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Basic Income in Israel

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The concept of “basic income” has been garnering a lot of attention in recent years, due to increasing concerns regarding inequality, economic growth, technological unemployment and the bureaucratic burden of the current welfare systems throughout the world. However, no country has yet fully implemented basic income, so the implications of such a drastic reform are mostly unknown.

The current research literature on this concept can be divided into two strands. The first one includes papers which focus on field experiments such as the “Mincome” project in Canada during the 1970s, or the more recent experiment in Finland. The field experiments are usually focused on unemployed and not on a representative sample of the population, and because of their limited scope they cannot be used to study some of the most important aspects of basic income, such as its fiscal feasibility. The second strand of the literature includes simulations and back-of-the-envelope calculations, aimed to estimate the amount of benefits which can be financed in a specific country, and to show that basic income is feasible.

This paper belongs to the second strand of the literature. However, the approach that we take is somewhat more realistic than in most of the other studies. Instead of ignoring the current Israeli welfare system, we have tried to think of a way to transform it into a basic income system while minimizing the short-term change in the income of most families, and while keeping the level of the progressivity of the welfare system at the same level as before the reform. Therefore, the amounts of the allowances we recommend for different age groups are based on the current benefits, and the tax increase is designed to minimize the total change to inequality. Our main contribution to the literature is a full-scale simulation, based on the Israeli Central Bureau of Statistics’ Expenditure Survey for 2016, which is used to estimate the fiscal feasibility of the program and its impact on different types of families.
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Overall, Israel’s welfare system suffers from problems which are also common in other developed countries, such as perverse incentives and increasing bureaucratic burden. Basic income can be a solution for these problems in Israel and in other countries, but the specific details of the implementation will be different in different countries. We believe that this paper might be useful to researchers from other countries, because it describes a way to design a basic income scheme in practice, not as a theoretical exercise but as a reform that can be implemented tomorrow. For this purpose, the effect on most households must be neutral, so no pressure group will have an incentive to stop the reform, and a fiscal balance must be maintained.

The largest part of the puzzle which is still missing is the effect of basic income on the supply of labor. Thus, a good way to move forward is to use the current theoretical and empirical labor literature to estimate this effect, and to combine the estimation results with simulations such as the ones we are presenting here, in order to discuss the feasibility, the advantages and the disadvantages of such a drastic reform.
This paper proposes a dramatic reform of the Israeli welfare system, in which a large part of the existing benefits will be replaced by a single universal allowance that will be distributed to all Israeli citizens. The amount of the allowance is determined in accordance with existing benefits and income support payments, so that households currently dependent on the welfare system will not lose out under the reform. The universal allowance will be financed by eliminating existing benefits, abolishing tax exemptions and raising income tax.

Such a system is called “basic income” - a concept that has become popular in recent years in public and media discourse. Granting allowances to the rich and to individuals who are not required to prove an effort to find work may contradict our intuition and the perception we have become accustomed to under the present welfare policy. But it is actually a much more effective way of building a social safety net for all citizens of the country, since it does not require an effort to identify needy citizens who cannot support themselves, and does not create poverty and misery traps through perverse incentives.

Thanks to the absence of the need for means tests, the transition to basic income will lead to a significant reduction of bureaucracy, both at the state and individual level, as well as the wiping out of the social stigma associated with receiving benefits. The annulment of allowances that are contingent on low income levels or a particular family status will lead to a reduction in government involvement in the personal lives of citizens and will spur participation in the labor market. In addition, basic income is more appropriate than the existing welfare system for the dynamic modern labor market, in which workers frequently change their jobs and undergo extended periods of training and qualification in midlife.
We suggest only a structural change to the Israeli welfare system, while striving to maximally preserve its current degree of progressivity. Thus, the increase in taxes is built so that the tax system's progressivity will not significantly change. A simulation based on the Central Bureau of Statistics' Expenditure Survey for 2016 serves us to ensure that the reform is fiscally balanced at the macroeconomic level, and that it does not cause a significant shock to the income of various types of households.

Following are the main points of the reform:

1. **Monthly basic income amounts**

   - Children under the age of 18: NIS 453 for the first child in the family, NIS 664 for the second child in the family, NIS 188 for the third child in the family, NIS 188 for the fourth child in the family and NIS 150 for the fifth child in the family, and for each additional child. These amounts are based on child allowances and income support for families with children.

   - Adults: NIS 1,189 for those aged 18-24, NIS 1,297 for those aged 25-54, NIS 1,622 for those aged 55-66 and NIS 3,221 for those aged 67 and older. These amounts are based on income support benefits and old-age pensions.

2. **Financing basic income allowances**

   - Canceled benefits: child allowances, old-age pensions, unemployment benefits, income support, survivors’ pensions, some disability benefits, some maternity allowances, work grants, and stipends to yeshiva students.

   - Canceled tax benefits: tax benefits for Israeli citizens, for women, for young people, for parents and for single-parent families. In addition, the exemption from tax on benefit entitling to retirement pension will be canceled.

   - Raising taxes:
     - Scenario 1: Lowest bracket of 20% and elimination of brackets below it;
     - Scenario 2: Lowest bracket of 25% and elimination of brackets below it;
     - Scenario 3: Lowest bracket of 31% and elimination of brackets below it.
The results of the simulation show that reform based on these principles is feasible, and that most households will not lose or earn a significant amount as a result. For the 2016 data, the lowest bracket of 25% will lead to an increase in taxes and cancellation of exemptions totaling NIS 78 billion per year, and the cuts in allowances will save an additional NIS 43 billion a year, bringing the total resources to NIS 121 billion a year – an amount identical to the total amount of basic income allowances. Therefore, the reform will be balanced in fiscal terms.

But this analysis is short-term and disregards the bureaucracy reduction that will follow and the possible effects on labor supply. Thanks to the bureaucracy reduction, it may be possible to increase the allowances or reduce the tax rates. On the other hand, the effects on labor supply are uncertain, since as a result of the transition to basic income some of the individuals will experience an increase in their marginal tax rate and some of them will experience a decrease.

Basic income is no silver bullet. It cannot create wealth ex-nihilo or solve complex social and economic problems. But compared to the existing welfare system it is more efficient and lessens the perversion of the incentives available for individuals. The improvement in efficiency is accompanied by a conceptual change: the entitlement for an allowance does not stem from neediness, but constitutes a basic right for every citizen of the state.
What is basic income?

Basic income (which is often called “universal basic income”, “citizen’s income”) is the idea of reorganizing the welfare system, which is centered on an automatic and unconditional allowance granted to every citizen in the state. The allowance may depend on age, but not on any other characteristic, such as gender, employment status, marital status or income, and it will be granted individually rather than to the household. The basic income is to replace most of the current allowances which depend on individual characteristics, and to provide a universal safety net for everyone.

The origin of the basic income concept is quite ancient. The humanist philosopher Juan Luis Vives, born to a family of Jewish Marranos in Valencia in 1492, argued for the granting of unconditional allowances to prevent hunger. In the seventeenth century, philosopher John Locke argued that the natural resources of the state belong to all its citizens, and therefore each of them has the right to receive some of the income derived from them - a principle also mentioned by modern proponents of basic income. The French philosopher and mathematician Marquis de Condorcet wrote towards the end of the eighteenth century on the basic idea of social security and the need to grant a certain initial allowance to children who had grown up and reached the age at which they could work and start a family. Thomas Paine, one of the Founding Fathers of the United States, was the first to write explicitly in his book “Human Rights” (1795), in favor of basic income for all citizens of the state, as did his contemporary English revolutionary Thomas Spence. Following in their footsteps, many scholars and philosophers referred to various versions of basic income, including Charles Fourier, John Stuart Mill, Bertrand Russell, Milton Friedman, and others.

The discussion of basic income has a moral-philosophical and economic components. This paper focuses mainly on the economic component, but it does not mean it is the most salient one. This is essentially a conceptual change: Instead of seeing the state as an
active factor, a sort of “rescuer” coming in to help the weak in order to prevent their sinking, the basic income supporters view the state as a passive factor that distributes to citizens a fixed monthly pension, and if we continue with the rescuer image – a sea wheel they can use as they please. The allowance is not a lifeline, but a basic right of the citizens given to them at birth, a share of the natural resources and the productive capacity of the country’s economy distributed back to its inhabitants. With the exception of disability and long-term care benefits in particularly difficult cases, all other benefits will be canceled as part of the transition to basic income. Men and women who have been divorced, laid off from work, earn low wages or belong to any other group whose socioeconomic status is different from the average will receive the same allowance as everyone else. It is a perception that places the personal responsibility of the individual for their own destiny at its center. This approach stands in stark contrast to the current perception in modern welfare states that a socio-economic situation is largely a fate. The approach to basic income in the media tends to miss this moral discussion, and sometimes even to see basic income simply as a tool to increase the level of progressivity of taxation and transfer payments. But the discussion of the level of proper progressivity is not at all related to the discussion of basic income.

