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**The Evolution of Children Allowances in Israel: From the
pursuit of equality to the challenge of demography**

Abraham Doron*

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* Paul Berwald School of Social Work and Social Welfare
Hebrew University of Jerusalem , Mount Scopus Campus
Jerusalem 91905, Israel

Introduction

Children allowances became since the 1930s an integral part of social protection systems in most European countries (Bradshaw and Piachaud, 1980; Bradshaw et al, 1993). The introduction of these allowances reflected the recognition of modern capitalist societies that an adequate income for all families could not be secured by a wage system which is based on the product of a man's labour which is not related to the size of his family (Beveridge, 1962, [1942] pp.154-58). The payment of children's allowances made it possible that the resources of the family household became no longer based exclusively on income derived from earnings but could correspond, at least in part, to the actual burden which the family has to bear. The introduction of the children's allowances had also in many countries a further aim – to check the fall in the birth rate, and in some instance to encourage it directly (Kamerman and Kahn, 1981).

Children's allowances had thus from its beginnings a twofold role: an egalitarian aim, to close the income gap between families of different size, particularly between small and large families. And a demographic aim, to effect the fertility rate of the population, namely to promote policies mostly directed to encouraged the birth rate (Kamerman and Kahn, *ibid*, p. 35; Immervoll et al. 2000; Ozawa and Hong, 2003). The aim of this paper is to review the Israeli policies regarding children's allowances since their inception in the 1950s and their change from the initial pursuit of equality, i.e. reducing the income gap between small and large families, to the current policies attempting to effect demographic issues, namely to use these allowance to curb the birth rate of large families.

The Early Period: The Pursuit of Equality

In the past Israeli society attached considerable importance to the relation between wages and the size of family. The leading force in the Jewish community, the labour movement, motivated by an egalitarian socialist philosophy succeeded for a while to secure a system of wages which was not based entirely on the product of a man's labour but also on the size of his family. In the pre independence days, during the British Mandate rule, the wage structure included in most instances, on top of the

basic wage, a supplement for the first three or four children. This system continued to exist for some time in Israel after independence in 1948 (Doron and Kramer, 1991).

The social and economic changes which took place in Israel after 1948 gradually brought about a modification of the egalitarian philosophy of the labour movement and consequently the abandonment of the rather egalitarian wage system. The shift was in the gradual adoption of an ordinary hierarchical wage system. The family supplements for children were not entirely abandoned as a component of the wage structure but they declined in their value and became a less important part of the family wage. The insignificant size of these supplements, their inadequate coverage and the growing income gap between families in general, and in particular between large and small families, eventually precipitated government intervention in the field of children's allowances (Doron and Kramer, *ibid*, p. 120).

In the 1950s various political groups demanded the introduction of a children's allowances scheme. The ultra orthodox religious groups became at the time, the strongest advocates for such a scheme. Because of their religious belief the ultra orthodox practiced no family planning so that the proportion of large families among them was high. They were also interested in encouraging an increase in the birth rate of the Jewish population because of the tragic loss the Jewish people suffered during the Holocaust. The government rejected, however, at the time these demands as in its views there were other needs that took precedence over children's allowances (Divrei Haknesset [Parliamentary Records], 1956).

The main factors that eventually forced the government to change its views and adopt a children's allowances scheme was the growing gap in the standard of living between the population of European origin and the population that originated in the Arab countries. The gap was also mainly between large and small families as among the immigrant population from the Arab countries large families were at the time the rule (Ginor, 1979). Sudden developments in late 1959 gave the introduction of the children's allowances scheme special urgency. In July 1959 riots broke out in the port city of Haifa and spread to other towns inhabited mostly by immigrants from North Africa. The riots reflected the absorption difficulties of these immigrant groups into Israeli society. A special committee set up by the government to enquire into the

causes of the riots emphasized the fact that the difficulties in absorption were mostly exacerbated because of the large numbers of families with many dependent children that strongly affected their low standard of living (Report of the Wadi Salib Inquiry Committee, 1959).

