

# Creating a More Just Israeli Society

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## 1. INTRODUCTION

**'The people demand, social justice!'** This was the loud cry that became the symbol of the tent protest. This was the slogan voiced by thousands and tens of thousands and hundreds of thousands in the squares of Israel's cities during the sultry, formative summer of 2011.

Each word is written in stone: **'The people'** – not the Katamon neighbourhood versus Rehavia, not Bnei Brak versus Tel Aviv, not Kiryat Arba versus Kiryat Shemona. No, these divisions, which dictated the agenda for decades, some have actually narrowed; and in some cases mainstream Israeli society has simply become fed up with them. Fed up because they have eclipsed all possibility of even discussing other painful issues – those that we all share, those that transcend the traditional fault lines of right vs left, ultra-Orthodox vs secular, Mizrahi vs Ashkenazi, new immigrants vs native Israelis.

An excess of murky politics has been thriving in the emotionally-charged areas along the traditional fault lines, while the great majority of the public has been gritting its teeth in response to its daily hardship. This hardship finds prosaic expression in our monthly overdraft, in the betrayed hope for suitable housing, and in the shattering of the collective illusion that 'everything will be just fine' at some point in the future, while that future has meanwhile moved on and left us behind.

The people, capable of including under its all-embracing tent, all of the streams and all of the beliefs and all of the camps, in a demonstration of unity, joy and 'solidarity' – the likes of which have not been seen since perhaps November 29, 1947; the people **'demand'** – resolutely and assertively, proudly and not weakly or pleadingly, but also not in anger or shame; the people **'demand'** because they are the boss, because time is short, because the contract has been violated.

The people demand 'social justice' – not special rights, not a larger slice of the pie at the expense of one another, but 'social justice' for everyone, justice that knows how to traverse the fault lines of the past, justice that does not stop at the 'No Entry' signs of the powers that be. Justice that draws inspiration from the biblical prophets, justice that Jews have championed in the vanguard of past revolutions. Justice that has been forgotten in the tumult of frenetic activity that drives this State, in the haste to imitate other nations, in the pursuit of immediate gratification of individual desires at the expense of others.

The Committee for Socio-Economic Change was formed because the Government lent an attentive ear to the protest. Had it done otherwise, the demand for social justice may well have crashed upon the rocks of close-mindedness or plummeted into the depths of violence. This has happened before in the State of Israel: In the face of riots in Wadi Salib or the cries of the Black Panthers, the Governments of the day sent police batons rather than professional committees, and entrenched themselves perpetually in stubborn denial of the roots of the rift and protest. This time, the Government responded differently and appointed a committee with a very broad mandate, maximal independence, and a mission to perform within a few weeks. Without the protest, a committee would never have been established to undertake such work. But without the Committee, it is doubtful whether the protest would be capable of engendering orderly change.

Indeed, every society is tested first and foremost by its ability to change and build in accordance with changing circumstances, while minimizing the human costs this change

entails. This is a test that has repeated itself throughout the course of history: The winds of change, driven by the forces of human and physical nature, each time anew, challenge the existing order, social and political norms and agreements. In this way, scientific and technological advancement, economic growth, and changing trends in demography and climate all undermine the existing institutions and the balance of power between groups and among states, as well as the prevailing ideologies. The greatness of a democracy with checks and balances, and of a wise market economy, lies in its ability to navigate the stormy sea of frequent change via gradual processes of development ('evolution'), without having to resort to drastic upheavals ('revolution').

Israeli society has generally excelled in evolution: from the waves of immigration and the shedding of exilic norms, to the establishment of institutions and new social compacts (the Gdud Ha'avodah, the kibbutz, the Histadrut, etc.), and the transformation of the Israeli economy into a vibrant market economy following the emergency programme of 1985. These and other changes entailed tough battles, but never deteriorated into severe violence or chaos, and Israeli society was able to very quickly adapt to these new norms and institutions, and march confidently onward towards the next challenge. This is a special quality and a blessing that is not typical to many countries in the world: From the French Revolution and the Civil War in America, to the riots in London or Athens in 2011, great changes usually entail severe shocks and human costs, and do not necessarily yield the desired results.

We are again facing a change, the depth and repercussions of which we are currently unable to anticipate. So far, Israeli society has remained true to the illustrious tradition of evolutionary change, without being swept into dangerous escalation and it is hoped that this will remain so in the future. It appears that the chapter begun in the tents on Rothschild Boulevard is about to end: from the setting up of tents throughout the country and the burgeoning demonstrations, to the formation of the Committee, the process of dialogue, the anxious anticipation of the recommendations while stoking the embers of protest, up to the submission of the report to the Prime Minister. Immediately afterwards, the arena will shift to the Government, to the Knesset and to public debate, as befits a functioning democracy. It can be assumed that the energies resonating in the Israeli public will indeed be channelled towards the political arena, and the processes initiated there will ultimately determine the fate of the longing for change voiced by the protest. Our role was to inscribe only one chapter in the introduction to this great saga – the full volume is yet to be written, and we expect that it will assume a place of honour in the chronicles of the society in Israel.

## **2. THE ROOTS OF THE PROTEST**

An initial and essential condition for formulating a viewpoint and recommendations for policy measures in the wake of the protest is an understanding of the deep roots underlying the powerful emotions that erupted during the protest. It is possible to identify three main sources: The first is the economic distress of individuals and families in the mainstream of Israeli society – in particular, the distress of young and working families, with appropriate education and employment qualifications, who are overwhelmed by the cost of living, the cost of housing and of the proper care and education for their small children. The difficulty pertains to their current situation, but even more importantly, to the future: These families harbour serious doubts about whether they will be able to establish an economic footing in the foreseeable future.

The second root cause of the protest is the profound sense of injustice; it focuses on two, diametrically opposed, issues: The first concerns the increase in inequality as a result of what has occurred at the upper end of the scale, particularly those who appear to have 'gotten rich at our expense.' This feeling is reinforced by a suspicion that the State contributed to this inequality by standing idly by, and that the rules of the game of the market economy were unfair because they led to excessive centralization, to an increasing number of monopolies, to disproportionate personal profits from the exploitation of natural resources, and so on. The second aspect of the sense of injustice is directed towards those who do not participate sufficiently in shouldering their portion of the burden – whether because of their minimal participation in the work force, or their avoidance of public service in general and military service in particular. These sectors are also the poorest, but the sense of solidarity one would expect has been marred – even turned on its head – because the poverty in this case is largely the result of a lack of integration into the economy and society.

The third root cause is the widespread and dangerous sense of alienation. Here we refer to a feeling of being removed and even disengaged from State institutions, perceived as not geared towards serving the citizenry and isolated from the hardships and sensitivities of the public; and therefore viewed with suspicion and mistrust. In the eyes of the general public, the decision-making process in the Governmental system is seen as obscure and flawed; one which does not facilitate the open discourse essential to influencing it. All of this creates a feeling of helplessness in the public *vis-à-vis* Government entities and generates grievances against 'the system' as a whole; these are a clear expression of alienation. The sense of alienation also derives from the narrowing of the space of public-political discourse in recent years, and particularly from the fact that the socio-economic discourse has been considerably eroded and diminished. The protest constitutes, among other things, an attempt to restore the socio-economic discourse to its rightful place in the public arena in Israel. (We will elaborate on this subject in Chapter 9 below.)

Each of the root causes of the protest stands on its own, but there are also strong reciprocal relations between them, and thus they sustain and reinforce each other.

### **Economic Distress**

The meaning of economic distress is acute deficiency and detriment to the standard of living of the individual and the nuclear family, together with a hazy economic horizon that is a source of concern and even anxiety. From the individual's perspective, the standard of living is sustained by a flow from three sources: private resources (that is, individual income); public resources (direct and indirect Government services); and resources from the Third Sector.

**The private resources** derive from work by an individual, that generates his gross income, passes through the filter of the tax system and transfer payments, and becomes net income. However, net income does not translate directly into standard of living. It first passes through yet another filter – the cost of living.

An individual's gross income is primarily influenced by the employment situation in the economy, by the individual's qualifications and education, by the rules of engagement in the labour market and, in particular, by the extent to which labour laws are enforced. Direct taxes and transfer payments are determined by the Government's budgetary needs, macroeconomic policies, the prevailing socio-economic approaches (size of Government, how progressive the tax system is, etc.), as well as by sectoral interests that manage to

obtain tax exemptions, and thereby restrict the room to manoeuvre when setting tax rates. Another factor affecting the individual's standard of living is inter-generational transfers (inheritance), as well as family and community assistance, which comprise a parallel system of social security.

The cost of living filter (through which net income passes) – that is, the prices and availability of the products and services in the individual's basket of consumption – has a decisive impact on the individual's standard of living. The prices of the items in the basket of consumption are a result of the level of competitiveness and centralization in the markets, the regulation imposed on them by the Government, and the direct taxes levied on them, such as customs duties and sales, excise and value-added taxes.

**The public resources** find expression in the size of the budget devoted to social services and in their composition, which is a function of the prevailing socio-economic approach, the fiscal rules practiced, the national debt, and the global economy, as well as the Government's policy regarding the provision of services (including the policy *vis-à-vis* outsourcing). The 'filter' through which these services pass is affected by, among other things, the employment arrangements and labour relations in the public sector (for example, managerial flexibility *vis-à-vis* strong labour unions), sectoral and geographic preferences that affect the availability of social services for the middle class, the ministerial-administrative interface and the ability to measure the results and quality of the service. This multi-layered filter is responsible for the fact that the size of the Government budget devoted to social services does not necessarily translate in full or even in the most part to the availability of quality services for the citizen, which contribute to the standard of living. This is primarily due to the lack of efficiency of the public sector and bureaucratic failures, a deficient service culture, and a limited level of accessibility and entitlement (see Chapter 9).

Finally, there are the services provided by the Third Sector that also affect the standard of living, and generally target the problems that remain unresolved by the private and public sectors. The scope and importance of the Third Sector has grown substantially in recent years, and it undoubtedly fulfils a central function in Israeli society today. We will not elaborate on this, but suffice it to say that the growth of the Third Sector, in addition to its positive aspects, also reflects deficiencies and flaws in the other sectors on which we are focusing.

In order to understand the source of the economic distress, we need to examine what happened in recent years to the private and public resources that have an impact on the standard of living. In regard to private resources, income did in fact increase, but average wages only increased slightly over the past decade – at a much lower rate than per capital GDP – and, therefore, the 'average citizen' benefited only slightly from the growth in the economy.

The same is true with regard to taxes: The lowering of income tax slightly improved net income, but by a small amount, because when approximately 50% of households do not pay any income tax, the lowering of direct taxation is usually a regressive measure. Moreover, key prices in the consumer basket, in particular housing, food, household maintenance, rose considerably, some as a result of direct Government responsibility. In addition, there was a rise in specific indirect taxes, together with an increase of centralization in the markets. (On all this, see the Chapter of the Report concerning competition and the cost of living.)

With regard to public resources, public civilian expenditure as a percentage of GDP decreased from 36% to 33%. In addition, a number of social services were shifted from the Government to outsourcing without sufficient monitoring and enforcement, some of them according to narrow criteria that pertain mainly to price and costs and less to quality. (See Chapter 7 below.) The failure of the public sector's implementation capabilities prevented improvement in the services the Government provides. Therefore, there is a need to institute agreements in the public sector that will allow employment flexibility, suitable wages to reward expertise and professionalism, planning capacity and advanced technology, as explained in Chapter 9 below.

An interim summary of the root causes of the economic distress indicates that the standard of living rose only slightly during the past decade and, in particular, it increased less than the rate of per capita growth. At the same time, there is more inequality in the distribution of the resources that determine the standard of living. Hence, the public senses that the macroeconomic achievements expressed in rapid growth (relative to the rest of the world as well) do not trickle down to a significant part of the population. This raises doubts about the supreme goal of encouraging growth and thus poses a threat to the continuation of a responsible fiscal policy. Finally, the Government is the entity that is seen as responsible for many of these issues.

### **The Sense of Injustice**

This feeling, as noted, has two components – a growing disparity in income distribution and in shouldering the burden. During the past decades, a narrow echelon of the super-rich has grown in Israel and much of the public does not view this wealth as a fair reward of the market economy, but rather as the disproportional exploitation of monopolies, natural treasures and real-financial centralization. This is in contrast to those who became rich as a result of entrepreneurship and technological innovation, as occurs in high tech, which is greatly admired and does not generate antagonistic feelings. Furthermore, a culture of ostentation has developed in Israel that has greatly exacerbated the sense of injustice.