Today, the subject of basic income is promoted by a number of organizations worldwide, including the Basic Income Earth Network (BIEN), the British Citizen’s Income Trust, the USBIG network, and others. These organizations have published a number of practical proposals for the implementation of basic income as well as simulations of various countries. In some of the proposals the pension itself is taxed by the Income Tax Authority. In many cases, the basic income proponents are interested in accompanying it with a uniform income tax, without tax brackets, for reasons of simplicity and fairness. The combination of a uniform income tax with basic income creates a progressive tax system, despite the absence of tax brackets, because the percentage of basic income from total income is higher among the poor. Some prominent speakers, such as Richard Branson, Elon Musk, Bill Gates and Mark Zuckerberg, have also referred to basic income in recent years, and the subject is mentioned frequently in the financial press. In Israel, there are plans by the National Insurance Institute to investigate the applicability of basic income in the coming year.

The existing allowances that are most similar to the idea of basic income are child allowances, old-age pensions, and family benefits that are given without income tests and not as tax credits. In addition to these, the most similar allowance to basic income, distributed on a large scale currently exists in Alaska: A fund based on state revenues from oil has been distributing to all its residents (who do not have a criminal past) an annual dividend since the 1970s. Also, several countries run various experiments on basic income, which are described in the following chapters.
Advantages of transition to basic income

**Simplicity and bureaucracy reduction**

The advantages and disadvantages of the transition to basic income should be examined in comparison to the existing welfare system. The modern welfare state appeared in Europe towards the end of the nineteenth century, further to older public and religious institutions. One of the first politicians to promote welfare legislation was German Chancellor Otto von Bismarck, who sought to cope in this way with the growing popularity of socialist and communist movements and to combat the phenomenon of emigration of German workers to the United States. During the twentieth century welfare systems emerged in the developed countries, expanding into the fields of education, health, pensions, and the provision of a universal safety net. This expansion has not always been done in an orderly and consistent manner. For example, in his famous book Parkinson’s Laws, British researcher C. Northcote Parkinson describes examples of the UK public sector for the expansion of bureaucratic systems regardless of the needs and objectives of those systems, but because of the desire of bureaucrats to expand the number of subordinates. The changing whims of politicians, combined with frequent government changes and the power of narrow interest groups, have led to the current welfare systems, which are designed as patchwork in all Western countries, without any intrinsic logic, and pursuing conflicting goals, often wasting time and money.

At this point, basic income can be highly beneficial thanks to its simplicity. The existing welfare systems are based on a complex bureaucratic system that includes job duplication, as well as extensive examination of means to determine whether the individual is entitled to a certain benefit or not. Elimination of the means tests will enable a significant reduction of the government bureaucracy, and can lead to financial savings that will enable to increase the allowances.

The advantage of bureaucracy reduction will benefit not only the state or the taxpayer, of course, but also the individuals in need of the welfare system. These men and women are now forced to meander between various bureaucratic agencies and pass tests and committees in an attempt to prove eligibility for various benefits. Basic income will prevent the suffering associated with these processes, as well as the negative social labeling that accompanies them.
Another advantage of basic income, which also derives from its simplicity, is the lack of conflicting goals. For example, the Israeli welfare system includes benefits that are positively dependent on wages (tax benefits for pension savings and study funds), benefits that are negatively dependent on wages (income support), benefits that are positively dependent on wages only for low-wage earners (work grants), tax credit points qualifying only the individuals who pass the tax threshold, and so on. In other words, there are benefits that increase inequality alongside benefits and tax brackets that concurrently try to reduce it. One hand tries to maintain a progressive system by providing benefits to the low-income earners and maintaining income tax brackets, while the other hand allocates benefits mainly to the high and middle-income earners. In comparison, basic income can be easily and transparently designed and modified according to the degree of progressivity chosen by the political system.

Another example is child support. The Israeli welfare system supports families with children (and indirectly encourages childbirth) in a variety of ways, which sometimes contradict one another. Child allowances are low for the first child, higher for the second, third, and fourth children, and again lower for the fifth and subsequent children. They do not offer more support for families with younger children. Income tax credits points, however, depend on the age of the children, and are higher for infants and young children. But these credits encourage birth mainly among women with high to medium incomes, while low-income women often do not reach the tax threshold required to receive most of the points. Thus, it can be said that the State of Israel offers higher support for younger children only to mothers whose salaries are relatively high. Income support payments are higher for families with one or two children, but there are no additional payments for additional children. A work grant, on the other hand, is the same for a single-parent family with one or two children, and higher for families with three or more children. The general impression is of a system that is rather chaotic, and which tries to simultaneously satisfy various whims of its designers over the years. A system based on basic income would be simpler and more transparent, easy to adjust, and so there would be no awkwardness and waste of resources accompanying the pursuit of conflicting goals.

The lack of incentives that encourage individuals to remain “needy” and “miserable”

The modern welfare system encourages individuals to remain “miserable” at least at the level of reporting - to remain at a low level of income, to remain unemployed, to remain divorced, to remain in a disability that does not allow work, and so on. In public discourse these situations are often described as destiny, but in practice
individuals have some control over their situation. There are many individuals who are borderline and are able to choose whether to marry or remain divorced, or whether to work despite any physical disability they have. Thus, a poverty trap is created, which prevents recipients of allowances from integrating into the labor market and from accumulating experience and skills that may improve their future standard of living.

A uniform allowance for the entire population, independent of marital status, medical condition or income, will not distort individuals’ decisions on these issues, will not penalize their employment and marriage choices, and will not support the existence of poverty traps.

**Technological progress**

The social systems in all the developed countries are now based on an orderly structure of working life in a stable workplace throughout a lifetime. For example, pension, medical and other benefits are usually based on the identity of the employer, and it is difficult to preserve them when changing jobs. Such systems were appropriate for the mid-20th century, but in recent decades globalization and technological progress have made the labor market much more dynamic. It is likely that in the future people will exchange jobs more frequently. They will do more part-time and independent jobs, such as renting rooms through Airbnb or driving Uber taxis, experiencing more periods of temporary unemployment during the transition between jobs, and spending more time on studying and professional qualification in midlife. In addition, the growing proliferation of robots and artificial intelligence software may lead to widespread technological unemployment in the future.

Thanks to its flexibility and bureaucratic simplicity, basic income is able to cope with these trends better than the existing systems. If technological unemployment will be long-term, that is, a large proportion of people will not work for most of their adult lives, it may be necessary to stretch the periods of time and standards for income support, and the situation eventually will be quite similar to basic income. In a situation in which a large part of the population in any case receives a fixed monthly pension, which is conditional on proof of inability to find work, it will be more efficient to simply grant an unconditional monthly allowance to everyone and raise taxes accordingly. In this case, the benefits of basic income in terms of bureaucracy reduction and the impact on incentives will be particularly large.
Basic income allowances will grant individuals the freedom to decide what to do with their time and resources. Every citizen of the country will be able to decide how many hours a week they are willing to work, whether they want to study Torah in the yeshiva, whether they want to live alone or with a partner, and so on. The state’s involvement in the individual’s life will be minimal. For example, the state will not be required to decide how many nights a week a divorced woman is allowed to spend with a new partner without losing the status of “single mother” and the many benefits that accompany it. The state will also not determine whether a person with a certain medical disability is allowed or not allowed to work, and will not try to examine whether he does not work because he does not want to work or because he can not.

Impact on labor supply

The effect of basic income on labor supply depends on its effect on the effective marginal tax that individuals face. The effective marginal tax is the tax paid by the individual on the last shekel he earned, plus the benefits he must give up as a result of earning one shekel more. In other words, the question is how much the net income of individuals will increase if they decide to work a little more and earn a shekel more. It turns out that this effect is different for different families.

For recipients of unemployment benefits, income support, and other benefits depending on the socioeconomic situation, transition to basic income reduces the marginal tax because, in the present situation, individuals who receive these benefits will lose them if their income increases. For example, suppose there is a single mother in Israel, a 30-year-old divorcee, with two small children. The mother does not receive alimony, and her income is NIS 4,000 a month. According to the National Insurance Institute website, she is entitled to an income support allowance of NIS 2,329, leading to a total income of NIS 6,329. For this purpose, we will ignore the income tax (which, thanks to the credit points for her children, she does not pay in any case), as well as national insurance and health insurance. Let’s assume that the mother has the option of another part-time job, which will bring her NIS 3,000. If she chooses this option, her income support will be only NIS 529, so her total income will be NIS 7,529. In other words, the mother’s gross income is increased by NIS 3,000, but the growth rate is only NIS 1,200, and now of course she is required to work longer hours.
If we calculate national insurance and health insurance, the net increase will be even lower. In contrast, under basic income and income tax of 25% (one of the scenarios proposed in this study), an increase of NIS 3,000 in gross income will translate into an increase of NIS 2,250 in net income, since the basic income benefit that the mother receives does not depend on her work hours.

On the other hand, funding the basic income payments will require raising taxes and canceling tax exemptions, such as credit points. If the taxes raised are income taxes, their increase will affect the labor supply of individuals. For example, today parents of three young children in Israel pay almost no income taxes thanks to the credit points, but they may pay higher taxes as a result of the transition to basic income. They will also receive an allowance that will compensate them for the taxes, but the allowance does not depend on the employment situation. In other words, even if the economic situation is the same, the marginal tax on them will be higher, and some of them may choose to work less as a result.