It was this social and economic background of growing inequality and the lingering fear of civil disorders that the first children's allowances scheme was introduced. The Large Families Insurance Bill brought to the Knesset, the Israeli parliament in July 1959. The immediate role of the new scheme was to remove the discontent which had at the time led to the violent demonstrations in some parts of the country. The Bill got therefore urgent attention in the Knesset and it was unanimously passed in August of that year (Doron and Kramer, *op. cit.* pp.121-123)

The aim of the new scheme was mainly egalitarian: to improve the conditions of weak parts of the working population but it had also some demographic elements in it. The Minister of Labour presenting the new schemes in the parliament mentioned that one of its aims is "to check the negative trends in the demographic developments" (Divrei Hakneset [Parliamentary Records], (1959), p. 2639). In the debate about it, however, the demographic challenge came into the fore. Interestingly, some Malthusian arguments, were raised by leading members of left wing parties. They claimed that the new allowances would contribute to the proliferation of children among parts of the population which were least capable of supporting them.

J. Riftin, a M.K. of Mapam, a radical left wing party, expressed these views, though he supported the Bill. "I think" he said. "that there is a blessing in families with many children, but on two conditions only. First, there is a blessing if it is accompanied by an effort to raise the social and cultural level of the population. ... Large families are not an ideal of women and men who are not masters of their fate and the fate of their families. It is very important that the implementation of the Law should be accompanied by wide activities to raise the cultural level and public consciousness of our immigrants who came from many lands. There is also a second condition, and with it the blessing will be complete: many children, but not in poverty" (Ibid, p. 2668)

The Large Families Insurance Scheme.

The scheme came into operation in September 1959 and provided monthly allowances for all families with four or more children below fourteen years of age. The allowance were paid for the fourth and each subsequent child on an ascending scale beginning with IL 6 per month for the fourth child and reaching IL 10 for the eighth and each additional child. In 1965 the eligibility age for receiving the allowances was raised from fourteen to eighteen years (Doron and Kramer, 1991) .

The new childrens's allowances were specifically targeted upon large families and within this demographic group the allowances were universal in their nature. Their egalitarian aim was reflected in their deliberate use to modify the income distribution pattern and to reduce the extent of inequality among families in Israel. The purpose of the scheme was to lessen the gap between the levels of living of large and small families and, at the same time, between those who came from Europe and the new immigrant population, which originated in Arab countries and was mainly composed of large families.

Follow up of the schemes' performance in the 1960s showed that the majority of the allowances--around 66 percent, went to families with four or five children, about 20 percent went to families with six children, about 10 percent to families with seven children and between 4 to 5 percent to families with eight children or more. The majority of the recipients were, as expected, among immigrant groups. About 75 percent of the allowances went to families from countries of Arab origin, 4 percent to those born in Israel and only 6 percent to families of European origin. About 15 percent of the allowances went to the Arab population, though they constituted only about 10 percent of the total population (Lotan, 1969, pp, 61-64).

The scheme managed to fulfill its main goals in reaching the target population. The limitations of the scheme were, however, in meeting its egalitarian goals because of the rather inadequate level of the allowances. There was little doubt that the payments were not sufficient to make a significant impact on the economic well-being of large families. There were, therefore, continuous pressures to increase the rate of allowances paid that were partly met with the amendments and extension of the

children's allowances program in the years to come (Doron, 2001) .

The New Millennium: The Challenge of Demography

At the beginning of the new millennium egalitarian philosophy was not high on the Israeli political agenda as it was 50 years earlier. The dynamics of change have transformed Israeli society. The labour movement which was at the time the leading force in Israel's social and political life has lost its dominance in Israeli society (Levi-Faur et al, 1999; Aronoff, 2001). The underlying ideological and practical premises of the present political establishment is predominantly neo liberal and it is committed to contain the costs of the welfare state and reduce the number of people and families dependent on social security payments .

The fundamental problems of poverty among families with children, and especially of large families, has however not changed (National Insurance Institute, 2009). Over the years there was some significant change in the composition of the large families population. While in the decades of the 1950s and 1960s large families were the rule among new immigrant families from Arab countries, at the present large families with four or more children are mainly concentrated within two population groups – The Jewish ultra orthodox population and the Moslem Arabs. While the fertility rate of the majority Jewish population was 2.2 children per woman, a rate higher than in most OECD countries (Sleebos, 2003) the equivalent rate among the Arabs was 4.4 children, and even considerably higher, 5.8 children, among the ultra orthodox Jews.