In addition, executive salaries, particularly in public companies, are very high, ostensibly without economic justification relative to the executive's contribution or relative to the uniqueness of his qualifications. The change in the mix of taxes also brought changes with it that are essentially regressive, including both the lowering of direct taxation while preferring capital to labour, and raising specific indirect taxes. Finally, the proportion of capital in national income rose by five percentage points – all at the expense of the Government's share. Consequently, inequality is expressed not only in greater disparity in distribution of income, but also in less accessibility to social services.

With regard to the feeling of injustice due to the **unequal shouldering of the burden**, a salient paradox of Israeli society should be noted: The same sectors that are perceived (rightfully or not) as shirking the responsibility of bearing the burden or as enjoying special privileges, mostly belong to the poorest echelons. This includes those who do not participate in the work force, do not serve in the army or civilian service, or enjoy special benefits due to their sectoral or geographic affiliation. Since social solidarity entails, by definition, assisting the weaker segments of society, it turns out that the society is assisting those who do not help to carry the burden in an equal way.

There is a disagreement over how to contend with this paradoxical situation. One approach argues that the roots of the phenomenon are not primarily in the sectors themselves, but

rather in their desire to maintain their way of life, in cultural and social disparities, and in external impediments that stand in their way. This approach encourages offering incentives for them to become involved in economic and society-wide activity. Proponents of the second approach argue that the problem lies mainly in the lack of desire on the part of those sectors to shoulder the common burden, and therefore they exploit their unique characteristics and their political power in order to perpetuate the majority's support for the minority. This approach encourages imposing sanctions on these sectors in order to spur them to change.

As we explain in Chapter 6 below in the context of integrating the ultra-Orthodox, the great majority of committee members support the first approach. It should be noted that some of the paths of integrating into society are indeed blocked for these populations, sometimes due to actual discrimination, and in order to enable them to integrate it will be necessary, in any case, to provide them with the tools required for this – work skills and education, in particular. (See the chapter on encouraging employment in the report on social services.)

The sense of injustice can thus be summarized as one that derives from the fact that the middle class feels that it is stuck between a rock and a hard place: On the one hand, poverty is perceived partially as a voluntary and even exploitative choice, and therefore a policy aimed at assisting the weaker populations is seen in part, and paradoxically, as unfair. On the other hand, exaggerated wealth has developed that is not viewed as a fitting reward for a competitive yet fair market economy, but rather as a prize for those who are well-connected.

### **Summary Remarks**

The roots of the protest, as explained above, address weighty issues that dictated the framework of the Committee's discussion: First, the responsibility to contend with these issues falls mainly on the Government, but also extends to the individual and to civil society, through discourse between them. Second, each of the issues must be addressed in a focused and in-depth way, and together in a systemic way. Every attempt at partial, cosmetic or temporary treatment is doomed to failure. In addition, each measure/policy tool proposed here is clearly aimed at addressing one or more of the fundamental issues, and is explained in accordance with them. Similarly, the effectiveness and acceptability of each policy proposal will be examined primarily by its ability to help address the fundamental issues.

The roots of the protest are directly connected to the objectives that guided us: reducing economic distress, relieving the sense of injustice and transitioning from alienation to inclusion. Thus, for example, measures for reducing economic distress include lowering the cost of living by reducing indirect taxation and increasing competition in the markets, and improving accessibility and lowering the cost of social services, together with creating conditions for boosting gross income in the long term. Measures for relieving the sense of injustice will include reducing inequality by changing the mix of taxes, as well as narrowing the disparities in shouldering the burden by encouraging participation in employment and offering a variety of service options. With respect to the subject of alienation, although this does not fall within the Committee's mandate, we hope that the broad discussion we conducted with the public (for the first time in Israel) heralds a new discourse between the public and the Government, and may significantly contribute to establishing new norms of inclusion and participation. Additional measures that are likely to help in this matter include improving the transparency and accessibility of Government institutions, and monitoring the implementation of the Committee's recommendations.

### 3. FORMULATING A GUIDING VISION

Even when it comes to universal concepts and values such as justice or equality, which have been defined and discussed countless times over the course of human history, each generation must reexamine and refine them for itself anew. It would be folly to attempt to reconstruct even a few drops of the huge ocean of thought devoted to this, certainly not in these critical times, in the face of an ongoing protest, which demands immediate conceptual and practical answers. Nonetheless, we still must formulate basic principles and a vision to guide the development of conceptual solutions and practical policy measures. We do this without pretension, with the fear and trembling that take hold of those who dare to approach, with trepidation, the sanctuaries of intellectual and ethical thought, knowing that they will only gain a fleeting glance, from afar, and that this pales before the needs of their mission.

Social justice. 'The people demand social justice.' What does this mean? Which justice? We were assigned the mission of serving as translators of the underlying messages of the protest into a language that might yield answers. We will be translators perhaps, but definitely not the heralds of prophecy. Nevertheless, here is what our emerging, improvised and very partial dictionary states:

**Social justice means a basic and consistent congruence between an individual's normative behaviour, contribution and effort, and the reward an individual receives at each and every level.**

This includes the social level (esteem, status, sense of belonging), the economic level (salary, economic security), and the political level (the individual's influence on the collective). But the society in which we live is not merely a random collection of individuals, but rather a lively arena of reciprocal interactions and influences among its members. Hence, the individual expects congruence of reward and punishment not only in regard to himself, but also in regard to others: We care a great deal if there is someone who receives more than he deserves, as well as if someone receives less. This nurtures the sense of justice or injustice in light of the extent of injustice that really exists, as a function of what occurs at the two extremes of the distribution curve – the top and the bottom.

**Social justice means fair rules of play over the course of the life cycle: equal opportunities at the start, followed by a level playing field and fair rules of the game, and basic security and dignity upon retirement.**

There is an enormous disparity in the starting conditions of each individual: genetics, history, geography, the human environment – all these and more have a decisive impact on the development of the individual's abilities and chances of realizing them in the future. It is not practical (or even desirable) to try to completely eliminate this disparity, but we must narrow its scope as much as possible – and without diminishing the sense of personal responsibility of each individual for his own fate or stifling the diversity of his or her abilities and qualities, which sustain creativity and progress. A level playing field and fair rules of competition along the way is critical for enabling the realization of each individual's potential and for sustaining the framework itself. Injustice in the rules of the game is a sure-fire recipe for counter-reaction, which occurred frequently during the course of the 20<sup>th</sup> century and led to tragic results. Fairness also requires creating conditions for security and dignity during retirement, especially in light of the fact that at



this stage adjustments cannot be made retroactively, and therefore a person's fate is no longer in his hands.

**Social justice means that if fate is unkind to an individual for whatever reason, the society will help to ensure his basic subsistence, access and dignity.**

At present, despite enormous scientific, technological and economic advancement that has dramatically decreased human beings' fragility and vulnerability to arbitrary forces, that ominous roulette wheel known as 'fate' is still dealing blows, small and large, to each one of us every day – to our health, our careers, to our personal relationships and to our economic well-being. The extended family was once a framework that could absorb these slings and arrows and provide a minimal level of 'insurance' in the face of uncertainty. This is also the case with the tribe, and with the intimate social solidarity of small communities, such as the Jews of the 'shtetl'. Today, the society as a whole and the State as its agent is likewise committed to take part of this responsibility upon itself – this is the unwritten 'contract' the normative citizen feels he has signed when fulfilling his obligations towards himself and towards the broad collective. However, the other circles – family, community – continue to fill an important and even decisive role in this context: Social solidarity is much more than an insurance policy for times of trouble. It also constitutes an ethical dimension that enriches our existence as members of human society.

The realization of social justice in all three of its meanings requires an explicit commitment, sound strategy and vigorous action by the State in its pursuit. These are the legitimate expectations of the normative person in the 21<sup>st</sup> century, and Israeli society is no exception. This requires the translation of these principles into proactive policy, as well as stocktaking and self-examination by the Government from time to time, in order to assure that its policy is consistent with them in practice.

Beyond the concept of social justice, the prosperity of the society in Israel depends on the existence of a broad common denominator shared by all of its parts and comprised of moral values, universal cultural values, and the values of the heritage of the people and nation. Abstract concepts such as justice will never alone hold a society together as a shared entity that functions and progresses unless the moral common denominator is simultaneously fostered and maintained. Accepting the common denominator means that the individual internalizes the values of the ethics, culture and shared heritage, acts in accordance with them, restrains himself on the one hand and contributes to society on the other hand, not only, and not even primarily, because of calculations of reward and punishment, but rather because the very fact of belonging to and contributing to the society gives him an uplifting feeling, far beyond the pleasure and gratification that come from satisfying purely personal desires.

A common denominator does not mean uniformity, dogma or coercion of the values of one group on other groups, certainly not in a society as heterogeneous as Israeli society. This is the constant challenge facing us: to define and nurture what we share, each time anew, while simultaneously respecting our differences. Social justice and a moral common denominator constitute the two pillars upon which we must base the vision that will guide us towards a better Israeli society. This is the 'what,' but no less important is the 'how.' The 'how' that we propose is a 'amiable how' of tolerance, respect, mutual trust and solidarity, but also a determined and decisive one. After all, we

do not have the luxury of wasting the extraordinary opportunity given to us today to forge a better future in futile experiments or utopian aspirations.

**The realization of social justice and a moral common denominator effected amiably and decisively, is the essence of the approach in which we will carry out our mission.**

#### 4. THE COMMITTEE'S PURVIEW

##### 4.1 The Mandate and Guidelines of the Committee's Work

The mandate the Committee received ('socio-economic change') is almost certainly the broadest one ever assigned and the time allotted for their work (seven weeks) is the shortest ever. The specific areas the Committee was assigned to address include a mix of taxation, social services, competitiveness and the cost of living and housing. But the expectation was that the Committee would set into motion deep and broad socio-economic change. Thus, it received requests pertaining to the whole range of ailments and problems plaguing the society in Israel.

It is patently obvious that this Committee or any other framework cannot fully execute such a broad, ambitious and boundless mission – certainly not in such a short time frame. However, between the two extremes of proposing solutions for everything and giving up in defeat, there is a wide range of possible and fruitful action, and within this range the Committee did its utmost. Here is an outline of its work:

1. The Committee identified the central issues in each of the areas in its explicit mandate, and recommended real policy measures to respond to them.
2. The range of action and recommendations in each context is the next **five-year period**: The proposed policy addresses the **short term** (that is, the 2012 budget year), the **medium term** (that is, 2013-2016) and the **longer term**.
3. **The time frame** for each proposed measure, and hence the immediacy of implementing the recommendations, varies from subject to subject and depends on a number of factors: the availability and maturity of each policy tool, the institutional context, budget constraints and so on.
4. There is great **disparity** in the **maturity** of policy tools and the ability to exercise them (in addition to budgetary considerations), both between the various areas and within them. For example, in the area of taxation, some of the measures could be implemented immediately (such as changing the rates of direct or excise taxes), while instituting an additional tax on the highest incomes or a second round of lowered customs duties would require considerable efforts.
5. The **lack of maturity** in some of the cases is related to the Committee's lack of time. In these cases, we were guided by the physicians' oath of 'first, do no harm'. Therefore, we refrained from pointing towards unequivocal paths of action if we could not provide a firm professional foundation for them. Additional work is

required for formulating final recommendations, and sometimes special teams would be needed for this.

6. In other cases, we settled for presenting a point of view, a guiding idea, and desirable paths of action. We are convinced that in the new reality created in the wake of the protest, these statements will also have considerable weight in shaping the socio-economic discourse in the State of Israel, and that no Government will be able to ignore them.

## 4.2 The Target Population

The Committee resolved to focus on the population of working families,<sup>1</sup> parents of young children. This is because we must provide answers for the central backbone of society in Israel – i.e., the segment that also carries the main burden both from an economic perspective and in its contribution to society (via military or civilian service). Working parents of preschoolers are naturally at the start of their professional and vocational development, and hence their wages are also low relative to their future earnings. However, the costs associated with establishing a family, raising young children and purchasing an apartment are very high, and do correspond with the fact that they are at an early stage of engagement in the employment sphere. In recent years, there has been a very steep increase in the cost of housing and private expenditure on education, as well as in household maintenance costs. It is no surprise, therefore, that this has seriously hurt the young working population, which filled the ranks of the protesters.

The focus on this young working population means that in choosing policy tools the Committee gave clear priority to those tools aimed primarily at them. For example: The Committee recommends awarding two tax credit points for men who are fathers of children ages 0 to 3; a large part of the additional allocations for social services are aimed at education for ages 0 to 9, and so on. In addition, we propose tools with a much wider purview: lowering customs duties, offering the option of purchasing via the Internet with a larger tax exemption, measures to boost competition in the markets in which companies with market clout have a detrimental impact on the cost of living, and so on. In the field of housing too, some of the measures are of a general nature: A significant increase in the supply of apartments over time will naturally lead to a decrease in prices in the entire market, and this will benefit every homebuyer.