Another question is whether the effects on labor supply should be a significant consideration. Some basic income support advocates argue that subsiding employment due to transition to basic income is not a “problem,” but rather a reflection of the individual’s preferences regarding the balance between work and leisure. The basic income can enable individuals so inclined to maintain a relatively modest lifestyle and work fewer hours, without dealing with the bureaucracy that accompanies the receipt of allowances. But if a large part of the population chooses not to work, the macroeconomic consequences may ultimately lead to a reduction in allowance payments, which may have a negative impact on the labor supply. At the moment, the question of the impact of the transition to basic income on employment is an open question, and the answer to it is apparently dependent not only on the details of the reform, but also on cultural norms that vary between countries and over time. Thus, experiments in different countries on basic income cannot teach us much about it.
Disadvantages of transition to basic income

Lack of resources

Much of the support for basic income is based on the common illusion that the transition to basic income will create money “out of thin air,” and a larger proportion of the population will be able to benefit from an allowance that is similar to the level of current unemployment benefits. This assumption is wrong, of course. Because the basic income will need to be shared among more recipients, it will be lower than the current unemployment benefit or the transition will require tax increases accordingly. According to the results of the economic study, raising taxes may harm the labor supply and hamper economic growth, although the damage depends on the tax mix and the details of the reform. Moreover, even after substantial tax increases, the results of simulations conducted by the OECD indicate that in some cases the poverty rate is expected to rise as a result of the implementation of the basic income reform. The studies reviewed in this paper show that even in the richest countries in the world, the allowance that can be paid will be low compared to local salaries and living costs. This means that the population currently living on unemployment benefits and other benefits will significantly lose out under the transition to basic income for all. For this reason, many of the policy proposals for the implementation of basic income offer to leave at least partial disability benefits.

The identity and number of losers and beneficiaries of the process vary among different countries and depend on the structure of the current system and the details of the reform, but it appears that one of the groups that would be significantly affected in all countries is single mothers. Today, the allowance that a couple of low-income parents receive is not double the allowance received by a single parent, but in the case of basic income it is paid at the individual level, so it will be double for a couple. This means that under basic income single parents will receive a smaller share of total welfare payments. This problem can of course be addressed by a certain deviation from the basic income model and leaving some of the allowances in place. On the other hand, marriage is largely a result of choice, and it is not clear whether individuals who choose to live together deserve to be “punished”, while single-parent families are rewarded, as the welfare system does today.
Implications for inequality

Implications for inequality depend on the details of the reform. In principle, the payment of an additional uniform sum to all citizens will reduce inequality, as the low-income earners’ income will increase at a greater rate. But the low-income earners may lose out on the transition due to the loss of benefits that will be abolished. The high-income earners may also lose out on the reform due to increase in tax rates and elimination of tax exemptions. It is impossible to know in advance which of these influences will be dominant, and how inequality will transform.

Gender inequality will probably increase as a result of the transition to basic income, as there are currently higher benefits for women in certain situations, such as tax credits or earlier retirement age, while basic income is not gender dependent. But this result raises a fundamental question: Is there a justification in the modern world to grant special benefits to women or do these benefits stem from an anachronistic conception of the relationship between the sexes? This question goes beyond the framework of this work, but the basic income we offer does not include discrimination on the basis of gender. However, we recommend defining a transitional period in which women will receive compensation, which will gradually decrease, so that the transition to basic income will be made more smoothly and gradually.

The loss of the counter-cyclical effect of the welfare system

Welfare systems tend to spend more money during periods of economic crisis, in which the number of unemployed and needy is growing. The larger expenditure increases private consumption (compared to the level that would prevail during the crisis, if welfare systems did not exist), thus enabling the crisis to be moderately mitigated, at least in the short term. A system of basic income will maintain identical expenses in times of crisis and growth, and therefore will not be able to mitigate crises in the same way. It is not clear how relevant this argument is to Israel, since the automatic counter-cyclical effect on the expenditure side in Israel is low, and the government largely adopts a pro-cyclical budgetary policy.
Attempts to implement basic income in different countries

In recent years, dozens of articles and studies have been written about basic income, including simulations, theoretical analyzes, as well as examination of experiments and basic income-like policies measures that have been put in place. But much of the research in this field was conducted by organizations established to promote the idea of basic income, and their conclusions should therefore be viewed with skepticism. The number of studies conducted on the subject by agenda-less organizations, such as the OECD, is relatively low. Also, the basic income experiments have been mostly aimed at underprivileged population of benefit recipients, and it is difficult to generalize about the effect that the basic income will have on the general population.

**OECD - Simulations for Finland, Italy, France and the UK**

OECD researchers conducted basic income simulations for Finland, Italy, France, and the United Kingdom under the following assumptions:\textsuperscript{14}

1. The basic income shall be paid to all citizens of working age (as defined in the various countries) and shall be taxed by the Income Tax Authority.

2. The amount of basic income for adults will be the minimum income currently guaranteed by existing social benefits.

3. The basic income will be different for children and adults. The basic income for children is determined so that a family with two children and no income will receive the same allowance as before the reform.

4. The basic income will be financed by eliminating most of the existing benefits and abolishing tax exemptions.

5. There will be no behavioral change in the labor market as a result of the move.

These assumptions are similar to the assumptions which we will use in the simulation detailed further in this paper.
According to the simulation results, in Finland and Italy this will lead to budgetary savings, which can be directed to increasing basic income or reducing tax rates. In France, only a small reduction in basic income is needed to reach a budget balance, but in Britain such a move would lead to a significant deficit. Another simulation conducted by the OECD researchers did not presuppose what the basic income amount should be for adults, but rather examined, under the given assumptions, what income can be financed only by eliminating existing benefits and canceling tax exemptions. The results were income of €527 per month for adults in Finland, €456 in France, €158 in Italy and £230 in the UK, which is significantly below the poverty line.

The transition to basic income will create beneficiaries and losers with a significant gap between them. The identity of the losers and the beneficiaries varies among different countries in accordance with their existing allowances and exemptions from taxes that are supposed to be canceled. There are countries in which the existing exemptions contribute significantly to the income of the high-income earners, and therefore they will lose out as a result of the exemption abolishment. In many countries, existing benefits for low-income married couples are not double the benefits existing for individuals, which is meant to reflect the benefits of living together, but the basic income of a couple would be double that of a single parent. The meaning, as we wrote earlier, is that single mothers and fathers will lose out under the reform, while couples will benefit from it. In all countries there are weak population groups that will significantly lose from the process. In fact, according to the simulations, relative poverty rates in Finland, France and the UK will grow, so it would be incorrect to say that basic income will necessarily reduce poverty. The beneficiaries from the transition to basic income in most countries are families with average incomes who are not eligible for existing benefits and would not be significantly affected by abolishing tax exemptions.

The researchers conclude that basic income is indeed a relatively simple mechanism, but not without dilemmas. Apart from concerns about its effect on incentives encouraging participation in the labor market, there is also concern about an increase in poverty rates and a significant impact on low-income families receiving benefits. A possible way to deal with these problems is to apply the basic income gradually by generations - the current generation of children will receive basic income, but their parents will remain in the existing welfare system, and only in a few decades will the transition to the new system be completed.
United States

The USBIG (US Basic Income Guarantee Network) database contains many proposals for implementing basic income in the United States in various ways.

In 2017, an article was published that relates to annual basic income of $12,000 per adult and $6,000 per child - equal to the poverty line in the United States. The researcher argues that other studies, such as those of the OECD mentioned above, tend to exaggerate the cost of basic income because the calculation they make is incorrect and does not relate to the basic income as a negative tax. When the government collects tax from individuals and then returns it to them as an annuity, in fact there is no cost to it. The government can increase the allowance and increase the tax accordingly. The cost is only the burden of redistribution - the money that goes from people who are “net contributors” to the basic income (paying more than what they receive) to people who are “net beneficiaries” from the basic income (they receive more than they pay). This amount is about $539 billion a year for the above basic income and demographic data for 2015, and can be financed without significant tax increases. This may be a better way to describe the cost of basic income, but it does not seem to be a major mistake of OECD researchers. In the end there is still a “gross cost,” which is the sum of the annuity multiplied by the number of people who will receive it, and this cost must be financed by the total tax receipts. A substantial amount of annuity will require a substantial increase in taxes, however, it is true that taxpayers in the upper deciles will not absorb the full tax increase because they will receive an allowance that they had not received before.

An article published in 2017 lists another proposal based on the data for 2015. In order to calculate the current government expenditure on welfare, the author consolidates expenditures on social welfare (health, education, various allowances, etc.) with corporate welfare transfers to different ministries, such as the Ministry of Energy, the Ministry of Agriculture and others. Thus, he concludes that 65% of the total government expenditure is not on issues such as security and law enforcement, and argues that this amount can be converted into basic income. This assumption is extreme relatively to assumptions in other simulations and leads to the possibility of a basic income of $9,757 per American adult over the age of 18. This income is 83% of the poverty line in the United States in 2015. Since the allowance is uniform for all citizens, the writer believes that it should also be accompanied with a uniform income tax. According to his calculations, a 19% tax on all US citizens or a corresponding amount of VAT can finance the allowance. An older article on this issue was published in 2002 and it provided calculations on the basis of 1999 data. The proposal in the same article amounts to $3,500 per year for children under the age of 18, an amount of...
$8,667 per year for those aged 18-65, and $7,990 per year for adults over the age of 65. The writer proposes that the cost of basic income and other activities of the federal government, including education, health, etc., will be financed by a uniform tax of 35.8% on the entire income, which will replace the existing income tax system. The remaining taxes will remain in effect, and the possibility of deductions from income taxes will be canceled. According to the writer’s calculations, such a system would reduce the inequality in the United States.