The high fertility rates among these two population groups were seen to have a major impact on the country's social and economic problems. On the one hand the sharp increase of poverty among these population groups in more recent years contributed to the increasing cost of public support for these families. On the other hand the low rate of participation in the active labour force of parents in those families contributed to the reduction of public support for the benefits provided to them . The major policy issue became thus the demographic challenge of how to proceed with the support system that has evolved over the years to deal with the large families population groups.

The support system for large families in the years 2000

The children's allowances program has undergone many changes since its inception in 1959, and throughout the years it has been under continuous review and reform. Its pattern of evolution reflects the difficulty of reaching a consensus about the role of the program in the country's social policy and in the long term strategy for targeting its benefits to various groups of families with children. In view of the social, economic, and political changes affecting Israeli society in recent years and the persistence of deep ethnic, religious, and social class cleavages, the prospect of reaching such a consensus seems remote.

At the beginning of the millennium the children's allowances program in operation was fully universal in its coverage, i.e. it provided benefits for every child in Israel younger than eighteen. It consisted of one uniform scheme fully integrated into the direct tax system. The allowances paid by the scheme to families with children are at the same time tax credits built on a credit point system. In practice the program played a dual role: It served as a tax credit for families with incomes exceeding the tax threshold and was the equivalent of a "negative income tax" for families whose income was below the tax threshold level (Roter and Shamai, 1977).

The allowances are the dominant and almost only factor taking into account family size in the direct tax system (Gabai and Lavon, 1996). They were linked to the consumer price index and raised accordingly in January of every year. The value of a credit point in 2000 was equal to 2.5 percent of the average wage (National Insurance Institute, Annual Survey 2002)..

It is in this context that the children allowances program became the second largest program in Israel's social security system. The benefits paid by the program consisted nearly 20 percent of the total benefit payments made by the National Insurance Institute, NII, the country's agency responsible for the administration of national insurance and other social security payments. The program run, however, against the more recent trends dominating Israeli social policy to cut public expenditure and in this manner reduce government responsibility for ensuring the

welfare of the population (Doron 2001a). By the end of the 1990s the government, and especially the Treasury, were determined to use the first opportunity to introduce significant cuts in the children's allowances program. Although earlier attempts to pass such measures failed, this did not deter them from further pursuing such policies.

At this particular time when the government made repeated efforts to cut children allowances, the Knesset, the Israeli parliament, on the private initiative of a Orthodox religious party, succeeded against the declared government policy to significantly increase the children's allowances to large families, i.e. families with five and more children. The purpose of the legislation was mainly to increase the benefits to a large part of Jewish religious orthodox families who have many children and live in difficult economic circumstances and to prevent poverty among them. The government was strongly opposed to the bill as it was contrary to its policy of reducing public expenditure on welfare in general and the cost of the children's allowances program in particular (Doron, 2005).

Even before the new legislation the structure of the allowances was built on an ascending scale increasing the rate of benefit from the third child on. In this system the allowance for the fifth child in a family was 3.6 time higher than the benefit to the first and second child. This new legislation increased even further the rate of benefit payable for the fifth child and further children in a family, and made it five times higher than the rate for the first and second child. It consequently brought about to a steep increase in the total cost of the children's allowances program. As a result, the debate concerning the cost of children's allowances program and their effect gained further momentum; it moved to the top of the country's political agenda and became entangled with the wider social, political and issues while the demographic issue became a major point of content in the ensuing debate (Doron, 2005, op.cit).

The debate centered therefore the demographic effect of the program and subsequently about the role of the state in providing increased cash benefits in the form

of children's allowances to large families. The main issue in the debate was first, to what extent is it proper and wise for the state to provide such increased support to large families (For example: Ilan Shahar, 9 April 2000; Shohat, 14 April 2000; Golan, 17 April 2000;) and, second, whether the provision of such support actually promotes high fertility rates among the particular population groups as the ultra orthodox Jews and the Arab parts of the population.

In part, the debate reflected the rift between the non-religious part of the population and parts of the ultra orthodox Jewish groups. In addition to its high fertility this population group consciously prefers not to participate in the labour market which is considered part of the ordinary duties binding all Israeli citizens and its members are largely depended on their livelihood on various types of welfare payment and especially on the rather generous children allowances system (Ha'aretz, 4 July 2000). It also reflected the unfavorable attitudes of the Jewish population to the Arab minority and the high fertility rates among them. The ensuing debate reflected thus the growing opposition to the increased the children's allowances paid to large families. The debate centered therefore not only on the role of the state in providing increased support to large families but also whether the provision of such support should be directed to these two particular population groups.