Moreover, there are also measures that pertain to the weaker echelons, such as raising the payment for negative income tax, or doubling the rental assistance for those waiting for public housing.

Even when the focus is, as stated, on the backbone of the society in Israel, we must not forget that there are other groups experiencing severe hardship, and the social solidarity that was gloriously rekindled in the squares of cities all over Israel requires us to also increase assistance to the weak. **In the package of proposed measures, we thus aim to focus on the young working population, while making sure to address severe distress and also ensuring proportional allocation to the general public.**

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<sup>1</sup> The intent is fully exploiting the ability to earn a living, which in this context is defined as 125% employment of the couple.

### 4.3 Preserving the Budgetary Framework

This is almost certainly one of the most controversial issues, and therefore demands thorough clarification. The Committee's first decision was not to breach the budget framework,<sup>2</sup> and it made this decision based on a sober and responsible view of the entire complex of considerations and constraints we faced. The implications are as follows:

Together with expenditures, the size of the state budget is determined according to a fiscal rule anchored in long-term economic growth and the debt-to-GDP ratio. For example, the state budget for the year 2011 grew by 2.6%, as did the 2012 budget relative to that of 2011. The Committee's decision to maintain the budget framework means that the total budget will not grow as a result of its recommendations. Thus, the proposed increase in allocations for social services will require a parallel cut in other budgets, and particularly the defence budget. In this way, the Committee recommends allocating a sum of NIS 30 billion over the next five-year period for social services, particularly for early childhood education.

In regard to taxes, the significance of preserving the budget framework means that the changes in the mix of taxes will not decrease the sum of tax revenue, and that the debt will not grow as a result of this. The Committee recommends changing the mix of taxes so that the sum of additional tax revenue, which will be channeled to the general public by reducing indirect taxation and such, will reach **NIS 30 billion** over the next five years. In the longer term, the sum of tax receipts will grow in relation to the original planning, and this is essential in order to prevent a much larger debt than is allowed under the existing fiscal rule.

Consequently, this combined plan will yield a total sum of **NIS 60 billion** during the next five years, which will be directed to the objectives of the plan proposed here, both to ease the cost of living and to enhance the social services.<sup>3</sup>

And now to the considerations behind this stance:

The State of Israel has, for some time, been in a tight situation of pressures and constraints that greatly burden its budget. First of all, there is a high national debt (about 76% of GDP), which means: A significant part of the budget is earmarked for interest payments; the young population of today will have to shoulder these repayments in the not-too-distant future (the same population that is today bearing the burden); and the debt exposes us to severe macroeconomic dangers, particularly in light of the geopolitical threats around us. Secondly, the State of Israel has very high defence expenditures, the highest of the Western world in terms of percentage of GDP. Thirdly, there is a severe deficiency in key infrastructure and social services such as education and health that require large budgets only to close the gaps.

On the tax side, the problem is that the tax base in Israel is very narrow: Some 50% of households do not pay any income tax at all. Thus, a significant boost in tax revenues for funding larger budgets requires either raising indirect taxes (primarily VAT), which are regressive and thus relatively more onerous for the weak echelons, or significantly raising the tax burden on the upper echelon, which is liable to harm incentives or even worse. As we will see below, there is room for significant change in the composition of taxes in order

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<sup>2</sup> To be precise, it is important to note that the non-breaching of the budgetary framework was one of the conditions the Committee chairman set for taking on this position.

<sup>3</sup> This shows us that responsibility does not at all mean a dearth of resources.

to make the system more progressive, but in the merciless global world in which we live, a significant increase in the tax burden would very likely harm the economy as a whole.

In addition, it is important to take into consideration the matter of fiscal reliability, which the State of Israel has worked hard to achieve during the past 25 years, since the stabilization programme of 1985. This reliability, which means that the Government sets clear fiscal rules and determinedly stands behind them, is more precious than gold, and proved itself beyond any doubt during the last crisis: The Israeli economy was one of the only ones in the world that managed to extract itself from this crisis virtually unharmed.

These are well-known and weighty considerations, but there are additional considerations of no less importance that played a central role in the current context. First of all, what Israel society requires in order to move towards a more just horizon are structural changes and a reordering of priorities, and not cosmetic solutions or those that express 'more of the same'. If not, more budgets will be allocated today to object A, but tomorrow, in light of other constraints, the same budgets will be reduced again and turned to objective B, and everything will return to the way it was. There is nothing easier than deciding to increase budgets, just as there is nothing easier than to go to the nearest mall and 'max out' your credit card, but ultimately the allocation of increased budgets to a particular objective necessarily entails reducing the allocation somewhere else, or in tacking on other hidden costs. After all, the constraints we presented apply in every case.

In our case, the central implication of a change in priorities is a significant reduction in the defence budget, in order to allow for a parallel increase in the social budgets. This is not at a simple matter at all, and entails taking substantial risks and intelligent management of them by the political echelon. But at this juncture, the social risks are no less substantial than the security risks, and demand a change in the relative emphasis they receive in the state budget.

An additional consideration that led the Committee to adhere to the existing budgetary frameworks is that there is a wide gap between increasing a budget and improving service. In some of the cases, there is no physical-planning opportunity to significantly improve performance in the short term, even if the budget were much larger. There are other measures that require structural changes that take time and professional effort, while an immediate budget increase would prevent this. Here is one clear example of this: The Committee believes that early childhood programmes should be transferred from the Ministry of Industry, Trade and Labour to the Ministry of Education, because day care centres have a clear educational-developmental role. This involves a complex institutional change, and complicated struggles.

Finally, it should be noted that there is doubt in many quarters regarding the effectiveness of Government action in providing services due to a complex of problems and constraints that plague it (see Chapter 8 below). Thus, the gap between a budgetary increase and what ultimately reaches the citizen is liable to persist, and even widen. Those who rightly seek more social services cannot avoid the question of the Government's effectiveness in providing these services. Placing the sole emphasis on increasing the budget is counterproductive: Again, the easiest way out is the approach of 'more of the same.'

## 5. PRINCIPLES FOR SOCIO-ECONOMIC POLICY

The Government's socio-economic policy is expressed in every step it takes, both directly and explicitly (for example, when the Government decides on the budget), and indirectly and implicitly (for example, in its decisions on security issues that compete with social needs for their respective shares of the budget pie). It is important, therefore, that the Government define guiding principles for itself and even quantitative goals, so that each of its actions that impact socio-economic issues will be evaluated and discussed, *inter alia*, in accordance with these principles. The state budget is, of course, the centre of gravity and the most comprehensive and clear expression of Government policy. Consequently, principles and objectives have special importance when determining the budget. Thus, a significant part of the discussion below pertains to the budget, though, as noted, the intent is to relate to broader principles.

The role of the state budget is first and foremost to allocate the resources required for providing the public services and products for which the Government is responsible, with the State's tax revenues serving as the source for this. The budget also has a central macroeconomic role because the size of the budget and the way it is allocated have a profound impact on economic activity, growth and income distribution. Therefore, one of the important decisions of any Government is to set the size of the budget (in itself and as a percentage of GDP), as well as its composition, which is supposed to reflect the Government's priorities.

As noted above, the State budget in Israel is subject to strong pressures and, consequently, its range for manoeuvre is very narrow: A significant increase of public expenditure aimed at responding to the many needs would result in either a burgeoning deficit and a subsequent increase in the debt burden and fiscal risk or, alternatively, would add to the tax burden to the point of hampering incentives and investments. On the other hand, the continued shrinking of the Government's share in GDP and, in particular, the reduction in its share of civilian spending, would result in real damage to generators of growth (especially in investment in human capital) and to the social fabric due to the increase in inequality and the cutback in social services. Moreover, the existing coalition system in Israel makes it very difficult to conduct responsible and rational budget management: The frequent demands to increase sectoral budgets add levers of pressure that endanger fiscal stability. In light of this, it is very important for the fiscal policy to be anchored in clear and sustainable rules, which are derived from long-term agreed-upon objectives.

These are the principles that, in the Committee's opinion, should guide the shaping of the State of Israel's socio-economic policy during the coming years:

1. In addition to closely adhering to the fiscal rules, the Government should take action to increase the share of **civilian expenditure** in the budget and should aspire to increase civilian expenditure as a component of GDP. This takes into consideration the relative erosion that has occurred over the years in social services, partly due to budget constraints.
2. The Government should set and update **social objectives** from time to time, in addition to traditional macroeconomic objectives. This includes quantitative goals for increasing employment, and reducing poverty and inequality.

3. Economic **growth** is the key to the ability to provide for the increasing needs of Israeli society over time. Therefore, the tools of economic policy must continue to strengthen the capacity for the economy's growth and competitiveness. However, the growth rate as such is not the ultimate goal: Important aspects of **quality of life** are not calculated into it, including the extent of inequality, health, environmental quality, and so on. Thus, a more expansive view must be taken into account when determining the parameters for measuring the economy's performance, and policy must be geared accordingly.
4. An important aspect of quality of life is the extent of inequality in the economy: Widespread inequality generates a sense of **injustice**, exclusion and alienation, which are likely to impair social solidarity and readiness to shoulder the burden. Consequently, economic policy should aspire towards a fair distribution of the fruits of growth, especially in the distribution between return on capital and return on labour, and between senior executives and rank-and-file employees.
5. The Government should act persistently and with determination to integrate all sectors of the population in economic activity and in the general society. In particular, the Government should aspire towards **bringing ultra-Orthodox men and Arab women into the labour market**, while respecting their way of life. The rapid integration in gainful and honourable employment is critical for the continued prosperity of the economy and society in Israel, as well as for pulling these sectors out of the cycle of poverty.
6. The Government should ensure fair rules of engagement for **the market economy**, while preventing the creation of barriers to entry, excessive centralization and monopolistic power, as well as ensuring fair rules of employment for all workers and protection of their basic rights.
7. The Government should clearly define **its responsibility** for providing public services, adjust the composition of these services from time to time in light of technological, demographic and other changes, and ensure their fair and effective delivery to the citizens entitled to them, whether this is done directly by the Government or whether part of this delivery process is outsourced.
8. The **outsourcing** of some of the public services is legitimate and desirable in order to improve their efficiency and availability for the citizen, provided that this is done in the appropriate cases with sound planning, with an emphasis not only on cost but also on quality and availability, and with the development of an ability to assess, monitor and enforce proper standards. Moreover, the Government should strongly emphasize its responsibility for the outsourced services, and serve as an address for the public regardless of who actually provides the service.
9. The Government should act to **systematically address** the fundamental deficiencies in the civil service and public sector, strengthen planning and policy competencies, boost the Government's managerial flexibility and its implementation capabilities, and foster the public ethos and system of values upon which Government servants rely.
10. The Government should adopt channels of dialogue with the general public in a format of **'participatory democracy'** – particularly when deliberating on changes and

formulating policies that pertain to the public. This enables a flow of ideas and a reflection of the citizen's situation *vis-à-vis* the Government, reinforces the sense of belonging and strengthens democracy. In addition, this dialogue is needed in order to balance the interests of the general public *vis-à-vis* powerful economic entities, which enjoy access to and exert direct influence upon the decision makers.

## 6. THE APPROACH TOWARDS INTEGRATING THE ULTRA-ORTHODOX SECTOR<sup>4</sup>

There is, without doubt, an acute need to deal frankly and wisely with the tensions between the sectors in Israeli society, and particularly the friction between the secular majority and the ultra-Orthodox minority. The protest did not place this issue at the top of its aspirations, but the calls for social justice, the sense of not carrying an equal burden, the revulsion against narrow sectoral politics – all this touches upon this front. Moreover, formulating a comprehensive perspective of the future of Israeli society without considering and making proposals for addressing the relations between the ultra-Orthodox sector and the other (secular and religious) sectors is out of the question. We believe that this is a propitious time because the spirit of the protest enables us to courageously face issues that were more conveniently swept under the carpet in the past, and because conditions have ripened within ultra-Orthodox society and among the Israeli public, for turning over a new leaf.

The place of the ultra-Orthodox community in the State of Israel is unquestionably one of the most sensitive and complex subjects facing Israeli society. This challenge poses a critical test of our ability to guard and respect the special nature of each sector in our social-cultural mosaic, on the one hand, while integrating all of the sectors in economic and national activity, on the other hand. The ultra-Orthodox sector today numbers about 8% of the population of Israel and is growing at a rapid pace. Therefore, its socio-economic status and future have implications not only for itself, but for the economy and the society as a whole. For this reason, it is imperative to reach a clear understanding of the full set of problems involved in integrating the ultra-Orthodox sector in economic activity and in the society at large, and to chart suitable paths of action on that basis.

