

## The Wisconsin Plan: Factors to Consider

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### Background – Unemployment and Israel's labour market

Unemployment in Israel's civilian labour market has been steadily rising since 1996. Total unemployment reached 10.3% in 2004. Among all those employed, the civilian labour market absorbed 54.9% of the labour force in the third quarter of 2004. In addition, the number of families (or heads of households of working age) eligible for income support benefits-whether based on low wages, unemployment, ineligibility for unemployment benefits, single parent households (particularly single mothers) and so forth-has likewise been constantly rising. In 2003, 154,890 families received income support, a number that has increased five-fold since 1990. The average rate of growth in the number of families receiving such benefits is 13.4% for the period 1990-2003. These trends indicate the need for labour market reforms that will increase the rate of labour market participation while, at the same time, reducing current dependence on those benefits. The Wisconsin Program is meant to initiate the desired transformation.

### The Wisconsin Program

The Wisconsin Program entails a series of steps designed to transform recipients of income support benefits into the permanently employed. As such, the Program represents the main instrument for achievement of a major goal on the Israeli government's internal agenda for 2005: Utilization of employment as the primary tool for reduction of income gaps, reversal of exit from the labour market as well as reduction of dependence on the subsistence benefits that have gradually become negative incentives for employment. Implementation of the Program is expected to begin in July 2005 with the opening of employment centers located in regions containing large numbers of households dependent on government income support benefits.

### The Reform's Main Components

1. **"One-stop job centers":** The job centers will be operated by a concessionaire (from the private, public or mixed sector), chosen by tender, who will be responsible for returning people to work as well as for their financial support. The centers will deliver all the services currently provided by the state's Employment Service in addition to arranging for professional training, benefits, social security, day care and related services, all under one centralized roof.

The centers will offer solutions to all those seeking employment even if they are not eligible for financial support.

A new and unique service to be provided by the centre is personal counselling by financial/employment planners assigned to prepare an outline of objectives designed appropriate to the client for the purpose of returning him or her to work, to accompany and follow up implementation of the program and to provide solutions to problems arising from the nature of the program or impinging on its implementation. Together with a government placement manager, the planner is will determine eligibility for a subsistence benefit as well as the reduction or cancellation of that eligibility. In effect, the planner is to take charge of every aspect of the client's participation in the program in addition to accompanying him or her along every stage leading up to integration in the workplace. Other services to be offered by the job centre will include aptitude testing, assistance in the preparation of resumes as well as day care facilities.

2. Transition to competitiveness and efficiency: Reduction of government intervention in the labour market will be accomplished by contracting out to the winner of a tender. The winning contractor will have extensive responsibilities regarding every aspect involved with returning the unemployed to labour market as well as expanding participation in the workforce. To enhance the efficiency of the process, the budget appropriated to the contractor will depend on his or her results during the previous period that does not exceed the funding indicated in the contract signed with the government. This budget will cover transfer payments, subsidization of day care, return-to-work programs and retraining. Thus, the more successful the contractor is in returning people to the labour market, the lower the sum of transfer payments to be distributed and the lower the associated expenses. Contractors are guaranteed 7% of the budget as an initial appropriation in addition to 10% of annual savings; the remaining 90% of the savings will return to the government.

3. "Pay for performance": Financial support will be totally dependent on the client's employment-related performance. Refusal to participate in the program can culminate in denial of eligibility for that support. It appears that these activities, when considered as necessary conditions for support, reduce the system's exploitation by 20% to 30%. Employment-related performance can include unsubsidised jobs, temporary supervised employment, community projects, and jobs protected by collective agreements.

4. Types of support and activities promoting going out to work: Job centres subsidize any activity related to going out to work. Without this financial support, recipients of the income support and subsistence allowances would be an able to work. Job-related support activities include subsidized day care, participation in transportation costs, and the granting of loans under comfortable repayment schedules.

### **Program efficiency**

The program to be inaugurated in July 2005 is meant to execute a reformed aimed at reducing dependence on income benefits by integrating recipients within the labour market and increasing the total rate of participation. In order to realize such a reform, a budget is required that is adequate for program objectives with respect to the number of clients, investments in the family and subsidization of day care, which enables women to go out to work, together with other investments. Here we discuss several issues crucial for the program's success.