The state of Alaska has the oldest system of basic income. In 1976, the local government established a fund called the Alaska Permanent Fund, based on state revenues from oil. The fund distributes dividends to all residents of the country who have lived there for more than a year, except for individuals convicted of serious crimes. The amount of dividends depends on the fund’s income, and usually ranges from $1,000 to $1,500 per resident per year.

**United Kingdom**

A Citizen’s Basic Income Trust document deals with a basic income program in the UK. According to the authors’ calculations, if all benefits and allowances in the UK, excluding housing benefits and council tax support, had been eliminated in 2012-2013, it would have enabled to pay a weekly allowance of £145.4 for adults over the age of 65, £71.7 for ages 25-64, and £56.8 for children and young people up to age 24.

According to the researchers’ calculations, in order to move to such basic income pattern, the income tax revenue in the UK should be increased by about 5%. It was also found that in 15% of families in the UK, the change would result in a drop of more than 10% in disposable income, as it would in 28% of the low-income households. Therefore, the authors recommend a gradual transition to the new situation, in the first stage without canceling the existing social benefits. One can begin, for example, with the transition of child allowances and old-age pensions to a basic income pattern, and only later, when the generation that entered the program has matured, to transition additional age strata to the new pattern.
Switzerland

In 2012 a proposal for a referendum on the application of basic income was raised in Switzerland. By 2013 more than 130,000 people had signed the proposal, which required to hold a referendum on the issue. The proposal was to grant a monthly sum of 2,500 Swiss francs per adult, and 625 Swiss francs per child. Supporters of the proposal argued that it would allow the Swiss more freedom to decide how much they were willing to work, and to reduce the levels of inequality. Opponents, on the other hand, expressed concern that the proposal would reduce the incentive to work and study, and argued that it could be problematic in a country with open borders and a large number of immigrants. Also, the official proposal did not include a specific reference to the financing of the move.

According to Albert Jörimann, a leader of the Swiss organization that supports basic income, the total cost of the move is about 179 billion Swiss francs a year. In order to finance the move, it is possible to use income tax revenues, social security programs, and cancellation of other programs and subsidies. These measures would leave a gap of some 30 billion Swiss francs a year, which could be supplemented by VAT increases, possibly combined with other tax increases. In fact, this proposal would have led to a significant increase in the welfare state and the progressive level of the Swiss taxation system. As part of the support campaign, the reform proponents threw a pile of eight million coins in front of the parliament building, but eventually all the major parties in Switzerland opposed the move, and in the referendum in 2016, 77% of the Swiss rejected the proposal.
Canada

In 1974-1979, a basic income experiment was conducted in Manitoba province in Canada, under the name Mincome, to examine the effect of the provision of basic independent income on incentives to participate in the labor market and other issues. Low-income families were randomly assigned to seven “treatment groups”, which were introduced into various benefit systems and one control group. The experiment was not exactly the same as basic income, because the size of the allowance was also dependent on income and family size (similar to the idea of negative income tax).

Studies conducted after the study showed that there was a 1% decrease in working hours of men and 3% decrease in working hours of women, but the slight effect may have been due to the fact that participants knew this was a temporary experiment. Mothers who received the allowance preferred to spend more time with their babies after birth. Teenagers in the treatment groups tended to work less, their school grades increased, and their dropout rates declined. Hence, it is possible that the experiment had positive effects on public health.

Ireland

As part of a BIEN conference, a document was presented in 2012 that included a program for implementing basic income in Ireland following the impact of the economic crisis of 2008 in the country. The authors of the document refer to the austerity programs implemented in Ireland following the crisis and to the increase in inequalities, environmental risks and lack of trust in institutions, and argue that basic income can address these challenges. In fact, there is already a basic income-like mechanism in Ireland (as well as in Israel and many other countries) - child allowances, which are given to all children in the country.

The document is based on a number of previous studies on the subject in Ireland and offers a basic allowance of € 32.3 per week for children up to age 17, € 188 per week for working-age adults, € 230.3 per week for people aged 66-80, and € 240.3 per week for those aged 80 and over. These numbers are based on child allowances, unemployment benefits and old-age pension current existing in the state. The annual cost of the allowances is about € 36 billion. In addition, disability benefits and other similar allowances will remain in effect, bringing the total annual cost to about € 39 billion. The sources of funding proposed for the plan are the cancellation of the existing welfare programs, the cancellation of tax exemptions, the cancellation of the Irish system equivalent to the National Insurance Institute, the savings on bureaucracy derived from the transition to basic income, and income tax. According to the authors’ calculations, a uniform income tax (without brackets) of
45%, together with the rest of the government’s income sources, will suffice to finance the transition to basic income as well as the public education and health systems.

One shortcoming of the article is the lack of reference to the distribution of income: The authors argue that according to previous studies, basic income would have reduced poverty rates in the country, but they do not describe how it would happen, and do not refer to low-income population groups that may lose out on the reform.

**Finland**

In January 2017, the Finnish Social Insurance Institution launched an experiment to examine the impact of basic income on the labor market. The study randomly selected 2,000 unemployed people aged 25-58 who had received unemployment benefits so far, and their unemployment benefits were replaced by a fixed monthly pension of €560. The goal was to examine the behavior of individuals in this group and the results in terms of wages, participation in the labor market, health, etc., compared to the total number of unemployed, who continued to receive unemployment benefits in the usual format. The Finnish government was particularly interested in dealing with the current situation of a high unemployment rate of more than 8%. The country’s unemployment benefits are conditional on the individuals not working, not even part-time. The basic allowance, on the other hand, was not conditioned on this, and individuals could receive it and concurrently work in part-time jobs, gain experience at work, and perhaps later advance to full-time positions.

The Finnish experiment prompted some criticisms. First, as with other programs, the program did not examine the effect of basic income on a random sample from the general population or on working citizens, but only on the group of unemployed. It was also feared that the high public profile of the experiment would influence the response of the subjects, many of whom understood the objectives of the experiment and were even interviewed in the media about it. An opinion paper by two Finnish scholars published in the New York Times stated that the program is nothing more than a public-relations gimmick of the Finnish National Insurance Institute because the sample is much smaller than the original plan, and since this is not a basic and universal allowance for a representative sample of the population, but a different type of unemployment benefit given to a group of unemployed. The researchers argued that when the results of the experiment became known, they would teach us almost nothing about the implications of a large-scale basic income reform. According to the article, the Finnish government is now based on right-wing parties committed to austerity policies and economic reforms.
aimed at coping with the Finnish economic crisis in recent years. The purpose of the experiment is to encourage employment, not to address inequalities and other problems that basic income claims to address.

The OECD report noted that in order to finance the expansion of the experiment for the entire Finnish population, the income tax should be increased by 30 percent, resulting in an increase in inequality and poverty rates due to the cut in allowances. As a result of these problems and the disagreement about the objectives of the reform, the Finnish experiment was finally canceled, and today the Finnish government is looking for other ways to reform the welfare system. The two Finnish researchers whose criticism of the experiment mentioned in the previous paragraph claimed, in response to the closure of the experiment, that it was too limited in the first place, and that its failure does not indicate that the very idea of basic income is flawed.
Unique characteristics of implementing basic income in Israel

The discussion for and against the implementation of basic income in Israel is largely similar to that in other countries, which we have discussed in the previous chapters. There are, however, some characteristics unique to Israel that should be considered in this context.

Efficiency of the bureaucracy and the power of labor unions in the public sector

In comparison to other developed countries, the bureaucratic systems in Israel are characterized by inefficiency, in part because of the high leverage of the labor unions in the public sector. According to World Bank indices, the State of Israel is ranked 25th in the government’s effectiveness index, and has similar scores on similar indices such as regulatory quality, corruption in the public sector, and more. Therefore, it is reasonable to assume that the system of allowances and income tests in Israel is relatively wasteful.

On one hand, this means that the profit that the State of Israel can derive from a transition to basic income, in terms of efficiency, is greater than that of other countries. On the other hand, it is possible that the strong labor unions in the public sector will delay the streamlining of the public sector that is expected to occur with the transition to basic income. For example, they may agree to a plan in which new employees will not be hired for jobs at the National Insurance Institute that will become unnecessary, but will not agree to dismissal of the existing employees. It will take longer to reap the benefits of bureaucratic savings in Israel. However, if the transition...
to basic income is made gradually, this problem is unlikely to be significant.

The ultra-Orthodox population

The ultra-Orthodox population in Israel is different from other low-income populations in many ways, such as low rates of homelessness, drug and alcohol addicts, pregnancies among teenage girls, and a tendency towards violent crime. The high poverty rates among the ultra-Orthodox also reflect to a certain extent the preferences of this sector, and not a decree of fate.