One of the difficulties in this context lies in the strident positions and antagonism in particular segments of the various camps. Portions of the secular public believe that the ultra-Orthodox are uninterested in working, happy to live at the taxpayer's expense under the pretence of Torah study, and that they are unwilling to serve the society-at-large in any format. On the other side, segments of the ultra-Orthodox public feel threatened by norms that amount to unbridled secularity; they fear that what is being demanded of them is to abandon their way of life in general and Torah study, in particular. Thus, they are responding with uncompromising entrenchment and withdrawal within themselves. Both of these groups are wrong and are simply, unwittingly contributing to extremism, and to the exacerbation and perpetuation of negative phenomena.

The approach that guides us declares that all sides have an obligation to make a supreme effort at this time to facilitate desired change. As part of this, the large majority bears the responsibility of changing its attitude towards the ultra-Orthodox majority, and of demonstrating that this can and must be a struggle in which all sides ultimately benefit. Many of our grandparents and parents conducted traditional, devoutly religious or ultra-

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<sup>4</sup> Excerpts have been taken from the introduction to a document of the National Economic Council entitled 'Integrating the Ultra-Orthodox Sector in Employment – From Dependence and Poverty to Empowerment and Prosperity', published in March 2009. The introduction was written by Prof. Manuel Trajtenberg, then chairman of the Council.



Orthodox lifestyles, and thus over the generations preserved an invaluable cultural treasure, whose existence as a living and vigorous entity is threatened by the dizzying dynamics of modern Western society. Can we really and truly guarantee the continuation and vitality of all of the traditions, knowledge, culture and customs that accumulated in Jewish life throughout thousands of years? It is doubtful, unless we ensure the prosperity of those streams among us that view Jewish tradition and religion as a solid rock; in part, this means ensuring the existence of an ultra-Orthodox community that contributes its share in all realms of activity in Israel and lives in harmony with its surroundings, without being required to surrender its character.

One of the critical paths that must be paved is employment,<sup>5</sup> in light of the very low rate of participation of ultra-Orthodox men. The great challenge is how to enable and encourage a widespread entry into the world of employment while respecting the unique character of this sector. In the chapter on social services, we discuss a series of recommended policy measures in this context. However, it is important to present here, as part of the general vision guiding the entire report, several key points pertaining to the stages of education and study of ultra-Orthodox men, which comprise the core of the ultra-Orthodox experience.

Alongside the recognition of the rights of children in the ultra-Orthodox sector to be educated in elementary education according to Torah-based principles, there is a need to provide them with knowledge and tools that will enable them, when the time comes, to integrate successfully in quality employment.<sup>6</sup> Therefore, the Ministry of Education must ensure that in all elementary schools, without exception, the following core subjects will be taught at the very minimum: mathematics, English, computers, and one or more of the basic sciences. The Ministry of Education must institute effective supervision of the teaching of these subjects in all schools, and administer the standardized (*maitzav*) tests. The Ministry of Education can assist in instituting these studies by providing teaching resources as necessary and by allocating funds as customary in the other educational streams.

In regard to the 'lower' yeshivas, we are aware of the fact that these frameworks, which are parallel to high schools in the general education streams, are today exclusively devoted to Torah studies. The aim should be eventually to integrate studies that prepare for employment into these frameworks as well, and then the Ministry of Education will, of course, be obliged to assist in this, as customary in the other streams.

The great majority of yeshiva students also continue with Torah studies after graduating from the 'lower' yeshivas, but the question is for how many years, and what happens then with employment. Of course, one's attitude towards the fact that most of the students in yeshivas and *kollels* continue to study for an unlimited period of time depends on one's point of view. As long as this situation appears self-evident and even ideal in the ultra-Orthodox world, those in Israeli society who are not ultra-Orthodox will generally view this as peculiar, and even worse, as a means of perpetually shirking social and national duties. In order to discuss this in a level-headed way, an attempt should be made to place this issue in the contexts familiar to each of the sides.

From the ultra-Orthodox perspective, Torah studies represent, as noted, an ideal and a value that are second to none, but the fundamental question is whether this means that Torah study unaccompanied by employment must be the path of every ultra-Orthodox man, for an

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<sup>5</sup> In regard to military and national service, we regard the implementation of the Tal Law, with the improvements added to it, as an appropriate response to this.

<sup>6</sup> As explained to us, beyond any doubt, there is no basis in Jewish law (*halacha*) for opposing this.

unlimited period of time. It stands to reason that this lofty ideal of Torah study should be pursued proportionately, according to the abilities, constraints and needs of each individual and of the society as a whole. Indeed, this view also seems to be taking hold among large portions of the ultra-Orthodox community, but we are not witnessing the widespread implementation of this view mainly because of impediments that need to be removed as part of a determined and relentless effort.

The starting point of the other perspective is that every group in the population has a similar distribution of abilities. Therefore, it would be expected that in the various stages of post-secondary education, comparable proportions of different groups would participate in a pyramid formation. Thus, for example, the great majority of the students in institutions of higher learning study three years for a bachelor's degree, a minority of them continue on for a master's degree, and only a very small percentage continue on for a doctorate. According to this approach, we would expect to see a similar pyramid in the ultra-Orthodox sector, topped by the most brilliant students who would later become the leaders of the ultra-Orthodox world. Consequently, the support for study in *yeshivas* and *kollels* should be allocated in a way that encourages the most talented students to continue their studies, while the overwhelming majority would be given incentives to go to work and would acquire the appropriate training for this.

We are convinced that if we were to pursue this direction, Israeli society would look different within a few years: no longer the constant friction and even confrontation between the ultra-Orthodox and the secular, no longer the casting of blame and entrenchment in extreme positions, and without efforts to coerce from either side. Instead, paths would be found to involve the ultra-Orthodox in suitable employment, while expanding the processes for increasing equality in shouldering the burden. And all this would be pursued with mutual respect and recognition of the value of the other. In order for this to occur, all of the sides must make bold decisions, go beyond the close-mindedness that has taken root and threatens to destroy us. We have internalized the boundaries of the arena with respect, good will, and a sober view of reality. Precisely for this reason, there is no justification for opposing the proposed package – neither by the ultra-Orthodox world nor by the political system as a whole. The society in Israel earnestly seeks change, not only in the cost of living and inequality, but also in this regard. Hence, we implore the decision makers to determinedly and decisively promote the policies outlined here.

## 7. THE METHOD OF PROVIDING PUBLIC SERVICES

### Background

The method of providing public services is a serious and complex issue that has accompanied the social and economic discourse for years. Due to its complexity, its broad importance and its potential repercussions, it is incumbent upon us to be very cautious in discussing this issue, while realizing that we cannot complete this discussion during the limited period of time allotted to us. Our duty is to lay the foundations for an ongoing discourse among the public and in the Government, and to determine principles and guidelines for charting policy.

The first and traditional role of Government is to provide public goods such as security, the rule of law and foreign relations. This was true in the days of Samuel the prophet, who was approached by the Israelites to serve as their king (and he warned them that this would entail the collection of taxes), and this is true today. During the course of the 20<sup>th</sup> century,

the list of goods and services the Government is seen as obligated to provide grew substantially. Consequently, the Government's share of GDP grew from several percentage points to an average of over 40%. Changes in technology, in patterns of consumption, in demography, in economic conditions and in the prevailing ideology – engender occasional changes in the list of public services the Government is expected to provide, as well as the makeup of these services. For example, if communications was once a Government service in every way, this is anachronistic today and in most of the countries of the world these services were privatized long ago, and there are vibrant markets for advanced communication in its various forms. On the other hand, if at one time early childhood care was a private matter, completely within the family, today it is clear that the Government should be involved in this service for educational reasons, as well as to ensure a proper balance between the norms of broad participation by both parents in the labour force and the needs of appropriate childcare.

A distinction should be made among a number of central aspects of providing public services, from the moment a range of responsibility is defined for it: (a) setting policy and standards; (b) funding; (c) producing and actual delivery of the service; (d) supervision and enforcement. If the nature of a particular service justifies having the Government assume partial or complete responsibility for providing it, then it is clear that it is indeed obliged to fully assume aspect (a), but not necessarily assume aspects (b), (c) and (d) in full. In regard to the question of funding the service, this depends, among other factors, on the perceived extent of Government responsibility for the service, on the priority of the service among the Government's objectives, on budget constraints, on the extent to which the service applies to the entire population or only to part of it, the extent to which it is possible to distinguish between those who are enjoying it and those who are not (the free-rider issue), and so on.

In regard to the Government's role in the actual production and supply of social services, and in supervising and enforcing them, a range of considerations arise pertaining to: the Government's advantages according to the type of service; the source and nature of the authority to be exercised at the various stages; the ability to ensure quality of service, its level of efficiency and effectiveness; the ability to measure, supervise and control; the characteristics the operating entity and the characteristics of the recipient of the service; and the structure of the market of service providers. For example, there is importance in the question of whether the service is essentially one of production and supply in its routine-technical sense; whether it is service that can be characterized by quantitative-measurable dimensions; and whether it entails the exercise of core Government authority. Therefore, there can be no comprehensive and uniform answer to the question of the Government's role in producing and delivering social services. Instead, each service must be discussed in accordance with its circumstances and characteristics. It is important to ensure that the **overall responsibility of the Government** for providing the public service, for its quality and availability does not diminish regardless of whether it chooses to provide the product itself or via an external entity.

The use of extra-governmental entities to provide services for which the Government is responsible is defined in the public discourse in a comprehensive way as privatization. Though we are not interested in semantics, it should be noted that there is a substantial difference between a process of **outsourcing** of some of the functions entailed in providing a public service, and the privatization of Government assets. In the case of **privatization**, the state narrows its control and authority over a particular area. On the other hand, in contexts in which the Government continues to be responsible for the service, and particularly in cases where the funding remains primarily public funding, then we are talking about

**outsourcing.** This is because the service continues to be a public service, and the responsibility for providing it remains the full responsibility of the Government, even if the entities that actually supply the service are private. The sweeping use of the term 'privatization' stifles the discourse and prevents a rational discussion of the various aspects of each of the cases. This confusion of terminology is not coincidental: In those cases in which the Government intended to conduct outsourcing but failed in some aspect of the process, for example in selecting the operating entity or in setting the standards, supervision and control – the outsourcing was seen as privatization, with all that this implies.

The issue of outsourcing is sometimes linked to the question of the public sector's capabilities and quality. The common argument is that in light of the many flaws that hamper the Government's implementation capabilities (including rigid employment arrangements that do not allow for managerial flexibility and the provision of efficient service, deficient planning and control capabilities, and the mixing of executive and regulatory bodies) there is no alternative to providing the service via external entities. This argument, even if there is a place for it, is not the sole consideration. First of all, there are considerations in favour of outsourcing that are unrelated to the quality of the option of direct provision by the Government. And conversely, there are considerations that sometimes mandate direct provision by the Government. Secondly, it is impossible to solve the problem of the Government's capabilities by fleeing to outsourcing, because without a significant improvement in the Government's capabilities, its management of outsourcing will also suffer and raise concerns about the erosion of the Government's responsibility in practice. (See Chapter 8 below.)

### **Problems and Challenges**

Most of the world's countries use outsourcing as an important means of providing public services. The basis for this are the advantages this tool offers for improving the level of service, its availability and accessibility. This includes: the ability to maintain a range of flexibility in setting standards and choosing the implementing entity; flexibility in operation; the advantages of involving the Third Sector and private sector in all aspects pertaining to expertise and professionalism; the potential for effective regulation due to the structural separation of the supervisory entity from the implementing entity; innovation and viewing the needs and appropriate way to supply the service from a different angle. In some of the countries, the transition to outsourcing reflects an approach that says the Government should focus on setting policy and translating it into standards, indexes of quality and processes of supervision and control, while separating all this from the entities of implementation and operation due to the conflict of interests between these roles.

However, and despite these advantages, outsourcing raises many difficulties – which also apply to some of the outsourcing processes that exist in Israel, including:

1. **Lack of necessary Government infrastructure:** Outsourcing requires the Government to improve its planning capabilities, its abilities to define the required standards, to establish clear performance indexes and strengthen its supervisory and control ability, while maintaining a high professional ability. This need is also essential when the Government provides a service on its own. Building a successful model of contracting with an external service provider demands a high level of skill and expertise. If the outsourcing process only involves external contracting of the service and is not accompanied by a process of strengthening the planning staff, this will raise concerns that the level of service will suffer, the Government will not fulfil

its responsibility, and will find itself *vis-à-vis* an external operating entity without a real ability to define what is required of it or assess the quality of its service.

