LIS
Working Paper Series

No. 661

Poverty and Inequality in Israel: An International Perspective

Haim Bleikh

February 2016

Luxembourg Income Study (LIS), asbl

Poverty and Inequality in Israel: An International Perspective

Haim Bleikh*

Abstract

This chapter examines the rates of poverty and inequality in Israel over time and in comparison with other OECD countries. It looks at two main groups: those aged 59 and under and those aged 66 and over. In the age 59 and under population, Israel's poverty and inequality rates are among the highest relative to other developed countries in both market income (household income from work, occupational pensions and capital, before taxes) and gross disposable income (including transfer payments) minus taxes. From 2002-2011, employment rates among the population in Israel rose, leading to a reduction in market income inequality (though this was not accompanied by a substantial decline in poverty rates). Disposable income inequality rates rose until 2006 and have since stabilized, while poverty rates have increased fairly consistently, especially among Arab Israelis and Haredim. Among the retirement-age population, disposable income poverty rates are substantially higher than in OECD countries. Nevertheless, the overall resources (public and private pension arrangements) that are available to the elderly, place Israel in a relatively good position among the developed countries. That is, the level of public and private pensions is not low compared to the rest of the world, but its distribution among the elderly is not equitable. The relative tax revenues in Israel are among the lowest in the Western world, and this is one of the reasons that the average overall public expenditure is relatively low. This inseparable relationship between tax revenues and public expenditure has critical implications for the closing of poverty gaps.

* Haim Bleikh, researcher, Taub Center for Social Policy Studies in Israel. I would like to thank Nachum Blass, Prof. Avi Weiss, Prof. John Gal, Prof. Dov Chernichovsky, Hadas Fuchs, Shavit Madhala-Brik, and Kyrill Shraberman who contributed to the design and progress of this work.

Introduction

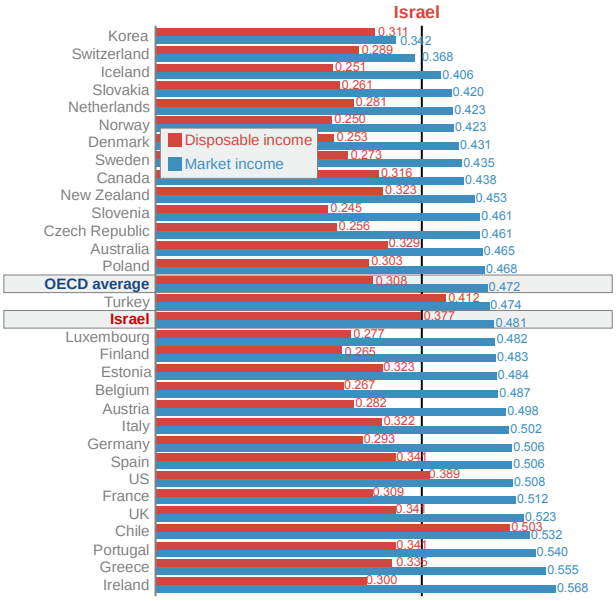
The issue of poverty and income inequality is one of the most widely discussed subjects in Israeli public discourse. A comparison of inequality among different households in Israel with inequality in OECD countries shows an interesting picture. Looking at market income (that is, before transfer payments to households and direct taxes are taken into account), Israel is close to the average for developed countries according to the Gini inequality index.[1] In a comparison using disposable income (after transfer payments and taxes), Israel is one of the most unequal countries relative to other developed countries, as can be seen in Figure 1A.

[1] The Gini coefficient is a measure of income inequality with an index that ranges from 0 to 1. A Gini coefficient of zero expresses perfect equality where everyone has the same income; a coefficient of one expresses maximal inequality where only one person has all the income.

Figure 1A

Income inequality, 2011

Gini coefficient in the OECD countries*



* 31 OECD countries. In a few cases, 2011 data are not available and data from 2010 or the average of 2010 and 2012 are used.

Source: Haim Bleikh, Taub Center for Social Policy Studies in Israel

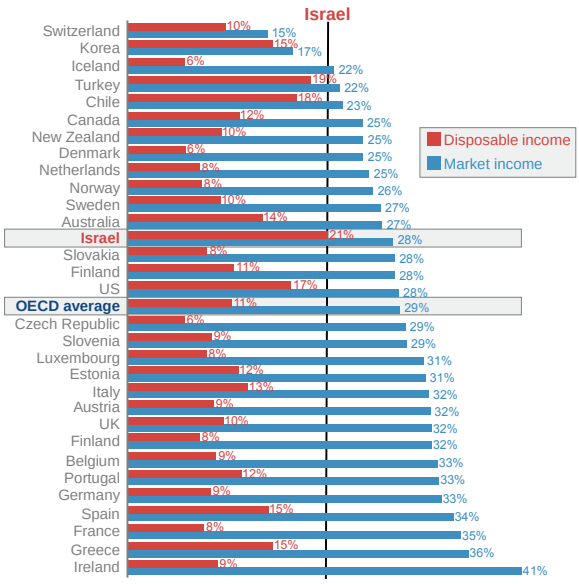
Data: OECD

Poverty figures for individuals show a similar picture. In Israel, 28 percent of individuals are below the poverty line according to market income, a rate similar to the OECD average of 29 percent. On the other hand, when it is measured by disposable income, about one-fifth of individuals in Israel are below the line, a rate almost double the average in other developed countries (Figure 1B).