It in this context that the demographic challenge and its Malthusian implication came into the fore. In the debate opposing the increased support for large families two economists invoked the support of Malthus and his population theory which claimed that assistance to the poor encourage them to have children at times when they have no prospect of being able to support them. The two economists admitted that they were unable to prove any causal link between the children's allowances and the birth patterns but, in their view, the data on birth patterns in Israel are not incompatible with the Malthusian population theory (Mayshar and Manski, 2000).

In addition, demographers, newspapers columnists, and other scholars brought to attention the prevailing public mood against the increased children's allowances to large families. The Ben-Basat Committee, a governmental committee

that dealt with tax reform issues, adopted a similar opposing view and stated in its report that “because of the structure of the ladder of the children’s allowances payments, they operate to encourage high fertility among poor families, that in any case face economic difficulties in raising their children. The allowances paid to them thus help to produce a poverty trap among them and especially for their children (Ben Basat Committee [Income Tax Reform] Report, p. 3).

The Response to the Demographic Challenge

Following this debate and in line with the prevalent ideological disposition, the government eventually decided to take policy measures to deal with the problem which was perceived as a demographic challenge. The policy adopted was to reduce the support to large families and in this manner to deal with the undesirable effect of the increased fertility rates among the large family population groups. The major steps taken were at, first the annulment of the increase in the level of children’s allowances to large families, and second to make significant structural changes and cuts in the entire program of children allowances.

The major structural change in the program was its alteration from a system of benefits paid on an ascending level which increased steeply for the third child onwards, and especially from the fifth child, to a system of a single flat rate allowance paid to all children irrespective of their consecutive place in the family. Children born after July 1st 2003 are entitled only to the new flat rate allowance. To ease, however, the transformation that involves substantial losses of income to large families the change was introduced gradually over a longer period of time and will eventually become fully mature in 2009. The initial phases of this change of reducing the allowances paid to large families have been in effect since 2002 .

Using the fiscal difficulties of the period as an additional lever, the Government passed, in addition, a range of consecutive and substantial cuts in the level of the children allowances. In comparison to 2004, the monthly average allowance to a family with two children decreased by about 2.8% in real terms , while that paid to a family with five children decreased by about 13 %. The accumulated decrease since 2001 amounted to about 35% for a family with two children and 52% for a family

with five children (National Insurance Institute, 2006).

The Repercussions of the Reform

The restructuring of the children's allowances program had its effect in three major fields: the extent of poverty, participation of large families in employment, and changing the social protection network. In all three fields the reform had major social repercussions.

Increase in Poverty. With regard to poverty all families with children have been affected by the restructuring of the child benefits program and receive currently significantly reduced allowances on behalf of their children. The bulk of the cuts fell, however, on the four lowest deciles of the population on the income distribution ladder. Already in 2002 it was estimated that the total sum of cuts in the two lowest deciles of the population would be six times higher than the cuts in the two highest deciles of the population (National Insurance Institute, 2002). The result was that more families with children joined the ranks of the poor.

Recent data show that in 2002 29.6% of all children in Israel lived with incomes under the poverty line. In 2007 their number reached 34.2% and the likelihood is that their number will not decline in the coming years. The restructuring effect on large families was, however, much more serious. The incidence of poverty among families with four or more children, rose in 2007 to 56.5% compared to 54.7% in 2004 and 41.8% in 2000 (National Insurance Institute, 2002, 2006 and 2008).

Participation in the labour force. The policy pursued by the government in restructuring the children's allowances program was clearly designed to use the levers of financial pressure to encourage parents in large families to enter the labour market. By making significant cuts in the safety net provided by the child benefits and other social protection programs, the intention was to reduce the dependency of large families on these payments and force them to engage in work and thus play a more active role in providing for their families

The question is how effective was this policy in terms of the initial goal of the work activation policies and of strengthening the link between the entitlement to child benefits and participation in the labour market. The data available show that the reduction of these benefits did not increase the participation in the labour force of these population groups. Moreover, the Research and Economics Department of the Ministry of Industry and Employment admitted that the efforts made to increase the employment rates of ultra orthodox men and of Arab women have mostly failed (Pheferberg, 2008).