2. **Difficulty in setting objectives and indexes:** As part of the process of outsourcing, there is an increasing need to define standards, objectives and indexes that will be translated into clear and coherent contracting and which meets the goals the Government is interested in attaining. In outsourcing, the specified indexes largely define the supplier's commitment, and the ability to update and change these indexes is limited. In many social services, the ability to define measurable objectives for the service is challenging and demands a high level of skill. However, without this definition, the prerogative regarding how, what, to whom and how much of the service to provide remains in the hands of the operating entity, while the Government's ability to supervise and assess the level of service provided over time is diminished. In other cases, objectives and indexes that are unsatisfactory are liable to create a distorted system of incentives that will harm the quality of the service or its recipients.
  
3. **Harm to the quality component:** A central argument that arises in the context of outsourcing is that the state uses this method without placing sufficient emphasis on the question of the quality of service to be provided, mainly seeking to lower costs. Thus, the argument goes, outsourcing can lead to inexpensive service but at inferior quality, sometimes because the operator cuts back on investing in the human resource, *inter alia*, at the expense of quality.
  
4. **Regulation:** We elaborated on this problem in the chapter in the cost of living and competitiveness, and the fundamental flaws outlined there also arise here: For example, outsourcing is liable to sometimes lead to a new market controlled by monopolies or oligarchs, without facing effective and strong regulation. In addition to the potential detriment to the quality of service, there is also a fear of becoming dependent on a single supplier, with everything this implies. Finally, a situation of dependence on suppliers creates a reverse process in which the operator defines policy and standards instead of being subject to them ('regulatory capture').
  
5. **Less responsibility towards the workers:** Another argument raised in the context of outsourcing is that it is liable to lead to a worsening of employment conditions and harm the workers' rights. It should be clear that the Government's responsibility towards these workers is an integral part of its general responsibility for enforcing labour laws in the economy and for suitable conditions of employment for all of the workers in the economy, and for this purpose the Government must operate vigorous processes of monitoring, control and enforcement.

### Initial Policy Directions

1. **Structural changes:** The Government must significantly improve its staff capabilities in this context, and particularly the ability to set goals, define standards that can be translated into clear and coherent communication, and accordingly develop well-designed tenders that will provide the operator with incentives for meeting the desired objectives and standards. Towards this end, the Committee recommends that an infrastructure of knowledge on this subject be established by ministries that make considerable use of outsourcing. Coordination and learning should be facilitated between the various units that operate services via outsourcing, and

expertise should be developed in formulating tenders, in structuring supervisory and control processes, and in training the units involved in this.

2. **The Government should compose and publish a 'Guide to Outsourcing'** containing detailed information required for successful outsourcing. The guide would be updated in accordance with insights and learning in the system, in collaboration with the various Government entities that have substantial experience in this field. In this context, consideration should be given to instituting structured monitoring and evaluation processes for all of the services delivered via outsourcing, so that it will be possible to learn from them and continually improve the processes.
3. **Cost, efficiency and quality:** Each specific case must be examined individually to ensure that a proper balance is maintained. That is, alongside the savings and efficiency considerations, the required level of quality must be ensured.
4. **Strengthening the array of supervision and enforcement:** The Government must strengthen the supervisory and enforcement capabilities in accordance with clear indexes, including the monitoring of structural parameters such as training the personnel who provide the service, the quality of service provided in practice, and the extent of improvement in service over time. In addition, the Government must monitor the financial stability of the service provider, inter alia, in order to prevent the extreme case of bankruptcy and subsequent collapse of the service.
5. **Regulating the market of service providers:** The Government must ensure that it maintains control and flexibility in the provided service, and prevents the creation of monopolies that are liable to harm the quality of service and the Government's ability to formulate independent policy. The regulation in this area must reduce the dependence on a small number of service providers, and maintain the ability to provide a rapid response to policy changes or varying situations.
6. **Narrowing the distance between the Government and the recipient of the service:** The Government must ensure that it creates channels of communication that enable the recipients of service to lodge complaints and receive direct answers from public employees and not only from the operating entity. In addition, the service operator must verify that the service recipient is aware of the fact that service is being provided under the state's responsibility, funding and supervision.

### **Summary and Recommendations**

The Committee recommends that the Prime Minister and the Finance Minister appoint a Government task force to propose the necessary policy guidelines on the subjects outlined above and operative steps for their implementation, taking into consideration the various aspects discussed above. The recommendations of the task force will be discussed by the steering committee (as described in the implementation chapter below) and submitted to the Government for approval. The Committee recommends that this process be completed by June 1, 2012.

Finally, the Committee would like to note its concern about a situation in which the essential discussion that needs to be conducted on these issues might lead, heaven forbid, to paralysis and a halt in the Government's work. It would not be correct to stop or slow the processes

of outsourcing that are already underway, and we must not reach a situation in which the recognition of the importance of the subject is interpreted as a call to stop the Government's work processes. A logical procedure of examining this subject should be initiated in light of the principles outlined above, centred upon the recognition that it is **not a matter of reducing the role of Government, but rather of changing the way in which it fulfils its responsibility**. This examination, and the improvements that come in its wake, will be gradual, and the focus should be on strengthening the supervision and control of services operated via outsourcing and in formulating the policy guidelines required for the future, while learning, correcting and improving where possible. Because if not, the service provided to the citizenry will suffer and we will all end up losing.

## 8. CASE STUDY: EARLY CHILDHOOD EDUCATION

The array of public services for which the Government assumes responsibility changes, as noted, over time in light of the developments that occur in the relevant dimensions, including technology and demography. A salient example of this is the approach to early childhood education, which has occurred together with profound changes in norms of participation in the labour market, as well as advancements in scientific research that have altered our understanding of the importance of acquiring generic skills at a young age.

We live today in a 'knowledge era', which is characterized by the critical importance of generating new knowledge, disseminating it rapidly and applying it to all fields of human activity. The greater the pace of 'creative destruction' resulting from rapid technological progress and the ability of individuals to maintain quality jobs or to be employed at all, depends increasingly on the flexibility of their skills and their ability to adjust to changing circumstances. These, in turn, depend on a broad and solid base of generic capabilities, knowledge and skills that are acquired early in life. The individual usually tends to invest too little in acquiring **generic abilities** due to the lack of sufficient information or a broad perspective on the pace of changes around him, and also because he usually tends to put too much emphasis on the present as opposed to the future. This is true in the case of the individual when deciding how to invest in himself, as well as in the case of parents who make these decisions for their children.

The aforementioned pertains to the 'average individual', but, of course, there is great diversity around this virtual average: Well-educated parents with information, awareness and means will invest more in quality education during early childhood, and their children will benefit from this in the future by achieving more in all fields, including in employment and income. On the other hand, the children of parents who refrain from making this early investment – due to a lack of means or a lack of long-term vision – will find themselves on the margins of society and employment. This difference leads to inequality, and no less important, it diminishes the effective pool of human capital in the overall economy. It is very hard to make up this deficiency at later stages because the most efficient acquisition of generic abilities takes place, as noted, at an early age.

The clear conclusion is that the Government should take greater responsibility for inculcating generic capabilities at a young age. While in the not-too-distant past the Government's responsibility began when the child entered elementary school, this responsibility has been extended, at least in principle, to kindergarten age,<sup>7</sup> and today the

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<sup>7</sup> In Israel, the Compulsory Education Law was already amended in 1984 to extend to ages 3 to 4, but it has been only partially implemented since then.

aim is to intensify the activity at ages 3 to 4 and to take initial responsibility and gradually expand it to ages 0 to 3.

Before elaborating on early childhood, it is important to note that the development of general capabilities continues later, of course, and we thus recommend the full implementation of the Compulsory Education Law for ages 3 and 4 over the next five years. In addition, the Committee recommends the gradual implementation of a longer school day for ages 3 to 9 so that children will be able to continue in a full range of educational activity during the afternoon hours too. This will also enable both parents to work full-time jobs without concern.

Until the middle of the 20<sup>th</sup> century, education during early childhood was the sole responsibility of the household, especially of the mother, who usually stayed home for this purpose. Only when the children were older did some women enter the labour force, and women who did this earlier relied to a great extent on help from the extended family. However, as the participation of women in the labour market grew during the decades following World War II, there was also a growing need for frameworks of early childhood education outside of the home. A large number of day care centres opened to meet this need, but the prevailing approach was that their purpose was to provide **care** as distinguished from **education**.

Advances in scientific research in the field of child development have indicated that the ages of 0 to 3 are critical for developing a child's cognitive abilities and emotional balance, which in turn are critically important for the child's continued development, including his ability to acquire knowledge and skills over the course of his/her life. Moreover, the potential for irreparable damage to the child as a result of deficient care during these stages is enormous: Studies using PET scans have shown clear brain damage in children who did not receive appropriate care during these ages. It is important to understand that it has become much more common for children to be outside of the home during these early stages and, therefore, the severity of the potential problems stemming from deficient care will only be apparent later – but then it will be too late. Consequently, day care centres are not at all simply a matter of finding convenient solutions for parents in order to enable them to go to work, but rather an educational-developmental matter of the first order.

The Government's involvement in early childhood requires fundamental planning that will include institutional, professional and budgetary elements and processes. It should be noted that, unlike ages 3 to 4, the Government should not take **full** responsibility for early childhood, certainly not at this initial stage. First, because the families should be given a choice about the care of their children at such early stages, and it should not be defined as a standard that the best option is to take the child out of his home at these ages. We have neither the knowledge nor the authority to determine this. Secondly, it is not clear today what the best structure would be for this field as a whole. That is, should we primarily encourage private day care centres and supervise and subsidize them, or should the main tool be the establishment of public day care centres? How much diversity should we allow in this context? And so on. Thirdly, there needs to be proportionality in public investment in the various stages of education, and there should not be a drastic measure that upsets the balance.

Therefore, an appropriate degree of caution is called for in planning the Government's involvement in this field in order to avoid making irrevocable mistakes. Nonetheless, the message and direction should be clear and unequivocal: The Committee recommends



increasing involvement by the Government, which will require substantial Government attention and a significant budgetary investment during the next five years. The specific recommendations will be described in the report, but it is already important to note some of them here:

- From the institutional perspective, the day care centres are still under the authority of the **Ministry of Industry, Trade and Labour**, a fact that reflects an outdated approach, according to which they were primarily designed to enable parents to go to work. This situation demands a fundamental and immediate change – as noted, day care centres are critical educational-developmental institutions, and should thus be under the responsibility of the **Ministry of Education**. This is a first step and necessary condition for the entire process.
- **Supervision** is needed for the public and private day care centres that exist today. This should not be limited to only the technical-safety aspect, but also include supervision of content to a minimal extent. For this purpose and as an initial step, the **Supervision Law** – which is today awaiting Knesset’s approval – should be immediately enacted and followed by the development of effective supervisory and enforcement capabilities.
- A **professional body** should be formed for early childhood. This body would include the leading experts in the field and chart a strategy for developing educational-developmental content for day care centres that would dictate the patterns of investment in them and the standards for supervision.

Finally, it should be noted that we not only considered the nature and quality of care provided during early childhood, but also the heavy **financial burden** on parents of young children. The proposed responses are: (a) granting two tax credit points to fathers of children ages 0 to 3; (b) extensive building of public day care centres, including in areas of demand, which will greatly expand the accessibility to day care centres at a reasonable price, as well as encourage competition and lower prices in private day care centres; (c) invest in providing incentives to private day care centres to upgrade themselves and enter into a system of supervision and price controls so that the children going to these centres will also be entitled to subsidization.

## 9. FAILURES OF THE PUBLIC SECTOR AND DIRECTIONS OF CHANGE

### Background

A high-quality public sector that functions efficiently and fairly is an essential condition for prosperity and socio-economic development. Any discussion of the accessibility of public services, standard of living, economic distress and the sense of alienation and injustice in shouldering the burden – requires a serious look at the problem of the structural flaws that hamper the ability of the public sector in Israel to function and the level of efficiency, effectiveness and quality of the services it provides. This issue is directly pertinent and becomes even more acute in the context of the way the Government provides public services, and the issue of outsourcing in particular.

The structural difficulties the public sector faces have numerous dimensions: the multiplicity of ministries and Government units, the multiplicity of protracted bureaucratic processes together with an inferior level of service that derive, *inter alia*, from the gap in the

employees' professionalism, in parallel to the lack of basic managerial authorities, the lack of operational flexibility, and so on. All this affects the sense of frustration accompanying the citizen who requires Government services.