The State of Israel now provides the ultra-Orthodox with many social benefits, some of which depend on the status of a non-working yeshiva student, primarily financial aid for needy Torah scholars that amounts to NIS 1,040 per month. This situation creates an “inequality in carrying the burden”, which is further exacerbated by the non-conscription of the ultra-Orthodox to the IDF, leading to severe political and social disputes that are disrupting Israeli society. Basic income can somewhat allay these disparities, because the ultra-Orthodox will receive the same amount as everyone else.

It is difficult to assess the impact of the transition to basic income on ultra-Orthodox society. The amounts of allowances offered in this proposal are slightly higher than the current ultra-Orthodox aid payments, and this increase in allowances may encourage the ultra-Orthodox to maintain their current lifestyle. On the other hand, the basic income allowance is not conditional on the status of a yeshiva student who is not employed, and therefore is expected to boost employment among the ultra-Orthodox.

The black market

A significant part of the Israeli labor market is informal, in part because groups of population receive social benefits conditional on being unemployed in the formal labor market. Transition to basic income can rid these populations from the need to conceal employment and the hours they work, thus contributing to the reduction of the black market and to the increase in tax receipts.
The main assumptions behind the proposal

Our analysis is based on the following assumptions:

1. **Data** - The simulation of basic income, in terms of its effects on households and total income from taxation, is based on the Central Bureau of Statistics’ 2016 Expenditure Survey, which is the most recent as of the date of writing this paper. The structure of allowances, benefits, and tax brackets is based on the most recent reforms in these areas, and therefore updated for 2018.

2. **Absence of effects on the labor supply** - as mentioned, it is possible that a transition to basic income and an increase in the taxes that will accompany it will have an impact on labor supply. The direction of the overall effects is not clear, and it is difficult to predict their intensity, in part because the evidence from experiments done in the world is problematic and economic theory does not provide concise predictions on the subject. We will ignore these influences, and assume that the labor supply will not change at all. It is therefore advisable to see the results of the simulations that will be presented as short-term implications, in which the individuals have not yet adapted their labor supply to the new incentives.

3. **Lack of bureaucratic savings** - as mentioned above, the transition to basic income may reduce the bureaucratic costs associated with the existing welfare system, thus enabling to raise the taxes required to finance the allowances. On the other hand, given the leverage of the labor unions in the Israeli public sector, it is hard to believe that a significant reduction will be possible in the short term. Since it is difficult to estimate the degree of savings, we will ignore this factor as well. As noted above, the results of the simulations should therefore be seen as short-term implications, in which no changes have been made regarding the bureaucratic system. Therefore, our calculation is conservative, and in practice bureaucratic savings may enable an increase in allowances or a reduction in tax rates.

4. **Implementation of the reform** - For the purpose of simulation and examination of the fiscal balance, we will assume that the implementation of the reform is immediate, that is, done at once. In practice, gradual implementation is preferable, as will be detailed below.
5. **Financing the reform** - we assume that the transition to basic income will be financed only by raising income tax. This assumption enables us to use the Central Bureau of Statistics’ Expenditure Survey to examine both the change in the situation of households and the level of fiscal balance. Since the reform provides personal allowances, there is some logic in financing it through personal income tax, but in practice it may be desirable to increase other taxes as well. For instance, a parallel increase in VAT may moderate the potential damage to labor supply following the reform.

6. **National Insurance and Health Tax** - we assume that these remain in place in their current format, although it is not certain that there is justification for their separation from income tax.

7. **Social benefits** - There are many social benefits, such as discounts on municipal taxes, childcare discounts, discounts on public transportation, and more, which depend on the socioeconomic situation or family situation. Since there is a lack of data regarding these benefits, and since some are at the local authority level, we will ignore their cost, even though they contradict the basic income concept and should also be considered reformed.

8. **Work grants, stipends for Torah scholars and maternity benefits** - data on these benefits do not exist at the household level in the expenditure survey. Thus, we assume that the total amount allocated to these issues is evenly divided among all households.
Guiding anchors

The number of possible programs for basic income is infinite, and therefore we have to choose certain “anchors” that will be used to construct the proposal. The basic income level will depend mainly on age, which is outside of individual's control and which does not distort the incentives available for individuals. The system we propose is based on two additional anchors, as detailed below.

Adjustment to the current situation

Many studies of basic income use the proposed reform to try to promote a change in the order of priorities and in the level of progressivity of the tax system in line with the political views of the authors. The degree of progressivity of the tax system and of transfer payments is an important issue, but this issue has nothing to do with basic income. The arguments for or against basic income can not justify the increase or reduction of the progressivity of the tax system and transfer payments.

Our goal in this paper is to propose a structural change in the Israeli welfare system, not a change in the level of taxes, the degree of progressivity of the system or the amount of benefits that different populations receive. In order for the change to be feasible, it should not cause too much shock in the lives of Israeli families dependent on the current welfare system. Therefore, we will try to maintain the level of allowances according to the current situation for each age group, and we will not propose dramatic changes. Thus, for example, the allowance that we offer for children is not based on any optimal calculation of the desired benefit for this age group, but rather on the existing child allowance and on the supplement to the income support allowance given to children. In the same way, the allowance we offer to adults is planned so that the situation of adults who are currently on income support will not change significantly as a result of the transition to basic income.

In order to achieve a maximum adjustment to the current situation, we will consider as much as possible the benefits currently associated with each age group, including pensions, income tax credits, income support payments and more. However, it is important to understand that it is not possible to achieve full compatibility with the existing situation in a system whose basis is universal. For example, women currently receive more benefits than men, and low-income single mothers receive more than half the benefits given to low-income couples, but the basic income must be equal for all individuals of the same age. There will be households that will lose out from the transition, and there will be households that will benefit from it. We will make sure that the proportion of households experiencing extreme losses or profits is
small and that the net worth of households stays approximately the same on average, of course, under the assumption that we noted above that there is no change in labor supply.

**Fiscal balance**

A second goal is a system viable in the long run, which will not constitute an ever-increasing burden on the state budget. This requires fiscal balance. As we have said, we will assume that the transition to basic income does not translate into any budgetary savings thanks to the reduction of bureaucracy, nor does it affect the labor supply of individuals. This is, therefore, a conservative estimate intended for the immediate post-reform period. If the actual results are better, it will be possible to increase the amount of the benefits or reduce the tax rates.

The sources of funding for basic income payments are the elimination of existing benefits, the abolishment of tax exemptions and the raising of taxes. Since we provide all citizens of Israel with a uniform allowance, we would also like to raise the tax in a uniform amount, to the extent that this can be achieved in the framework of a graduated income tax. We therefore chose to abolish the low tax brackets, which means raising uniform taxes for the entire population above these tax brackets.

It is important to clarify: We do not claim here that income tax is the best tax to raise or that the steps we have set are best. Our goal is to build a proposal that preserves the existing situation in terms of the amount of benefits and net taxes for population groups at different income levels, and changes only the structure of the system and the way it operates. In practice, it may be appropriate to raise additional taxes or to change the tax brackets in another way.
The amount of basic income payments

Children aged 0-18

Child allowance will depend on the child's position in the family. This feature of the program differs from the basic income programs described in most sources, according to which each child receives the same amount regardless of the number of children in the family. We decided to deviate from the standard because the existing benefits in Israel depend on the birth order of the child, and we would like to preserve the existing structure as much as possible. Of course, the amounts will be paid to parents and not to children themselves, so that children whose allowance is lower due to their birth order do not lose money relatively to their siblings.

Child allowance currently consists of the following amounts:

1. **Child allowances** - the current universal allowance amounts to NIS 150 per month for the first child in the family, NIS 188 per month for the second, third and fourth children in the family, and NIS 150 per month for the fifth child and above. The total annual expenditure on child allowances equaled NIS 9.1 billion in 2017.

2. **Income support for parents with children** – adults entitled to income support who are parents to children living in their households, receive a higher amount as income support. For persons aged 25-55 who are exempt from reporting to the Employment Bureau, the difference between income support for a couple with one child and income support for a couple without children is NIS 303. Therefore, the first child receives NIS 303 as income support. The difference between income support for a couple with two children and income support for a couple with one child is NIS 476, so that is the amount that the second child receives. There are no additional payments for additional children, so for the rest of the children the sum is zero.

Therefore, these are the amounts each child will receive:

- First child: \(150 + 303 = 453\) NIS;
- Second child: \(188 + 476 = 664\) NIS;
- Third child: NIS 188;
- Fourth child: NIS 188;
- Fifth child and above: NIS 150.
This means that the amounts that most households receive for their children will increase, since only a few households today are entitled to income support. But these amounts will ensure that those households dependent on income support will not lose much under the reform. It is important to clarify again: We do not claim that the amounts proposed above are “optimal” in any sense. We chose them in an attempt to imitate, to the extent possible, the choices made by the Israeli elected officials who designed the current welfare system, on the assumption that their choices represent the public’s preferences on the subject.