Figure 1B

Share of individuals below the poverty line, 2011

as percent of country population in OECD countries*



* 31 OECD countries. In a few cases, 2011 data are not available and data from 2010 or the average of 2010 and 2012 are used.

Source: Haim Bleikh, Taub Center for Social Policy Studies in Israel
Data: OECD

The obvious question is: what are the main causes for the large difference between the rates according to market income and those according to disposable income? Part of the answer can be found in the differing tax and welfare policies in each country, which are influenced, among other things, by the population mix and, in particular, the percentage of individuals of retirement age, which varies between countries. To sharpen the comparison with OECD countries, poverty and inequality rates are measured by dividing the population into two main

age groups, working age and retirement age. This division allows a sharper focus on the causes of inequality and poverty in each group.

The studies on Israel indicate that among individuals of working age, labor force participation rates, educational disparities and demographic differences are the main reasons for the large variance in income and poverty rates among population groups (for example, Kimhi, 2011; Bank of Israel, 2014; National Insurance Institute, various years). In contrast, among Israelis of retirement age, entitlement or lack of entitlement to an occupational pension, along with the level of government support, are among the main and most influential factors in income disparities among population groups (Stier and Bleikh, 2014).

The purpose of this chapter is to present a picture of poverty and inequality rates in Israel and in other developed countries for these two age groups. The first part of the chapter discusses the working-age population in general and poverty among households with income earners in particular. The second part deals with the retirement-aged population, and the third will discuss several aspects of taxation and social security.

Statistics and Methodology

There are various methods for measuring poverty. The conventional approach is based on the disposable money income households have for consumption and saving, without taking into account the value of additional services of aid and support to various population groups.

Parts of this work are based on OECD data. For this reason, poverty will be measured according to OECD conventions,[2] which differ in several ways from the method of calculation in Israel.[3] The OECD data have a major advantage in that they offer a broad sample of aggregate data in the areas of poverty and inequality for member countries. However, they also have disadvantages and, in particular, a lack of long-term data and microdata at the household level. Accordingly, microanalyses based on the database of the Luxembourg Income Study (LIS)[4] have been incorporated into this work. While the sample of countries in the LIS is smaller than in the OECD analyses, the microanalyses included in it make a significant contribution to an understanding of the overall picture. It should be noted that, in order to match international data, most of the data for Israel are until 2011, even though more updated figures exist.

---

[2] Poverty line income is defined as half of the median disposable income per standardized person.

[3] The OECD equivalence scale is equal to the square root of the number of persons in a household. Using this method, economies of scale are greater than with the National Insurance Institute's method, which is based on different equivalence scales. Consequently, as a result of the addition of one individual to a household, the relative marginal addition to household income required to reach a certain income level per standardized person (for example, a poverty-line income level) is lower according to the OECD equivalence scale. The result is that the proportion of large households below the poverty line according to the OECD equivalence scale will be lower than it would be according to the National Insurance Institute's calculation. Another difference is that the OECD household income ranking is based on persons while the National Insurance Institute's is based on households.

[4] The LIS database is calibrated in such a way that data can be calculated for every country according to comparable rules and methodologies.

1. Poverty and Inequality Among Working-Age Households

Income Inequality

This section seeks to examine poverty and inequality among the working population. Today, the official retirement age in Israel is 62 for women and 67 for men. This age (as well as the average age of retirement in practice) differs from country to country in the OECD, a factor that may affect the validity of comparisons. Therefore, in this section, households in which the head of household is aged 59 or under, which is considered working age in all the OECD countries, as well as coupled households[5] in which the partner's age is also 59 or under, will be examined.

Figure 2A shows market income inequality[6] among this population over two decades for a sample of 21 countries. As the figure shows, Israel has been at the top of the rankings since the 1990s. However, the measured decline in rates of inequality, consistently evident since the start of the 2000s, should be noted. Factors like a reduction in government transfer payments and direct taxes for working-age individuals that might have contributed to a rise in employment rates were among the reasons for this decline.

In general, in order to narrow overall market income disparities, monetary resources are required given that other variables, like employment rates and demographic characteristics, do not change. In the case of Israel, though, where the level of economic inequality is especially high in the working-age population, closing these gaps becomes even more complicated because increasing government assistance to a population that

---

[5] Coupled households also include unmarried couples.