The Governments of Israel identified this problem and tried over the years on many levels to improve Government work and resolve the flaws of bureaucracy and regulation. Structural changes were promoted in some of the Government units with the aim of improving their work; emphasis was placed on developing detailed work plans and setting objectives and indexes; processes for strengthening policy-planning capabilities were promoted in Government ministries; measures were taken to strengthen the senior managerial echelon and recruit a managerial pool for the public sector; and considerable resources were invested in developing and installing online platforms for providing services and information to citizens (for example, the e-Government [*memshal zamin*] Project). Despite the progress recorded in many areas, these processes have not succeeded in generating a fundamental change in the way the Government operates – the required scope and depth of change has yet to be achieved.

## **BASIC FLAWS IN THE CIVIL SERVICE AND PUBLIC SECTOR**

The structural flaws of the civil service are apparent in five main areas:

### **1. Implementing and Executing Policy**

The implementation of Government policy in the field of services depends on the extent and speed of the policy's implementation in 'front line' units that are supposed to translate it into real service for the citizen. The Government's ability to execute is affected by a central administrative feature embedded in the entire system – excessive centralization throughout the entire backbone of Government service. This is true in regard to the relations between policy-planning ministries and service-providing ministries, and between the central Government and local government. This is especially surprising and illogical in a small country like Israel, because the state could very easily conduct decentralized processes without losing its central authorities. This excessive centralization has led, inter alia, to the Government being 'out of touch with the street'. On the other hand, the ministries' end units – the service bureaus in the districts and cities, are weak and often lack implementation capabilities.

### **2. Burdensome Bureaucracy**

Over the years, a bureaucracy has developed in Israel that is rife with procedures, forms, permits, entities and regulation. In a long process of many years, 'geological layers' of bureaucracy have accumulated, and there is no doubt that many of them are superfluous and even detrimental. Recent years have witnessed a growing global trend of balancing and restraining bureaucratic restrictions, and this is happening in parallel to improving service for citizens through a number of channels, including: clarity of information, reduction in response time, less contact with the authorities, merging of processes and an emphasis on a high level of service, some of this via intensive use of information and communication technologies (ICT). These processes have also begun to develop in Israel, in the Ministry of Finance's 'Doing Business'

Committee, in the Minister's work to improve Government service for the public, and in the work of the e-Government unit. However, there is still a long way to go towards real improvement of the bureaucratic burden, which is becoming a systemic flaw.

Bureaucratic flaws also comprise a fertile platform for Government corruption. In a place where there is an unreasonably long line for receiving service, a wide network of *'operators'* and lobbyism flourishes; in a place where substantial power accumulates in the hands of a permanent cadre of officials, a culture of connections and cronyism develops; in a place where transparency is limited and oversight is deficient, a phenomenon of extraneous considerations and promotion of interested parties takes root.

### **3. Managing Human Resources in the Civil Service**

While most developed countries have already undergone several rounds of substantial civil service reforms, only hesitant and modest attempts at reforms have been made in Israel and, in practice, they have been unsuccessful. (See, for example, Kubersky and Galnoor.) Today too, reforms are being made in personnel management in the public sector in many countries, and the central challenge is how to maintain the values of the service and the legal arrangements that define it, while also granting it flexibility and adapting it to a rapidly changing reality.

According to any criterion, personnel management in the civil service in Israel is too centralized. The uniformity of the system has become its central weakness. The worthy objective of ensuring fairness and equality has, in practice, promoted rigidity and mediocrity. In addition, the system's emphasis on processes and procedures exacts a heavy price in terms of the ability to execute.

It should be emphasized that the problems in human resource management pertain to the system as such, and do not contradict the fact that there are dedicated and skilled workers in the public sector, who possess rich experience and expertise and are imbued with a profound sense of mission. Thanks to them, any necessary change is possible. Moreover, the required changes must be ones that reinforce these personnel, strengthen their abilities and influence, and ensure a supportive and rewarding organisational environment.

### **4. Lack of Systemic Vision and Collaboration**

The fact that all Governments in Israel are based on coalition agreements makes it difficult to coordinate inter-ministerial planning and cooperation in related fields of work. In fact, there is usually no systemic vision in the Government's work. Instead, there are departmentalized domains. Government ministries are not eager to comply with the Government's agenda, and are even more reluctant to collaborate with other ministries. Many Government reforms are stymied because of opposition to the planned measures by the policy-planning ministries or by one of the service-providing ministries.

### **5. Thinking, Policy Planning, Assessment and Control Capabilities**

The common denominator in these flaws is the civil service's deficiencies in thinking and planning capabilities. The decision-making process in Government units does not encourage

long-term thinking, partly because of the rapid pace of turnover of the Governments in Israel. Moreover, the management in Israel's Government system is generally based on an ethos of action rather than an ethos of planning. This ethos is expressed in the preference for establishing 'facts on the ground' and improvising, instead of an orderly decision-making process that includes analysis and study of alternatives.

These flaws have substantial repercussions for Israeli society's standard of living, equality and ability to prosper. In the absence of capabilities of planning and long-term thinking, and in the absence of the required skills at the stage of policy implementation, resources are allocated for misguided and even contradictory action. In the absence of equal and professional mechanisms of allocation, some of the Government's budgets are channelled to particular sectors in a way that widens the disparities between sectors and populations. In the absence of professional mechanisms for setting clear standards and indexes of output and results, the Government is less able to study the effectiveness of its policies and the level of service provided to the citizen. Consequently, the citizen must suffice with a lower level of services or, alternatively, finance complementary services from his own pocket, and seek the assistance of mediating agents – attorneys, accountants, consultants and others, which exacerbates the inequality and sense of alienation.

In this reality, the question of the size of the public sector or the way it delivers the services it provides cannot be discussed without addressing the Government's ability to fulfil its responsibility to properly serve its citizens. Allocating larger budgets or changing the mode of delivering public services without taking fundamental action to strengthen administrative bodies, improve policy planning and implementation capabilities, and reinforce supervision and control systems – are likely to prove seriously erroneous over time. In this situation, a comprehensive Government strategy is needed to upgrade the capabilities of the public sector and to fundamentally improve the systems of management and implementation, personnel, bureaucracy and regulation.

## **PRINCIPLES FOR IMPROVING THE WORK OF THE PUBLIC SECTOR**

In recent decades, a substantial change is occurring in the characteristics of the public sector in many places in the world. In the not-too-distant past, we witnessed large Governments in many countries that were deeply involved in economic life, providing a large part of the public services on their own and comprising the economy's main employer. There has since been a transition to a new form of operation in which the Government engages mainly in setting policy, putting implementation processes in motion, promoting strict regulation and effective assessment, supervisory and control processes. Even in areas where the Government is required to provide the service to the citizen on its own (and the Government is obliged to continue to do this in many fields), it has new tools, knowledge and advanced technology at its disposal that enable it to enhance and improve the service provided to the citizens, while significantly lightening the burden of implementation. This situation demands a comprehensive Government programme that is accorded high priority on the Government's agenda in order to ensure systematic treatment of the various dimensions of the flaws:

- 1. Strengthening the planning and policy capability of the Government's work, with an emphasis on**
  - A. Formulating a national strategy in the social and economic fields for the medium term and long term, placing emphasis on broad and measurable objectives and targets,

which facilitate collaboration between Government units and generate commitment *vis-à-vis* the public.

- B. Empowering the administrative units as elite professional units relying on skilled and dynamic personnel who will strengthen the planning, assessment, control and evaluation capabilities.
- C. Establishing annual work plans as a central tool for planning the work of Government units, and developing a method for monitoring, control and evaluation of these plans during the course of the year, which will serve as a key management tool for the directors-general and unit directors, together with tools employed in other sectors, such as Service Level Agreement (SLA) tools.

## **2. Boosting the Government's implementation capability by:**

- A. Improving the composition of authorities and balances in the public system – An effort should be made to substantially strengthen all of the ministries by reinforcing the connection between authority and responsibility; a responsible and gradual decentralization of authorities from the policy-planning ministries; separating the regulatory bodies from the executive bodies and service providers; cutting back and merging overlapping units and ministries.

Decentralizing means the transfer of authority together with responsibility. A condition for successful decentralization is to make sure from the outset that basic conditions are met, including strengthening the units to which the authorities will be transferred, maintaining indexes of achieving objectives and goals, effective control systems, management tools and flexible hiring arrangements.

- B. Improving budgeting processes – This includes a friendlier budget structure that will boost the executive capabilities of the ministries and improve transparency; increasing collaboration between Government ministries during the stage of planning and budgeting so that the ministries will be able to shoulder greater responsibility for the necessary changes in priorities within the budget framework; creating a closer connection between policy-planning processes and budgeting processes.
- C. Strengthening the professional echelon in the decision-making processes – Exposing the legal advisors to the challenges the public system faces, as they seek to find legal solutions for complex problems. It is also essential to ensure that alongside fundamental control processes and uncompromising integrity the Government ministries will be able to conduct their everyday work and that public officials will be able to exercise their judgement, make decisions and set complex processes into motion.
- D. Creating processes for collaboration, for coordination between Government units and for resolving disagreements in inter-ministerial fields – at both the planning level and at the implementation level.

## **3. Examining the bureaucratic system and creating a basis for systemic change:**

- A. Identifying focal points of bureaucratic burden, through which it is possible to create significant change in the Government service.

- B. Creating an infrastructure for reducing the bureaucratic burden, including a uniform methodology, platform and tools that could serve all of the governmental bodies.
  - C. Strengthening and improving the efficiency of regulatory systems – Promoting a Government programme for studying the Government’s regulatory systems, reducing duplication and making the mechanism more efficient, while formulating tools for an assessment of the burden of regulation relative to the public interest. Developing a doctrine of Government regulation, knowledge transfer, and collaboration between various regulators and thus strengthen their capabilities and expertise. (For more on this subject, see the chapter on the cost of living and competition.)
- 4. Immediate implementation of reforms in the Civil Service Commission is needed that will facilitate a process of developing personnel in the public service in accordance with the following principles:**
- A. Adapting the management of human resources to the existing challenges and towards achieving the Government’s objectives; maintaining the values of sound management in the civil service, with an emphasis on ethical standards, integrity and transparency. A holistic view of the civil service – in the sense of belonging, in the ethos of service, in the broad vision of challenges, in needs and responses.
  - B. The Civil Service Commission will serve as a policy-making body, while transferring most aspects of implementing the defined policies to the Government ministries. The responsibility for managing personnel will be transferred to the Government ministries in a gradual and orderly process that will include training, certification, defining indexes of success, and providing tools for consultation, monitoring and control.
  - C. Building the ‘managerial backbone’ in the civil service and strengthening the quality and professionalism of senior personnel in the civil service.
  - D. A comprehensive policy will be formulated for human resource development and career management in the civil service, with an aspiration towards excellence, enhanced professionalism and employee training; and for the transfer of knowledge and experience within the Government, including rotational career tracks.
5. The Government must pursue a new arrangement that will include substantially greater flexibility than the current terms of employment – This new arrangement should enable the recruitment of high-quality personnel and reward excellence, based on processes of systematic assessment and evaluation, as well as effective dismissal proceedings. This can be done in an honourable arrangement without challenging the essentiality of organised labour and while providing tools to assist employees who leave the civil service in finding work in the general job market.
6. Clear rules of ethics are also needed that will guide the work of Government officials and elected officials *vis-à-vis* lobbyists. There is also a need for clear rules in regard to the required ‘cooling-off’ period when transitioning from the Government to the private sector, while appropriately distinguishing between the various ranks of employment and providing suitable compensation during the cooling-off period. And rules are needed in order to stem the phenomenon of public officials transitioning to work in roles which

mainly entail activity *vis-à-vis* the Government regulatory systems in which they worked during their terms of employment in the Government.

7. Above all this, there is need to build and foster the public ethos and definition of the system of values upon which the civil servant relies, while creating a sense of mission, accountability and a culture of civil service.

The Committee believes that this subject should be a core priority for the Government. The public and Government discourse has centred for many years around the issues described above, and there is a consensus about the need for systemic change in the directions of these policies. Nonetheless, the desired change is slow in coming. **The Committee regards this matter as a fundamental element in the required change in the socio-economic order and calls upon the Government to view this as a national goal and to take vigorous and determined action to implement it.**

The protest demonstrated the yearnings of many citizens to participate and take responsibility for what occurs in the public arena. Within the public sector, there are many dedicated and skilled civil servants who want to see the fruit of their labours, as well as a horizon of personal and professional development. Among the hundreds of thousands who took to the streets, there are many young people who aspire to find work in the public systems, to shoulder responsibility and to make an impact on the life of the society in Israel. The Government should regard this as an opportunity for change, and see these young people as an asset and essential pool for improving public service and pave the way for them to enter Government service.