1. The number of clients. Evaluation research on the Wisconsin program as it was introduced in United States found that the optimal number of clients to be served at any job centre is 3,500.<sup>1</sup> However, the centres to be operated in Israel are planned to serve an average of 4,970 clients each. The four initial centres will therefore operate under conditions of extreme pressure given the large clientele. If the centre follows the US model, its clients will receive services at a level lower than what he or she would receive had only 3,500 clients been served by the centre. A total of 19,880 families with heads of households of working age receive income support in the communities where the program will be operated.<sup>2</sup>

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<sup>1</sup> See Meirav Shaviv, (1999), *From Income Support to Employment Support*, Jerusalem: Ministry of Finance.

<sup>2</sup> The Committee to Select Pilot Areas, (May 2004), *Final Report*, Jerusalem:

The total distributed as follows among the communities: Ashkelon and Sderot, 5,529; Jerusalem, 5,242; Hadera and its environs, 4,198; Nazareth and its environs, 4,911.

2. The program's budget. A total of NIS 47,039 million has been allocated to the program within the proposed government budget for the 2005 fiscal year. According to forecasts of the Ministry of Industry, Trade and Labor, the centers are expected to serve at least 14,000 clients. This estimate disagrees with the actual number of breadwinners receiving income support in those same communities, that is, about 19,880 heads of households.

Average investment per household participating the program will be high, an estimated NIS 20,000. Hence, should each family receiving income support in the respective areas be provided with services, a total of NIS 397.6 million would be required. If the centers serve only the 14,000 households forecasted by the Ministry of Industry, Trade and Labor, the funds required will reach a level of NIS 280 million, six times larger than the sum dedicated in the 2005 proposed budget. If we take into account in the total budget allotted of NIS 47.039 million and the stipulated investment per family of NIS 20,000, the centers will be able to provide services to about 2,352 families, that is only about 16.8% of the 14,000 families estimated or, alternatively about 11.8% of the estimated 19,880 families receiving income support in the communities participating in the program.

No. of households served	Budget, fiscal year 2005	Investment per household	No. of households served given investment of NIS 20,000 per household	Percentage of households served per centre assuming investment of NIS 20,000 per household	Effective investment per family under proposed budget, fiscal 2005
14,000* (estimated)	NIS 47.039 million	NIS 20,000	2,352 households	16.8%	NIS 3,360
19,880** (recipients of income support in participating communities)				11.8%	NIS 2,366

Notes: \* Ministry of Labour and Industry estimates;

\*\* National Insurance Institute and the National Employment Service estimates for 2004.

3. Subsidization of day care. The Wisconsin Program provides its participants with subsidized day care for several hours daily. The purpose of this service is to respond to the childcare needs of clients involved in employment activities or attending interviews. In effect, many families receiving income support find it difficult to finance day care; as a result, these families function with only one main breadwinner. Subsidization of day care for extended periods rather than several hours daily will promote successful integration of the target population into labour market and reduction of their dependence on the welfare system.

Average cost of day care for a family receiving income support in the respective communities is NIS 430 monthly. The total number of children aged 0-4 all the communities participating in the program approaches 125,380. If the state is interested in subsidizing the entire cost of day care for these children, a budget of NIS 53,913,400 per month is required. This sum can be funded through cancellation of the child benefits accruing to families located in the two upper income deciles. In addition, we are confident that fully subsidized day care will enable participants in the program to find long-term employment in full-time jobs. In effect, government subsidies will be transferred to the day care services providers, thus guaranteeing realization of the Program's objectives.

\* 5.5 NIS = 1EURO

## **Summary**

The Wisconsin program is likely to revolutionize Israel's labour market: It will return the unemployed to the labour market and reduce their dependence on income benefits. Fulfilment of this goal expresses program's guiding principle: Work as the only means to obtain income. Nevertheless, we should not make light of the budget required depending on, among other things, the number of families served and the level of the investment in each participating family. In addition, subsidization of day care and the opening of additional job centers to distribute the burden of client care are indispensable to guarantee the program's success.

A major caveat should be noted here: We cannot ignore the fact that highest level of unemployment is found among Israel's non-Jewish population. For the Wisconsin Program to assist the unemployed in this sector to find work, additional special budgets are required to inform these candidates about the Program, to assuage their suspicions regarding official intentions and to neutralize their tendencies toward non-cooperation. Only then can the entire program be successfully implemented among Israeli Arabs.

Another substantial caveat is the fragmentary nature of the Program in its current form. That is, the Program does not contain elements that will guarantee the participants' long-term independence from income support benefits, such as unemployment and child allowances. In order to prevent the inherent threats to success, the government should consider augmenting this process by implementing programs to encourage employers to increase jobs, the approach adopted among many of the European countries that had implemented similar programs.