The Demographic Challenge

The restructuring of the children's allowance program has certainly succeeded in reducing the cost of these payments especially those made to large families. The demographic challenge, which was a significant component of the intended reform, remained, however, largely irresolute. The reform was to a large extent driven by the Malthusian notion that child allowances caused the birth rate to increase (Huzel, 1980). In line with the Malthusian thinking the assumption of the Israeli policy makers was that the rather generous children's allowances to large families were directly connected to the high fertility rates of families within the ultra orthodox Jewish population and the Arabs. As in the case of Malthus it is doubtful whether the cuts in the children allowances had the desired or expected demographic effect.

The high fertility rates among the ultra orthodox parts of the Jewish population are also strongly related to their religious beliefs and practices. Although some economist claim that these practices have been reinforced by the generous system of children's allowances it is unlikely that most of them will change their behavior and cease to follow the biblical command of "Be fertile and multiply"(Genesis , 1, 28) that guides them. This pattern of behavior is deeply embedded in the traditional culture of the ultra orthodox Jewish population and one can doubt whether it can be changed by simple social policy measures.

With regard to the Arab Moslem population - the relatively high fertility rate among them is combined with very low participation rates of women in employment. Again, this behavior pattern is strongly related to the traditional cultural behavior

norms of the Arab population where employment of women outside the family household, or outside the local community is, if not outright, forbidden is not generally accepted. It is difficult to assume that financial pressure of the sort of reducing support by cutting the level of children's allowances, without a parallel change in the traditional culture, will significantly affect the fertility or employment pattern of women in this population group.

Summary and Discussion

The shift of children's allowance policy from the pursuit of more equality between large and small families to the pursuit of policies with a clear demographic objective to reduce the fertility rate of large families captivated the center of Israeli social policy in the first decade of the present millennium. Although this policy is still pursued with much zeal by the Israeli government the essential policy dilemmas remain: the increasing income gaps between small and large families in the present form is still an important social problem with which Israeli society has to cope; and the demographic issue of large families within certain weak population groups. The question is whether it is feasible to affect demographic patterns of behavior within these population groups by simple measures of changing the rate of some cash benefits, like children's allowances.

The policy pursued by the government to reduce the children's allowances to large families following the Malthusian logic is apparently, at present, the preferred policy pursued by the Israeli government. It seems, however, doubtful whether this policy has in the present, or will have in the future, any real and lasting effect in terms of fertility on the patterns of behavior of large families in the two relevant population groups. The cultural pattern of behavior of having many children is deeply entrenched among significant parts of the ultra orthodox Jewish population. Many of them prefer to live in rather difficult economic conditions and poverty as a matter of religious belief and choice and are prepared to devote their meager incomes to raise large families. The attempt to inculcate a kind of moral discipline in matters of procreation within a group who consider their behavior as part of their deep religious belief seems to be rather implausible.

As to the Moslem Arab population group it is also difficult to assume that financial pressures of the sort of reducing support by cutting the level of family allowances, without a parallel change in the traditional culture, will significantly affect the fertility rates of women within this population group

The experience of many countries in the 20th century like, for example, France and Belgium, show that the impact of children's allowance programs on the birth rate has been rather negligible. Fertility remains essentially to be a very complex phenomenon deeply rooted in the cultural and social structures of societies. The particular structure of Israeli society makes the fertility issue even more complicated because of the tension between the various population groups involved and the political implications of the policies pursued. It seems therefore doubtful that the demographic challenge presented by large families in Israel can be dealt with, or easily resolved in a satisfying manner by its simple policy measures like the cuts in the children's allowances.

Although Israeli social policy focused in recent years mostly on the demographic challenge concerning the fertility rate of large families, the increasing income gaps between large and small families remains to be an important issue that Israeli society cannot afford to neglect. The absolute number of large families may not be big but they are raising among them a relatively large number of children. Their children will thus eventually become the nucleus of its future labour force. The initial egalitarian role of the children's allowances program needs thus still to be a vital part of Israeli social policy in order to assure the full integration of the children growing up in large families into the societal mainstream. The demographic challenge may still be there but the pursuit of equality regarding children's allowances needs to be reinstated and play its role in Israeli social policy.

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