## 10. TOWARDS PARTICIPATORY DEMOCRACY

'The New Israelis' – is the apt nickname one of the protest leaders coined in his remarks to the participants in the largest of the demonstrations held in the framework of the protest. This nickname speaks to the roots of the protest, and to the future. One of the sources of the protest lies in the growing sense of alienation that is spreading over broad segments of the public *vis-à-vis* the State's institutions, the political system and central focal points of the market economy. The feeling is that these institutions and systems have become aloof and isolated from the average citizen, that they take no interest in him, his problems or his needs, and that the citizen himself is unable to influence them. The sense of alienation, in turn, breeds distrust, cynicism, unwillingness to serve and carry the personal and collective burden, and even desperation, with all that this implies.

Narrowing the space of public discourse has contributed much to this. In the past, this space comprised a security–political dimension, a secular–religious dimension, a socio-economic dimension, and at times other dimensions as well (such as an ethnic dimension, a new immigrant–veteran Israeli dimension, and so on). However, in recent years, the security–political dimension has become dominant, to the point of stifling other dimensions. The advantage of a multi-dimensional space is that everyone can find his legitimate place in it, express his views on any issue without fear, and thus feel a sense of belonging and connection to the political system and Israeli public-at-large, which properly enable him to express himself. This is particularly true in a society in which there are so many streams and sectors that cannot fit into a limited and narrow space of public discourse.

This is not the place to analyze how this occurred, but the fact is that in recent years the socio-economic dimension has atrophied and become almost irrelevant. On the other hand, the political 'left-right,' especially in the sense of one's view on the Palestinian issue, dominated the entire space of public discourse. Thus, as soon as an individual was labelled as 'left' or 'right,' he could no longer differentiate himself by expressing his views on other dimensions of discourse. In the State of Israel, no one engages, heaven forbid, in expunging words, but the de facto narrowing of the space of public discourse has led – not to amnesia or coma – but rather to frustration and alienation.

One of the most positive side effects of the protest is that the New Israelis are discovering, for the first time, a suitable language through which they can express their feelings, without fearing that they will be labelled according to the classic dichotomies, which carry a negative weight. It turns out that it is possible to complain about the cost of living, the shortage of institutions for early childhood education, the lack of small rental apartments, and so on, without this being interpreted as a political statement that necessarily implies a position *vis-à-vis* the future of the Land of Israel or a Palestinian state. This severing of the Gordian knot released energies, aspirations and hopes of an entire generation that has borne the burden and conducted itself in a normative way, yet has not found its place in the face of its hardships, on the one hand, and the erosion of the space for public discourse, on the other hand.

The absence of the socio-economic dimension in the discourse of the recent past can be clearly seen in the gaps of knowledge on socio-economic issues that are now evident, and in the strong desire to urgently fill in what is lacking. Deficit, taxation mix, negative income tax, privatization, national debt, fiscal rules – all of these and many more have suddenly become part of the discourse of tens of thousands of Israelis and are now the subject of heated arguments on social networks, in city squares and in tents, as well as in forums of experts.

But it is not only the return of the lost socio-economic dimension to the centre of the arena: The New Israelis insist that their voice be heard, not as a one-time act during a demonstration, but as a built-in and permanent means of conduct in the new 'agora'.<sup>8</sup> This heralds the creation of a vibrant, resolute and courageous participatory democracy that is very different from the patterns familiar to us until now. There is no doubt that technology has made a critical contribution to this: Internet and cellular communication facilitate a direct and immediate connection between any two people, and social networks enable interactions involving numerous participants without limitations of time or space. Thus, a few people with initiative can ignite powerful processes that spread across wide parts of the public, and there is no central-Government entity that can stop, manoeuvre or prevent it.

This is a rare opportunity to remove the barriers separating the institutions of the State from its citizenry, to attempt to rebuild relations of trust, to truly involve the public in policy dilemmas and thought processes, and to discover that the collective wisdom of the State's citizens is not inferior to that of the elected officials, Government bureaucrats, the traditional representatives of those with vested interests, or experts acting on their behalf. The rebuilding of trust between the citizen and the State might also permeate other contexts. Indeed, a lack of trust has also spread to the relations among Government institutions themselves: between the Knesset and the Government, between the defence

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<sup>8</sup> *Agora* in Greek refers to the physical public space in the cities of ancient Greece, particularly in Athens, where discourse and rich civic life were conducted.



establishment and the Ministry of Finance and the Prime Minister,<sup>9</sup> between the policy-making ministries and service-providing ministries, among regulators, and so on. Distrust has become the norm, making it very difficult for the Government systems to function, and this, of course, has fed and strengthened the citizen's lack of trust *vis-à-vis* all of these Government systems as a whole. As occurs in many other cases that are susceptible to 'prisoner's dilemma' syndrome, it is very difficult to change the situation the Government system has found itself in, both internally and in its relations with the citizenry. But as demonstrated by the process of extensive and innovative dialogue the Committee conducted with thousands of citizens (see the full report), this is possible and the institutions would do well to fully embrace this rare opportunity.

## 11. THE PROCESS OF ADOPTING AND IMPLEMENTING THE COMMITTEE'S RECOMMENDATIONS

### A. Introduction

The Committee's report includes a variety of chapters, some of which express a point of view that charts a direction and defines principles for policy, while some include recommendations, which vary in their readiness for implementation. The former – that is, the chapters that express an outlook – address questions of social justice; the goals of socio-economic policy; principles in the area of fiscal policy, the budget and taxes; policy guidelines for delivering social services and improving the public sector's capabilities; a general perspective on the issue of housing and development of the urban space; regulation, competitiveness and consumer protection; and the labour market, early childhood education and public transportation.

These chapters present fundamental principles that, in the Committee's opinion, must be integrated into the new socio-economic order required for the State of Israel. Their test will be the test of awareness and internalization. To what degree will they constitute a foundation for new policy thinking? To what extent will the new dimensions of discourse be internalized and assimilated into the heart of the Government's decision-making processes? To what extent will the decision makers be guided by the fundamental principles of social justice, solidarity, aspiration for a common denominator, and participatory democracy? These are questions that cannot be answered via structured procedures and standard monitoring and control processes. **They must permeate the heart of public activity, because the critical issue is the extent of public confidence in the fact that the process of change has indeed been internalized and translated into action.**

In regards to the recommendations for implementation, in some of the cases this entails specific policy measures that can be implemented in the short term, together with the definition of measurable objectives, indexes of output and results, and timetables. These measures are described in the key recommendations and summary tables. In some cases, the Committee recommended the formation of dedicated implementation teams and monitoring and control teams to ensure the complete execution of the recommended measures (for example, in the housing field, in lowering customs duties, in policy for early childhood education, and so on). In other cases, the development of orderly processes of

<sup>9</sup> Note the bitter struggles not only over the size of the defence budget but also on 'language' – on what is or is not included in it, on what constitutes state security, on transparency, and so on. These struggles seriously sully the relations between the key players on sensitive and important subjects, and undoubtedly make it harder to reach sound decisions. This is not just a budgetary matter: Over time, the lack of trust becomes a strategic danger.

follow-up and monitoring will be needed to ensure the full implementation of the recommendations. **This broad basket of measures is ready for in-depth discussion and decision-making by the Government, and for implementation by the end of this year (December 31, 2011).**

The Committee also recommends immediate changes in the budget and taxation mix, which **should be integrated in budget and tax legislation by December 31, 2011.**

Finally, on central policy issues for which the Committee was unable to reach specific recommendations due to the short amount of time at its disposal, the Committee recommended follow-up processes for policy formulation, with dedicated teams to be formed by the Government with the goal of developing complementary policy recommendations in a defined and speedy time frame. (This includes, for example, addressing undeclared capital and 'wallet company' tax havens; developing a comprehensive policy for the urban space; formulating a policy on outsourcing and various issues related to competitiveness and the cost of living.) On these subjects, which require a professional process of formulating a point of view, there should also be a procedure of close follow-up and monitoring to ensure that their discussion will be completed within a short period of time and that the policy recommendations reached by the various teams will then be immediately brought before the Government with the aim of deciding on the best policy and implementing it.

## **B. Guidelines for the Implementation Process**

### **1. Milestones for implementing the report:**

- Adopting the general vision and recommendations by the Government
- Anchoring all of the Committee's specific recommendations in a Government decision (including the policy principles, the operative steps and the appointment of policy and implementation teams, and the principles of implementation described below), and this in accordance with the recommended time tables
- Submitting Government legislative initiatives required for implementing the Committee's recommendations, including amendments required in the Budget Law and in tax legislation
- Approving all of the required legislative amendments by December 3, 2012
- In parallel – institutionalizing an ongoing process of follow-up, monitoring and control until full implementation of the Committee's recommendations
- Semi-annual report by the Government on the implementation of the recommendations

### **2. Changes in budget priorities – principles:**

- It should be clear that the Committee's recommendations regarding the budget are additive. That is, wherever the Committee recommends a budget allocation, the intention is a supplementary allocation to the budgets already allotted to this item in any case (in the base budget or in accordance with Government decisions or budget

accords). This is within the budget framework, and thus all of these require an internal rearrangement of allocations.

- The budgets allocated as outlined in the tables in the report will be allocated in the base budget, including allocations in an 'authorization to commit' format.
- The Committee recommends changes in the budget priorities in the magnitude of about NIS 30 billion over the next five years, including some NIS 4 billion in 2012, thus:
  - The Government must act to amend the Budget Law for 2011-2012 and revise the priorities in the state budget in accordance with the Committee's recommendations, prior to December 31, 2011.
  - Budget revisions for the year 2012 that are not one-time changes should be anchored in the base budgets of the ministries.
  - One-time expenditures required for implementing the Committee's recommendations (such as allocations for building day care centres and kindergartens) in 2012 will be funded by the Ministry of Finance by granting the relevant ministries the authorization to commit (the sums stipulated in the Committee's report), concurrent with the approval of the recommendations by the Government.
  - The multi-year budgets required for implementing the recommendations will be anchored in a Government decision and in multi-year budget accords between the Ministry of Finance and the relevant Government ministries.
- The Committee recommends changes in the mix of the state's tax revenues, with an emphasis on reducing the burden on the designated target population by about NIS 30 billion over the next five years, including a reduction of about NIS 6 billion in 2012. Legislative amendments required for implementing the Committee's recommendations, including the budgetary revisions and the amendments in tax legislation, should be brought before the Knesset during the winter session with an aim of approving them by December 31, 2011.
- The other legislative amendments required for implementing the Committee's recommendations should be brought before the Knesset during the winter session with an aim of approving them by December 31, 2011

### **3. Responsibility for carrying out the steering committee's recommendations for monitoring the process of implementation**

- The overall responsibility for implementing the specific recommendations, including the stage of formulating the Government decisions and proposed legislative amendments, will be assigned to the Director-General of the Prime Minister's Office and the Budgets Director in the Ministry of Finance.
- It is proposed that the Prime Minister appoint a monitoring committee, chaired by the Director-General of the Prime Minister's Office and the Budgets Director in the

Ministry of Finance, to supervise the process of implementing the Committee's recommendations. The Committee will report to the Government every six months on the progress made in implementing the specific recommendations in each and every area, as well as the results in those cases where the impact of implementation is expected to be reflected quickly. In particular, the Committee should report on changes in housing prices, in consumer prices in those cases in which customs duties and other indirect taxation were lowered, and so on.

#### **4. Integrating the recommendations in Government work plans and setting objectives and indexes**

- The Government's policy *vis-à-vis* the recommendations will be integrated into the work plans of the various ministries.
- The Government will act to set objectives, indexes of output and results, and milestones for completing implementation of all of the processes, and these will be integrated into the Government's work plans.
- The steering committee will report to the Government once every six months on the progress made in implementing the recommendations.

#### **5. Reporting to the public**

The Government will publish a detailed performance report by December 31, 2011 regarding the extent and ways of implementing the recommendations during the time period that has elapsed, noting objectives, indexes and milestones for continued implementation, together with timetables.

#### **C. Importance of Supervising and Monitoring Implementation**

The large number of public committees in Israel in recent years and the inconsistent effort to implement their conclusions raises concerns that the recommendations of this Committee will not be fully implemented. Moreover, since the Committee seeks to generate far-reaching change in a wide range of fields, these concerns intensify in the face of opposition by many who have benefited from the old situation, and it is feared that the agenda will remain as it was.

The Committee is absolutely certain that an in-depth discussion will be conducted on its recommendations and that there will be a serious process of implementation. However, the Committee believes that the Government should demonstrate to the public the seriousness of its intentions in regard to the required change and its determination to work to solve fundamental problems that arose against the backdrop of the protest. Therefore, the Committee reiterates the need to conduct a rapid and transparent process of adopting and implementing its recommendations, and structuring an effective process of monitoring and supervising implementation.

