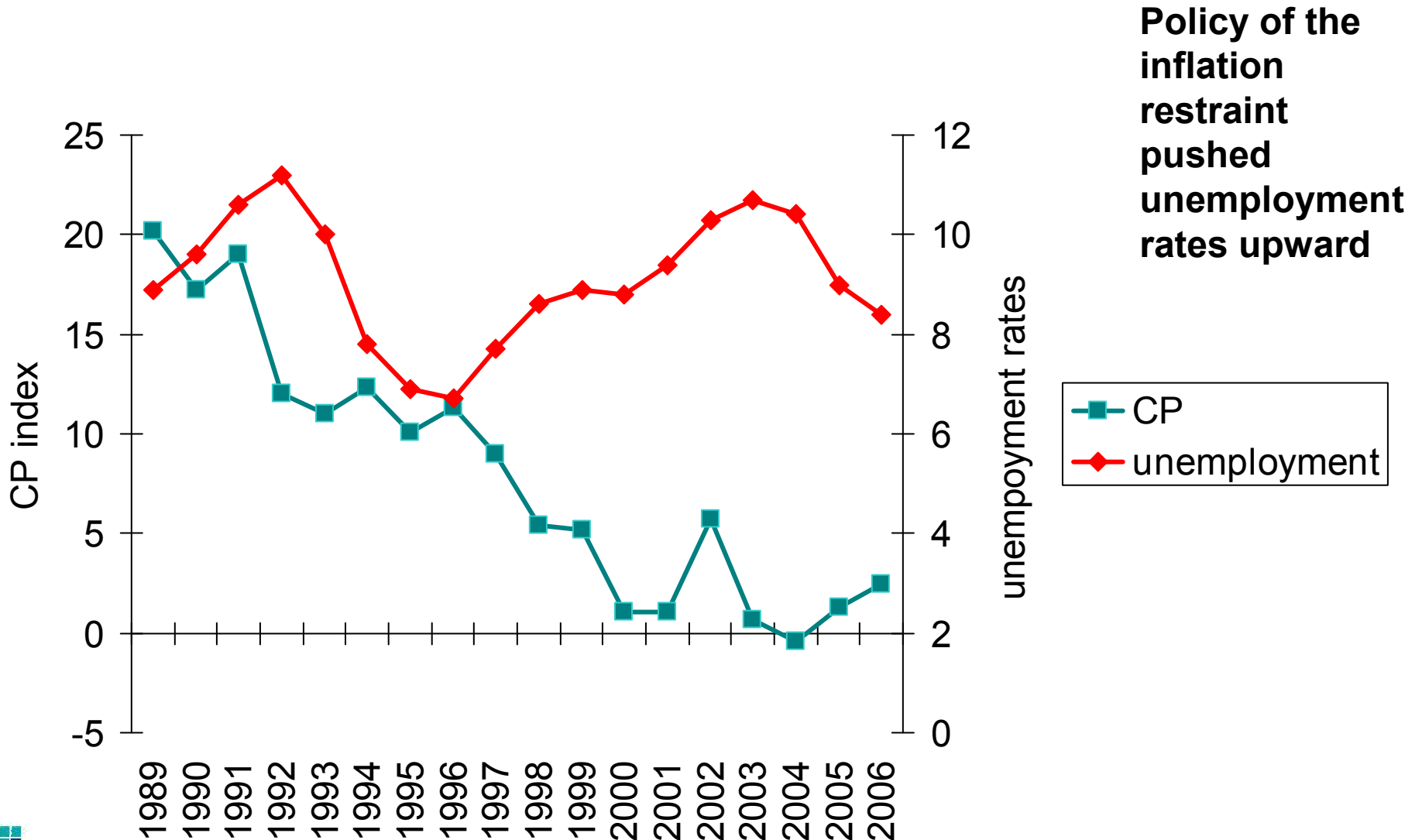
share of the population 15-65

men

women



Change in Unemployment and in Inflation Rates



Growth of GDP

(annual, in %)

	Total	<u>In Manufacturing</u>	
	Economy	Hi-Tech	Other

1991-96	7.9	13.9	6.6
1997-99	2.3	7.3	-1.0
1991-99	6.0	11.7	4.0

Manufacturing Exports, by Technological Intensity

	Beginning of 90s decade	End of 90s decade
Total	100	100
High Technology	30	53
Medium-High Technology	31	23
Medium-Low Technology	20	15
Low Technology	19	9

Wages – Hi-Tech and Other Sectors

During the rapid economic growth in Israel in 1995-2000, earning inequality widened

	1995	2000
Total Economy	100	100
Commerce	80	77
Public Services	98	89
Hi-Tech	178	219