

## Child Benefits and Common Sense

by

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The brewing political crisis regarding child benefits is not an obligatory gauntlet that we need to periodically weather. It is possible to reach a solution based on each side's underlying truths – which do exist – that merges national long run perspectives and normative governmental responsibilities and behavior.

On the one hand, there is the current picture which provides us with a glimpse of the future, should no changes emerge in the offing: Two segments of the population in which the majority of the working-age population is not employed are the ultra-orthodox Jewish population and the Israeli Arabs. In 2005, 84 percent of the ultra-orthodox men and 47 percent of the Arab men were not employed, in contrast with 38 percent non-employment among the remaining men in Israel. 85 percent of the Arab women and 57 percent of the ultra-orthodox women are not employed, compared to 48 percent among the rest.

Today's adults are yesterday's children: one generation ago, about one-quarter of the Israeli primary school pupils studied in the ultra-orthodox and Arab educational systems. According to Israel's Central Bureau of Statistics (CBS), the number of elementary school children in both systems will account for 50 percent of the total in just four years time. If the work habits of the parents are indicative of their children's future work habits, then it is difficult to see how the economy will be able to withstand such an immense burden.

The State of Israel does not provide sufficient tools and conditions that could enable these segments of the population to successfully engage in a modern and competitive economy. But there is an additional reason for the high rates of non-employment: the country provides benefits at levels that enable the choice of non-work as a way of life. Child benefits are a primary element of this aid.

In complete contradiction to any economic logic – after all, the cost of raising the first child is greater than the cost of raising the second child, who in turn is more expensive than the third child – large child benefits were provided in the past to families with children born after the fourth child instead of to families with children born before the fourth child. The result was a huge government incentive for substantially increasing fertility rates. Instead of providing the child benefits in the form of a reduction in taxable income that would encourage higher fertility rates among those who can financially support their children, the benefit was given without any relationship whatsoever to earnings ability – and in large amounts that became particularly attractive among poor populations for whom they reflected a substantial income increase.

Without any relation to religion or to the extent of religious conviction, individuals respond to economic incentives. As Alma Cohen from Tel-Aviv University, Dmitri Romanov from the CBS and Rajeev Dehejia from Tufts University show in a working paper put out recently by the NBER, a prestigious and widely-read research center located in Cambridge Massachusetts, child benefits have a positive and statistically significant impact on fertility in Israel – particularly among families situated on the lower rungs of the income ladder. In addition, the researchers found that the reduction in benefits in 2003 led to a substantial reduction in birth rates among these families.

It is possible to argue about whether or not this is a desired result. But it is difficult to dispute the fact that large child benefits increase fertility within populations whose adults tend not to work, populations that, should current birth rates continue, will become the majority in this country within the foreseeable future. Whoever supports the continuation of large benefits – that are not provided as part of a program aimed at increasing employment, but within the present configuration that works in exactly the opposite direction – must provide an explanation as to how they think that the country will be able to exist in the circumstances that will result.

On the other hand, the ultra-orthodox, the Israeli Arabs and others were negatively affected – some severely so – as a result of the route chosen by the country to reduce the benefits. Past governments passed laws and Israeli families made fertility decisions accordingly. Children are not refundable objects that one can return to the factory if sources of income that were counted upon dry up. This form of retroactive policy implementation reflects the behavior of the country in many other realms as well. It is inappropriate and inhumane.

Assuming that greater fertility is still considered a desired policy objective, any new child benefits policy must affect only those who bear children from the date that the law is passed. The remaining families must be allowed to remain within the framework of the policies that prevailed when they chose to bring children into the world. As the children grow older, the government outlays resulting from past expensive and problematic policies will steadily decrease until they eventually stop entirely.

The child benefits issue has a solution that is both humane and takes budget constraints and future implications into account. The only requirement is to decrease the volume and vehemence of the debate and to increase the common sense factor.