## **12. SUMMARY AND KEY RECOMMENDATIONS**

The summer of 2011 sounded a cry and ignited a spark of hope for the society in Israel: a mighty cry about the ills that have accumulated and surged during recent years, and hope

for creating profound change, a change that will generate a more just society, founded upon solidarity and fairness towards those who work for their living and contribute their part to society, and built upon moral values shared by all of its sectors.

‘The people demand social justice!’ – This was the slogan used by thousands and tens of thousands in the city squares in Israel, and it became the symbol of the tent protest. What does it mean? What justice are we talking about? We were assigned the task of translating the protest into a language that could yield responses. Here is what our emerging, improvised and very partial dictionary states:

- 1. Social justice means congruence between the individual’s normative behaviour, contribution and effort, and the reward the individual receives.**
- 2. Social justice means equality of opportunities at the initial stages, followed by fair rules of employment and competition, and basic security and dignity following retirement.**
- 3. Social justice means that if fate is unkind to an individual for whatever reason, society will help to ensure his basic subsistence, accessibility and dignity.**

The realization of social justice requires an explicit commitment, sound strategy and vigorous action by the State. But beyond this, the prosperity of Israeli society depends on the existence of a broad common denominator of moral values shared by all of its parts. A common denominator does not mean uniformity, and certainly not the imposition of one group’s values on other groups. The great challenge is to foster what is common while respecting what is different. This, therefore, is the ‘what’ we advocate. The ‘how’ that we propose is amiable, tolerant, respectful, characterized by mutual trust and solidarity, but also determined and decisive.

**The realization of social justice and a moral common denominator, through amiable and decisive means, is the essence of the approach required for facilitating the desired change in Israeli society.**

Some of the society’s ills derive from global phenomena and, in particular, the globalization that accentuates relative advantages with unprecedented speed and power, richly rewarding uncommon talents while mercilessly punishing those who are able to run – only at a slower pace. The result is income disparities and growing inequality, which are closely linked to education and to the characteristics of the various branches of the economy.

Even in an economy that is so exposed to global market forces, the Government exerts an enormous impact on economic life, both actively (via the budget, taxes, regulation, etc.) and passively – that is, via what it refrains from doing (for example, *vis-à-vis* growing inequality or centralization in the markets). As we began to analyze the source of the distress and, in light of this, formulate recommendations for change, the focus was naturally on the Government’s responsibility and on what it could do in order to generate the desired change; we have no control over the rest.

We will present here the guiding principles for Government policy in the social and economic field, and a comprehensive plan of action that includes specific recommendations and a budget outline. The plan and policy measures cover a wide range. A substantial part of the resources are channelled towards easing the economic burden placed on the shoulders

of working families, with an emphasis on parents of young children. Some of the measures are directed towards all of the citizenry, and some are designated to treat the specific problems of the weaker echelons in the society. The plan provides NIS 60 billion over the next five-year period for these goals, both via budget outlays and via changes in the tax mix, the reduction of indirect taxes and the granting of additional tax benefits.

### **Guiding Principles for Socio-Economic Policy**

The Committee believes that the Government should adopt guiding principles for its socio-economic policy, which will apply not only to the main tools of policy and the State budget in particular, but also to the entire range of activity that impacts the economy and society. These principles include:

1. In addition to strictly adhering to the fiscal rules, the Government should work to increase the weight of **civilian spending** in the budget, and seek to increase its share in the GDP. This takes into consideration the relative erosion that has occurred over the years in social services, partly due to budget constraints.
2. The Government should define and periodically update **social objectives** together with traditional macroeconomic objectives, including quantitative targets for boosting employment, and reducing poverty and inequality.
3. Economic **growth** is the key to the ability to provide for the growing needs of Israeli society over time. Therefore, the tools of economic policy must continue to strengthen the economy's competitiveness and ability to grow. However, the rate of growth as measured is not the be all and end all: Important aspects of **quality of life** are not factored into it, including the extent of inequality, health conditions, environmental quality, and so on. Thus, the canvas must be stretched when defining the parameters for measuring the economy's performance and the policy should be steered accordingly.
4. An important aspect of quality of life is the extent of **inequality** in the economy: Extensive inequality breeds a sense of injustice, exclusion and alienation, which are liable to harm social cohesion and the willingness to shoulder the burden. Hence, the economic policy must aspire towards a fair distribution of the fruits of growth. This includes the distribution between return on capital and compensation for work, and between senior executives and rank-and-file workers.
5. The Government should continually and persistently work to integrate all sectors of the population into economic activity and the social collective. In particular, the Government should seek to **integrate ultra-Orthodox men and Arab women in employment**, while respecting their way of life. Their rapid integration in employment that provides an honourable living is critical for both the continued prosperity of the economy and society in Israel, as well as for extracting these sectors out of the cycle of poverty.
6. The Government should ensure fair rules of play in the **market economy**, preventing the creation of barriers to entry, excessive centralization and monopolistic power, as well as fair rules of employment for all workers and protection of their basic rights.

7. The Government should clearly define **its responsibility** for providing public services, modify the composition of these services from time to time in light of technological, demographic and other changes, and ensure that they are provided in a fair and efficient way to the citizens entitled to them, regardless of whether this is done directly by the Government or whether some of the process of provision is outsourced.
8. **Outsourcing** some of the public services is legitimate and desirable in order to increase their efficiency and availability to the citizen, provided that this is done in the appropriate cases and with sound planning, placing emphasis not only on the cost but also on the quality, availability, measurability, monitoring and enforcement of proper standards. Moreover, the Government should especially emphasize its responsibility for the services that are outsourced and should serve as an address for the citizen, regardless of whether it delivers the service in practice.
9. The Government should work to **systematically address** the fundamental flaws in the civil service and public sector, strengthen planning and policy capabilities, boost the Government's implementation capabilities and managerial flexibility, and foster the public ethos and system of values upon which public servants rely.
10. The Government should adopt channels of dialogue with the general public in a format of **'participatory democracy'**, particularly when discussing changes and formulating policy pertaining to the public. This will enable a flow of ideas and reflect the citizen's situation *vis-à-vis* the Government, and strengthen the sense of belonging and democracy itself. This dialogue is also needed in order to balance the interests of the general public *vis-à-vis* powerful economic entities that enjoy access to the decision makers and exert direct influence on them.

## 2. Specific Recommendations

Beyond these principles, the Committee discussed four areas that are directly related to the roots of the protest: housing, the cost of living and competitiveness, social services and the tax mix. These are the key recommendations:

1. In the **housing** field, the Committee recommends a series of concurrent measures aimed at: (a) very significantly and continually increasing the supply of apartments in a diverse mix, thus driving housing prices back to a reasonable level; (b) pro-actively developing construction for long-term rentals, particularly small apartments and particularly in central areas of demand; (c) offering additional solutions for affordable housing for families who find it difficult to manage in the housing market on their own, including higher rental assistance for those who are eligible for public housing and for the elderly; (d) formulating solutions for the Arab sector in light of its unique characteristics, including assistance in planning and in infrastructure; (e) initiating the formulation of a comprehensive strategy for developing the urban space that includes expediting processes for strengthening the metropolitan areas and cities, extensive construction for diverse populations, accelerating processes of urban renewal, developing innovative systems of public transportation, and so on.
2. The **cost of living** in Israel is especially high, as reflected in many of the components of the consumption basket, in particular – housing, home maintenance, education, health, food and transportation. In regard to some of these components, the rise in

the cost of living reflects a narrowing of the state's responsibility for providing public services and/or flaws in regulation. Some of these components reflect the increased power of dominant companies in the markets. The Committee recommends boosting the Government's ability to contend with market forces via legislation, structured changes in the Antitrust Authority and other measures. The Government should pursue this objective in a pro-active and ongoing manner, while strengthening consumer power as a counterweight, and intensively addressing and focusing on a number of branches in which powerful monopolistic forces have taken root. The Committee also recommends defining new rules of engagement for Government regulators, so that addressing the cost of living will be one of the objectives to which they are committed.

3. Another source of the high cost of living is the many **barriers** that block imports and international competition in local markets. Thus, the Committee recommends **lowering all of the customs duties** that still remain despite the exposure plan and even **cancelling** most of them, in a controlled and two-staged process by the end of 2012. The Committee also recommends lowering sales taxes, raising the ceiling for tax exemption on Internet purchases from abroad, and adapting local standards to international standards as soon as possible.
4. In the field of **social services**, the Committee focused mainly on early childhood education due to the enormous importance of quality education in early stages and development of generic abilities for succeeding in the 'knowledge era,' and because education is the key tool for ensuring equality of opportunity and narrowing disparities in the society. In addition, the economic burden on parents of young children is very heavy and continually grew during the past decade. Thus, the Committee deemed it appropriate to devote considerable resources to lightening this burden. In particular, the Committee recommends institutional organisation and expansion of the Government's involvement in early childhood (ages 0 to 3), full implementation of the Compulsory Education Law for ages 3 to 4, and nationwide deployment of learning frameworks for the afternoon hours for all children ages 3 to 9. Likewise, the Committee recommends lowering the sums that parents are required to pay for school activities and text books.
5. Pursuant to social services, the Committee also recommends a series of measures for expanding and improving access to **public transportation**, particularly for purposes of employment. In addition, the Committee recommends measures for removing impediments in the **labour market**, particularly with the aim of integrating Arab women and ultra-Orthodox men in **employment**.
6. In the area of **taxation**, the Committee recommends a far-reaching change in the mix of taxes in order to increase the progressiveness of the tax system and lower the cost of living. On the sources side, the proposed changes are: (a) cancelling the continuation of the planned reduction in direct taxes; (b) creating an additional tax bracket of 48% for monthly income of above approximately NIS 40,000; (c) collecting a revaluation tax of 2% on annual income from capital and work of above NIS 1 million; (d) raising capital gains tax to 25% (30% for controlling shareholders); (e) raising corporate tax to 25% in 2012 and considering future increase to 26% future. On the uses side, the Committee recommends (a) cancelling the planned increase in the excise tax on gasoline, coal and diesel; (b) granting two tax credit points to fathers of children ages 0 to 3; (c) cancelling customs duties and sales taxes.



### 3. Sources & Uses of the Budget

1. The Committee recommends allocating a total of **NIS 30 billion over the next five-year period** for the objectives described above, with the lion's share allotted for education. More than NIS 4 billion will already be allocated in the basic budget for 2012 for these objectives, and the annual sum will increase during the five-year period.
2. These funds will come **from within the budget**, and in particular NIS 2.5 billion will already become available in the 2012 budget year **from a cut in the base of the defence budget**.
3. The total of additional revenue resulting from cancelling the planned tax cuts and increasing other taxes as described above will reach about NIS 6 billion in 2012. A similar sum will result from the reductions of indirect taxes and granting of tax credit points, and will total about **NIS 30 billion over the five-year period**.
4. Thus, the budget plan the Committee recommends will channel a total sum of **NIS 60 billion** for the benefit of the general public over the next five years. This will be expressed in price reductions and a lower cost of living, enhanced availability of public services, significant relief in education payments, an increase in per capita net income due to additional tax credit points, and more.

### Conclusion

The New Israelis of the summer of 2011 gave us, on a silver platter, a rare and wonderful opportunity to generate change and establish a more just and fair society and economy. We did our best to translate their wishes into the language of action. We wholeheartedly believe that the package of recommendations and measures we have presented for implementation are extremely powerful, unprecedented in their scope and breadth, and are capable of igniting the process of desired change. Of course, we could not propose solutions for all of the problems that were raised or even for most of them. However, the focus on several main courses of action offers the promise of lowering the cost of living, increasing the availability and scope of social services, assisting in finding suitable housing, increasing competition and fairness in the markets for the consumer's benefit, and decreasing inequality. All of this heralds a new and promising horizon, especially for the young and working families who bear the main burden, as well as hope for a better future.

There should be no mistake: This report is not the final word. Rather, it is only the last chapter in the **introduction** to the large effort to change Israeli society that started a few weeks ago with the pitching of the first tent encampment on Rothschild Boulevard. Now, the battle is moving to the decision makers, as is appropriate in a democratic regime. We are convinced that they will adopt the recommendations as a single package and will implement them promptly. The Israeli public is anxiously and closely following this and it will be impossible to evade responsibility for fulfilling their longing for a more just society. Nonetheless, those who enjoyed and derived benefit from the old regime and are now feeling threatened by the winds of change are already deploying over the next hill. The battle they are expected to mount is legitimate, but our advice to everyone is to 'embrace the change, become part of it, do not try to stop the clock of history, for your own sake, for the sake of all of us.' And if this happens, we will someday be able to say in the words of the poet: 'And the rest will be told in the chronicles of Israel.'