**Individuals aged 19-66**

The basic allowance for adults is based on current income support payments. Current income support payments for individuals under the age of 65 are divided into three levels according to three age groups: 20-24, 25-54, and 55-64. For each group, we took the income support payments to a couple without children and divided them by 2. We added the 19-year-olds to the first group, and the 65 and 66-year-olds to the last group. We used the amount that equaled half of the income support payments for a couple, rather than income support payments for individuals, since this is the common family status within the Israeli households. This means that individuals who have so far received income supplement payments as individuals may be adversely affected as a result of the transition to basic income. We also used income support payments without addition for children, since the supplement to income support for children has already entered the basic child allowance, as detailed in the previous section. This calculation leads to the following basic income amounts:

- Individuals aged 20-24 - NIS 1,189 a month;
- Individuals aged 25-54 - NIS 1,297 a month;
- Individuals aged 55-66 - NIS 1,622 a month.

**Individuals aged 67 and over**

Today, men receive a senior citizen pension from the age of 67, and women from the age of 62. Also, those who have no income other than the senior citizen’s pension receive an income supplement. In accordance with the considerations mentioned above, for the purpose of calculating the basic income allowance of individuals aged 67 and over, we used the amount of a senior citizen pension and income supplement for those aged 70-80. The result is a basic income allowance of NIS 3,221 a month.

Since the basic income allowance does not discriminate on the basis of gender, both women and men will accept it only from the age of 67. Therefore, women aged 62-67 are expected to be adversely affected. We will discuss the possibility of temporarily compensating them for the incurred loss.
Sources of funding for basic income

Abolishment of benefits

The basic income should not replace all benefits, but only those that are currently universal or dependent on the employment situation or marital status. According to an estimate published by the National Insurance Institute, the amount of benefits for 2017 was expected to amount to NIS 81.8 billion. About half of the benefits are financed by collecting national insurance contributions from the public, and the other half is financed by transfers from the Ministry of Finance. The following diagram shows the distribution of the said amount by type of benefit.

Figure 1: Distribution of NII payments in 2017 (estimate)

Source: National Insurance Institute, key points of the budget for 2017 and 2018

The transition to basic income requires the abolishment of old-age and survivors’ pensions, child allowances, unemployment benefits and income support. We also recommend abolishing the financial aid for Torah students, which is NIS 1,040 per month per student. With regard to the maternity allowance, we will preserve only the hospitalization payment. In addition, some of the disability benefits will also be canceled. The reason for this is that the disability benefit is, in a sense, a substitute for the income support for the disabled, although it is higher, of course. Since basic income replaces income support, we will subtract the basic income from current disability
benefits. Thus, the total amount that recipients of disability benefits will receive will not change at all as a result of the reform. Another benefit that will be canceled is the work grant (negative income tax), which can reach over NIS 700 a month, depending on the income and the number of children in the family. The total amount that the state spends on work grants is about one billion shekels a year.

Abolishment of tax benefits

Another source of funding for basic income, mentioned in many studies, is the abolishment of exemptions and tax benefits. The argument is that basic income, in addition to the public health and education systems, is supposed to address all the social needs of the population, and therefore there is no need for tax benefits such as credit points for parents of children or various old-age pension benefits. In addition, there are many arguments against the use of tax benefits as a tool to implement social policy. First, the main beneficiaries of the benefit are the affluent strata above the tax threshold. For example, in Israel, a mother of three small children can receive tax breaks totaling NIS 2,000, but only if her income is in the area of NIS 15,000 a month will the tax she is supposed to pay amount to a sum enabling her to enjoy the full benefits. Thus the credits are actually a regressive benefit, which the high-income strata enjoy more than the low-income ones. Second, tax benefits encourage tax evasion, and therefore require extensive bureaucratic activity of the tax authorities in order to prevent misuse of benefits and to check the eligibility of beneficiaries. However, according to a report by the State Revenue Administration of the Ministry of Finance for 2017, the main drawback of the tax benefits is the lack of transparency, which results from the fact that it is difficult to calculate their cost, the fact that most of them do not receive periodic approval and that they can be used to circumvent the expenditure limitation stipulated by the Reduction of Deficit and Limitation of Budgetary Expenses Law. For many years, treasury ministries in Israel and other countries have been trying to cancel tax benefits, but because of interest groups, their success has been only partial.

The forecast for tax benefits that the State of Israel was supposed to distribute in 2017 was NIS 61.9 billion, of which NIS 51.3 billion was in direct tax benefits. The following diagram describes the distribution of benefits by type of benefit.
In accordance with the basic income concept, we will abolish the tax benefit for Israeli citizens, the tax benefit for women, the tax benefit for young workers, the tax benefits for children and the tax benefits for single-parent families.

With regard to pension benefits, the calculation we make is slightly more complex. As stated, the old-age pension payments after the reform amount to NIS 3,221 per month. This amount includes both the existing old-age pensions and income supplement for old-age pension, and all senior citizens will receive it. But senior citizens with high pensions do not receive income supplements today. The existing old-age allowance amounts to NIS 1,531 per month, so the amount of income supplement is a new and significant benefit that we will provide to senior citizens with high pensions after the reform. Therefore, it is appropriate to reduce pension benefits for them. As can be seen in the diagram, there are many benefits for pension savings and advanced study funds, some of which are given at the time of deposit and some at the time of withdrawal. Since we are examining the effects of the reform only in the short term, we are able to consider only one of them: an exemption from taxes on a “qualifying benefit” to individuals who receive pensions today. As of today, the qualifying benefit ceiling is NIS 8,380 per month, and the exemption rate is 49%. Thus we assume that NIS 4,106 (49% of 8,380) of the pension that each person receives is exempt from tax.
We will cancel this exemption following the reform. According to our calculations, the value of the exemption is about NIS 2.1 billion a year, which is about 8% of the total benefits for savings and for the capital market. The value of the benefit we provide to the high pension recipients, according to the simulation file, is similar to this amount, and stands at NIS 1.4 billion.

There may be additional benefits that should be eliminated, but their calculation is technically more complicated due to the lack of appropriate variables in the data file on which we will conduct the simulations. In addition, there are exemptions from tax that can be canceled that are not related to income tax, such as exemption from VAT on fruits and vegetables, but we will not deal with these topics in this work.

**Raising taxes**

Contrary to what is sometimes claimed in other works, it is not possible to fund transition to basic income by taxation only of the affluent strata. First, because the tax receipts from the wealthy are not so great, and second, because the high-income individuals have more options to evade tax in different ways or to emigrate to countries where the tax is low. The experience of French President Francois Hollande in 2012-2014 showed that the wealthy do indeed emigrate due to high taxation. Beyond that, the goal of the transition to basic income is not to change the progressivity of the tax system, but rather to change the structure of the tax system and to change the incentives available to individuals. Therefore, when we came to plan the new tax system, we chose a way that would preserve as much as possible the current situation in terms of the progressiveness of the Israeli welfare system: the cancellation of some of the lower tax brackets and the equalization of taxation rates to the bracket above them. In this way, the addition of taxation for a significant portion of the citizens of the State will be a uniform sum, in accordance with the fact that the allowance is a uniform sum for all.

This change may cause some confusion, due to a common tendency to confuse the marginal tax levied on an individual and the average tax she pays for her income. The abolishment of some of the lower tax brackets means raising taxes for the entire population, including the wealthy. Taxes will be higher for individuals whose income is above the abolished tax brackets than for individuals whose income is below them. We will explain why this method roughly preserves the existing degree of progressivity, given the transition to basic income.
Suppose, for example, that instead of abolishing the lower tax brackets, we will raise the tax rates for all the tax brackets according to the amount required to pay the allowances. While all citizens of the same age will receive the same allowance, the wealthiest of them will now pay a higher rate of taxes, resulting in a more progressive tax system than the one existing today. In order to maintain the status quo, we would ideally want to raise the tax for each person exactly by the amount of the basic income allowance he would receive, but this is impossible in a graduated tax system calculated as a percentage of the salary. So we’ll get as close to it as we possibly can. If we raise the rate of taxation only at the lower levels, the significance for everyone above these steps will be to add a fixed amount to a tax that will be similar to the annuity level, so the level of progressivity will be similar to the existing level. For example, today there is a tax bracket of 10% for an income ceiling of NIS 6,220 per month, bracket of 14% for an income ceiling of NIS 8,920 per month, bracket of 20% for an income ceiling of NIS 14,320 per month, and higher brackets. If we cancel the two lower brackets, so that anyone who earns less than NIS 14,320 a month will pay a tax equivalent to 20% of his income, this will mean a fixed tax increase of NIS 784 for all those earning more than NIS 14,320 a month, and a lower increase for those who earn less than that. If we also cancel the existing exemptions from tax, such as tax credits to citizens of Israel, women and parents of children, the additional taxes paid by a large part of the citizens will be slightly more than NIS 1,000. For individuals earning less than the tax bracket, the tax increase will be lower than the basic income they will receive. Thus, canceling the lower brackets will make it possible to reach a situation where at least for some of the population the tax increase will be identical to the amount received as basic income, and the degree of progressiveness will increase slightly. As we shall see below, according to the Gini coefficient, the reform increases progressivity and reduces inequality in net income.

In order to demonstrate the sensitivity of the results to different assumptions regarding the tax rate, we will describe three different scenarios regarding raising the income tax: canceling the brackets below 20%, canceling the brackets below 31%, and canceling the brackets below 20% while raising this bracket to 25%.
Gradual implementation of the reform

The simulation, whose results we shall describe in the next section, assumes that the reform will be implemented at once, rather than gradually, on households as reviewed by the CBS in 2016. This is an exercise aimed at showing that the reform is balanced in fiscal terms and does not significantly affect the income of households. But in practice it would be preferable to implement the reform gradually.

One option is to apply the reform only to new generations. For example, suppose that all children born (or who will be born) from a given base year will enter the new basic income program. These children will receive benefits according to the new scheme, and as adults they will pay the new tax rates. The parents of these children will not receive tax credits and other social benefits that would have been canceled in order to finance the basic income. Such a plan would probably also require a modest increase in taxes. The final transition to basic income will take place only in many decades, when the population of the country consists entirely of those born after the base year. Until then, allowances and tax rates will be updated according to the country’s economic data, in order to maintain a fiscal balance over time.

Another possibility is to apply the reform with temporary compensation to the populations most affected by it. This compensation will automatically decline over the years, until it reaches zero. For example, women are affected by the reform due to the reduction of benefits for single mothers, the cancellation of the credit point for women and the receipt of benefits similar to those of senior citizens only from the age of 67 instead of the age of 62. As stated above, the allowance for those aged 67 and over is NIS 1,600 higher than the allowance for 55-66, so women would lose a total of 96,000 in the five years between the ages of 62 and 67. This compensation, of course, requires an additional increase in taxes or a reduction in the allowances offered. Compensation will enable the losers of the reform to gradually adapt to their new situation, but eventually the compensation must be ceased in order to preclude discrimination based on irrelevant characteristics.

Even in terms of bureaucratic savings, it is likely that the change will be gradual and will take a long time due to the existence of labor unions in the public sector that would forestall the immediate dismissal of thousands of National Insurance Institute employees who handle the existing benefit system. Non-hiring of new employees and a series of agreements for early retirement can eventually achieve the desired bureaucratic savings. In general, a gradual change is preferable to a sharp and rapid change, as it will
allow us to gradually examine the effects of the reform on labor supply, economic growth and bureaucratic savings, and adjust accordingly the level of allowances and tax rates.

Simulation results: The implications of the transition to basic income

Data

The simulation is based on the CBS Expenditure Survey for 2016. The survey includes 29,889 individuals, who belong to 8,903 households, and in order to construct the simulation, we combined the household survey with the survey at the individual level, and we calculated for each individual in each household, the total income from the various sources, the tax exemptions, and the allowances. The results will be presented at the household level, since the child allowances and the indices of inequality are calculated at the household level.

The use of the survey data enables us to conduct simulations of the change that will take place in each of the households, as well as of the fiscal balance at the level of the entire economy. But the data has some drawbacks that make it impossible to perform a perfect analysis:

1. **The absence of detailed data on ages** - the details in the expenditure survey are classified into different age groups, which do not always coincide with the relevant age groups for the purpose of calculating various benefits. For example, the tax benefits for children are different for infants under one year, for children aged 1-5 and for children aged 6 and over. But the age groups present in the data are children up to age 4 and children aged 5-9. Therefore, all children aged 0-4 were given the benefits of children aged 1-5.

2. **Absence of detailed data regarding some of the social benefits** - in the expenditure survey there are data regarding most of the allowances and benefits that will be abolished, including child allowances, senior citizen pensions, unemployment benefits and income support. However, as we wrote earlier, data are missing on maternity allowances, assistance to Torah scholars and the labor grants, as well as data that allow us to calculate some of the tax benefits that we intend to cancel. As for the maternity allowances, the stipends for Torah students and the work grants, we took the total amount of payments (excluding hospitalization benefits) and distributed them equally to
the entire relevant population, as part of the income in the situation before the reform. There are also problems with the benefits that appear in the survey. For example, according to the expenditure survey, many families do not receive a child allowance at all, even though the household has several children. Since the child allowance is universal, this situation is unlikely. So we gave these families a child allowance calculated according to what they were supposed to receive.

3. **Weights** - in order to obtain a representative sample, we used the weights that the CBS attached to the survey files to examine the effects on households and to calculate the results at the macro level. But despite the use of the weights, it is still a sample and therefore the results may not be fully representative of the implications of the reform on Israeli society.

### Results

Table 1 describes the results of the simulation in terms of balance at the household level. All the results are weighted by the CBS weights. Column 1 describes the average difference between the total net income of a household (after taxes and allowances) before the reform and the total net income after the reform. Columns 2-4 provide additional information about the distribution of the difference between the net income before the reform and the net income after it. Column 5 describes the Gini index, which is calculated for the net income of households. Column 6 describes the difference between the total income from the income tax before the reform and the total income after it.

#### Table 1: Simulation results

<table>
<thead>
<tr>
<th>Scenario</th>
<th>(1) Average difference per household (per month)</th>
<th>(2) Lower quarter limit</th>
<th>(3) Median difference per household</th>
<th>(4) Top quarter limit</th>
<th>(5) Gini index for a net household income</th>
<th>(6) Fiscal balance (NIS billions per year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current state</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.393</td>
<td>-</td>
</tr>
<tr>
<td>Lowest bracket of 20%</td>
<td>656.3</td>
<td>-78.9</td>
<td>537.9</td>
<td>1,463.5</td>
<td>0.369</td>
<td>-19.67</td>
</tr>
<tr>
<td>Lowest bracket of 25%</td>
<td>12.9</td>
<td>-943.9</td>
<td>-38.0</td>
<td>992.0</td>
<td>0.368</td>
<td>-0.39</td>
</tr>
<tr>
<td>Lowest bracket of 31%</td>
<td>-759.0</td>
<td>-2,005.4</td>
<td>-732.3</td>
<td>489.0</td>
<td>0.367</td>
<td>22.75</td>
</tr>
</tbody>
</table>

Note: The differences and the fiscal balance are calculated by the substraction of the data prior to the reform from the post-reform data.

It can be seen that the lowest bracket of 20% leads to profit in terms of the average household but a negative fiscal balance, while the lowest bracket of 31% leads to loss in terms of the average
household and a fiscal surplus. Therefore, the balancing point is the lowest bracket of about 25%. However, it is important to remember that the reform may lead to significant bureaucratic savings and changes in the labor supply, which will affect both the fiscal balance and the balance at the household level. The reform can also be accompanied by the abolishment of additional exemptions, such as the exemption from tax on study funds, and the raising of VAT or abolishment of VAT exemptions, which will change the results described here. According to column 5 in the table, the reform slightly increases the degree of progressivity of tax systems and allowances, and thus makes the economy more egalitarian.

The following chart presents the distribution of the differences in net income of households in the middle scenario.

As can be seen, the distribution of losers and beneficiaries of the reform revolves around zero. The charts obtained in the other lowest-bracket scenarios are similar, although the distribution for the 20% bracket is slightly tilted to the right, while the distribution for the 31% bracket tends slightly to the left.

Table 2 describes the results of the simulation in terms of the fiscal balance - the costs of the various benefits versus financing sources. While in the previous chapters we described the amounts of benefits according to the 2017 National Insurance Institute Report, here they are based on the simulation and 2016 data, and therefore the numbers are slightly different. All the numbers are the weighted sums according to the CBS weights, and the difference between the sums of the two columns is the number appearing in Table 1 in Column 6 for a scenario in which the lowest tax bracket is 25%.
Who are the families that profit or lose from the reform described?

The total allowances that each household will receive depend on the age composition of the household members and the number of children in it. The addition of taxes to households to finance the reform depends on their total income. The allowances and tax benefits that households will lose following the reform also depend on their income and age composition. Ideally, we would like to reach a situation in which none of these characteristics will significantly affect a household’s chance of benefiting from the reform, but in practice it is difficult to achieve when the welfare system undergoes such major restructuring. In order to try to understand which populations are favored or discriminated against by the proposed reform, we conducted a regression analysis based on the initial income and household age composition, with the outcome variable being the total profit from the reform in the case of lowest tax bracket of 25%.

The results of the analysis are described in Table 3. In the first column we control only the number of children, the number of adults, and the initial income of each household. It can be seen that given the same initial income and the same number of adults, each additional child leads to a loss of NIS 28 a month from the reform. This amount may be due to benefits eliminated during the reform, such as tax credits for families with children. Given the same initial income and the same number of children, each additional adult leads to a profit of NIS 885 a month from the reform. In other words, single-parent households lose a significant sum. The reason for this is the cancellation of many benefits for single-parent families, as well as the fact that basic income is granted at the individual level, in contrast to existing allowances, some of which are granted at the household level. For example, the current income support payment for a couple is not double the income support for an individual.

<table>
<thead>
<tr>
<th>Cost of allowances (NIS billion per year)</th>
<th>Financing (NIS billion per year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children aged 0-18</td>
<td>Abolishing child allowances</td>
</tr>
<tr>
<td>Adults aged 19-24</td>
<td>14.03</td>
</tr>
<tr>
<td>Adults aged 25-54</td>
<td>Abolishing old-age pensions</td>
</tr>
<tr>
<td>Adults aged 55-66</td>
<td>47.16</td>
</tr>
<tr>
<td>Adults aged 67+</td>
<td>Abolishing unemployment benefits</td>
</tr>
<tr>
<td></td>
<td>16.89</td>
</tr>
<tr>
<td>Abolishing stipends for Torah students</td>
<td>31.47</td>
</tr>
<tr>
<td>Abolishing income support</td>
<td></td>
</tr>
<tr>
<td>Abolishing other benefits</td>
<td>1.47</td>
</tr>
<tr>
<td>Abolishing tax exemptions and raising</td>
<td></td>
</tr>
<tr>
<td>taxes (set the lowest bracket at 25%)</td>
<td>14.03</td>
</tr>
<tr>
<td>Total</td>
<td>121.30</td>
</tr>
<tr>
<td>Abolishing child allowances</td>
<td>5.61</td>
</tr>
<tr>
<td>Abolishing old-age pensions</td>
<td>22.22</td>
</tr>
<tr>
<td>Abolishing unemployment benefits</td>
<td>1.99</td>
</tr>
<tr>
<td>Abolishing income support</td>
<td>1.80</td>
</tr>
<tr>
<td>Abolishing stipends for Torah students</td>
<td>0.90</td>
</tr>
<tr>
<td>Abolishing other benefits</td>
<td>10.63</td>
</tr>
<tr>
<td>Abolishing tax exemptions and raising</td>
<td>77.76</td>
</tr>
<tr>
<td>taxes (set the lowest bracket at 25%)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>120.91</td>
</tr>
</tbody>
</table>
The amount of benefits seems to balance more or less the increase in taxes and the loss of previous benefits for most households.

The following columns include variables for different ages, while controlling the number of adults, the number of children, and the initial income. It can be seen that those aged 18-24 and those aged 67 and over tend to benefit from the reform as a result of the high payments and their relatively low income, while the other two age groups lose as a result of the reform. Overall, the size of the coefficients is not particularly high, so that the amount of benefits seems to balance more or less the increase in taxes and the loss of previous benefits for most households.

### Table 3: Regression analysis of the results of the reform

<table>
<thead>
<tr>
<th>Explanatory variables</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Outcome variable: profits from the reform under the lowest tax bracket of 25%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of children under the age of 18</td>
<td>-27.52*** (0.483)</td>
<td>-25.12*** (0.483)</td>
<td>33.60*** (0.562)</td>
<td>-29.59*** (0.511)</td>
<td>2.521*** (0.506)</td>
</tr>
<tr>
<td>Number of adults over the age of 18</td>
<td>885.4*** (0.746)</td>
<td>822.1*** (1.041)</td>
<td>959.4*** (0.821)</td>
<td>888.3*** (0.782)</td>
<td>884.8*** (0.741)</td>
</tr>
<tr>
<td>Initial income</td>
<td>-0.0905*** (6.22e-05)</td>
<td>-0.0896*** (6.29e-05)</td>
<td>-0.0885*** (6.24e-05)</td>
<td>-0.0904*** (6.24e-05)</td>
<td>-0.0890*** (6.23e-05)</td>
</tr>
<tr>
<td>Number of adults aged 18-24</td>
<td>132.7*** (1.522)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of adults aged 25-54</td>
<td></td>
<td>-219.9*** (1.058)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of adults aged 55-66</td>
<td></td>
<td></td>
<td>-15.72*** (1.267)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of adults over the age of 67</td>
<td></td>
<td></td>
<td></td>
<td>234.2*** (1.258)</td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>-444.8*** (1.794)</td>
<td>-365.0*** (2.012)</td>
<td>-439.7*** (1.779)</td>
<td>-444.5*** (1.794)</td>
<td>-576.2*** (1.917)</td>
</tr>
<tr>
<td>Number of observations (according to weights)</td>
<td>2,497,407</td>
<td>2,497,407</td>
<td>2,497,407</td>
<td>2,497,407</td>
<td>2,497,407</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.517</td>
<td>0.519</td>
<td>0.525</td>
<td>0.517</td>
<td>0.524</td>
</tr>
</tbody>
</table>

Standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1
Finally, it is important to note that a major drawback of the analysis described here is the lack of reference to the change in marginal tax levied on individuals, which determines the direction of the overall effects on labor supply in the economy. As written in the previous sections, the proposed reform will change the marginal tax for many individuals. First of all, low-income individuals in Israel are currently entitled to many benefits only on condition that their income remains low, and therefore marginal tax levied on many of them is very high. After the reform, they will receive allowances that are not conditional on employment, and will therefore be free to increase their working hours and salaries. That is, the marginal tax for these individuals will significantly decrease, and therefore their labor supply will increase. On the other hand, there are currently low middle-class individuals who are not entitled to any allowances but receive various tax benefits and pay relatively low tax rates. For these individuals we increase the marginal tax, because we cancel the lower tax brackets and the tax benefits, and the labor supply of these individuals may decrease. For individuals who are now above the tax brackets, the marginal tax will not change, and their labor supply will not be affected.

The analysis of marginal tax changes that apply to different individuals is critical in determining the direction of effects on the labor supply. However, in order to do this, we need data that we do not currently have on all benefits, negative income tax, flexible labor supply for different tax types, and other issues. Therefore, we can not develop assessments of the long-term implications of the reform on labor supply - implications that could in turn affect the fiscal balance of the reform.
Basic income is a new concept for the organization of the welfare state, which is based on a fixed and universal allowance paid to every citizen of the country. In this paper, we presented a practical proposal for basic income, which is structured so that the universal payments will reflect the allowances and income support benefits currently provided for different ages. The purpose of the proposal is to create a structural change in the economy, which preserves, to the extent possible, the existing level of progressivity.

The results of a simulation based on 2016 data indicate that the situation of most households will not change significantly as a result of the adoption of the recommendations, and that the inequality in household incomes will decrease slightly. In order for the reform to be balanced in fiscal terms, a large part of the existing allowances must be canceled and many exemptions from tax should be abolished. In addition, a significant tax raise for the entire population is required, in which the lowest tax bracket will rise to about 25% of the income. This is a dramatic reform, and therefore it is recommended to implement it gradually, as well as temporarily compensate specific populations affected by it.

Our proposal, if adopted in Israel, will lead to many positive results:

1. Significant bureaucratic savings, due to the cancellation of the various means tests, both for the State and for the individuals in need of the welfare system, as well as the elimination of the negative social labeling accompanying the receipt of benefits;

2. Encouraging employment among the weaker sectors of the society, due to the marginal tax reduction applicable to them;

3. Elimination of incentives for individuals to remain “poor and miserable”;

4. Reducing the friction between the individual and the authorities, and increasing the freedom of choice at the individual level;

5. Reducing tensions between the Ultra-Orthodox and the rest of the population, thanks to equality in allowances;
6. Reducing incentives to work in the black market.

Basic income is not a panacea to all the ills of the Israeli economy, and it is unable to create money “out of thin air.” However, it is a more effective way of providing a safety net for the entire population than the current welfare system, and it eliminates the perverse incentives this system creates. As a result of the transition to basic income, Israelis will be able to work, study and manage family life and relationships of their own accord, without fear that their income will be affected due to their choices and without having to justify the way of life they chose. Overall, we believe that this is a saner way of subsisting as a human society.
For an in-depth overview of basic income history, see History of Basic Income, BIEN (n.d.), http://basicincome.org/basic-income/history/


See the network website: http://basicincome.org/about-bien/

See the organization website: http://citizensincome.org/

See the network website: http://www.usbig.net/about-us/


A progressive tax is a tax that imposes a higher tax rate on high-income earners compared to those with a lower income. Income tax at a uniform rate is not progressive, but combined with basic income it becomes progressive. For example, suppose the basic income allowance is 500, and that the economy has two people - one who earns 1,000 and one who earns 1,500. In order to finance the allowance for both, a tax of 40% is required: 0.4 * 1,000 + 0.4 * 1,500 = 1,000 = 500 + 500. The first person will pay a tax equal to 27% of his total income (including the allowance) (400 / 1,500), while the other will pay tax constituting 30% of his total income (600 / 2,000). Thus, the overall tax rate actually increases with income, and the welfare system is progressive.


For a calculation of the National Insurance Institute of the income supplement benefit, see https://www.btl.gov.il/Simulators/Pages/IncomeSupportCalc.aspx.


21 For further details, see Mincome, WIKIPEDIA (May 31, 2018), https://en.wikipedia.org/wiki/Mincome


23 See the official website of the program http://www.kela.fi/web/en/basic-income-objectives-and-implementation#englanti.


25 See: Public Attention Directed at the Individuals Participating in the Basic Income Experiment May Undermine the Reliability of Results, KELA (Jan. 16, 2017), http://blogi.kansanelakelaitos.fi/arkisto/3682


29 See the website https://tinyurl.com/y9l2966u

30 The data is sourced from Israel’s National Insurance Institute website: https://www.btl.gov.il/benefits/Income_support/Pages/default.aspx


32 See: https://www.prisha.co.il/Article%D7%9A%D7%A6%D7%99%D7%94-%D7%9E%D7%96%D7%9B%D7%94-%D7%A4%D7%98%D7%95%D7%A8-%D7%9E%D7%A1-%D7%94%D7%9B%D7%90%D7%A0%D7%A1%D7%94

33 After the Investors’s Flight, the French President Was Forced to Drop Supertax, CALCALIST (Dec. 24, 2014) https://www.calcalist.co.il/world/articles/0,7340,L-3648311,00.html
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