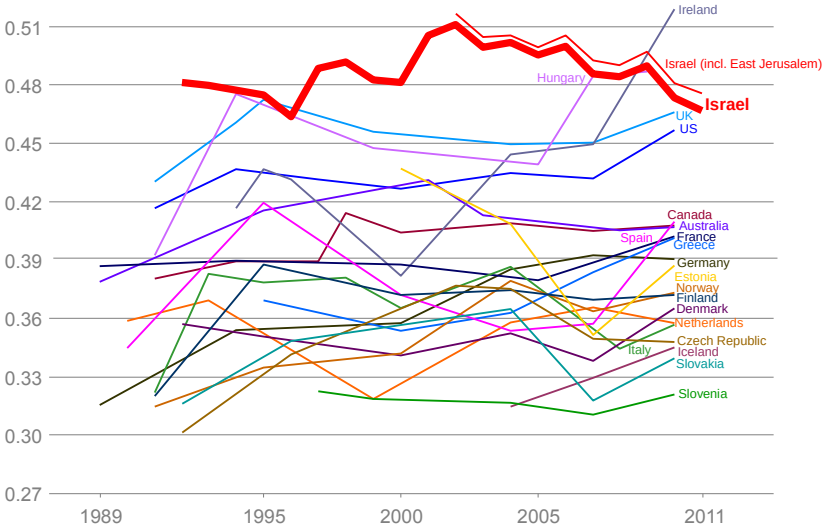
[6] Market income for aged 59 and under in Israel is calculated on the basis of labor income and capital, which is the majority of household market income (as can be seen in Figure 3). For countries other than Israel, private transfers are also considered, as in the LIS calculations.

should be economically active can become a disincentive to participating in the labor force or can encourage partial employment in place of full employment.

Figure 2A

Market income inequality, ages 59 and under,* 1989-2011

Gini coefficient in OECD countries**



* Head of household and partner (if there is one) age 59 or under

** Calculated using the OECD method for 21 countries with at least 3 observations over time, including for 2010. For Israel, there are no data for 1994.

Source: Haim Bleikh, Taub Center for Social Policy Studies in Israel

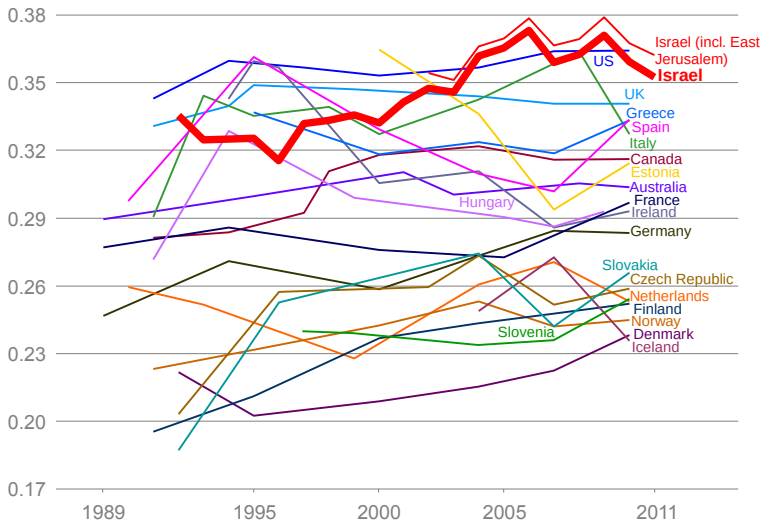
Data: Luxembourg Income Study; Central Bureau of Statistics

Figure 2B completes the picture and presents the Gini coefficient for this age group according to disposable income. In 2006, the rise in inequality in Israel stopped and after that, there was even a decline, although the level of inequality remains high compared to other developed countries surveyed.

Figure 2B

Disposable income inequality, ages 59 and under,* 1989-2011

Gini coefficient in OECD countries**



* Head of household and partner (if there is one) age 59 or under

** Calculated using the OECD method for 21 countries with at least 3 observations over time, including for 2010. For Israel, there are no data for 1994.

Source: Haim Bleikh, Taub Center for Social Policy Studies in Israel

Data: Luxembourg Income Study; Central Bureau of Statistics

Developments in Income Components

As noted, in the period under examination there were significant changes in the mix of household income. Figure 3 presents the household income components (adjusted for household size) broken down by selected population groups. Appendix Figure 1 presents similar data without adjusting for household size. As can be seen, income from government benefits declined substantially while, on the other hand, income from labor increased. Thus, for example, among Haredim (ultra-Orthodox Jews),[7] the proportion of income from work increased from 51 to 64 percent between the two periods. Among Arab Israelis, it rose from 75 to 82 percent while, among non-Haredi Jews, it remained stable between 85 and 86 percent. The change in real gross income per standardized person between the two periods totaled 3 percent among the Arab Israeli population, compared with 7 percent among non-Haredi Jews and 12 percent among the Haredim.

The most substantial increases in income from work rates were between 2002 and 2011 among Arab Israelis and Haredim (12 percent and 41 percent, respectively). This increase contributed to narrowing the market income disparities at the extreme low end of the distribution.

In terms of disposable income, the most substantial real increase was among the non-Haredi population. Among the reasons for this were a series of policy steps during those years including a reduction in direct taxes and in transfer allowances that primarily had a negative effect on the Arab Israeli and Haredi populations (see Appendix Figure 2B). The majority of increase in real disposable income occurred before 2007. That is, these changes contributed to a widening of disposable income gaps as can be seen in Figure 2B.

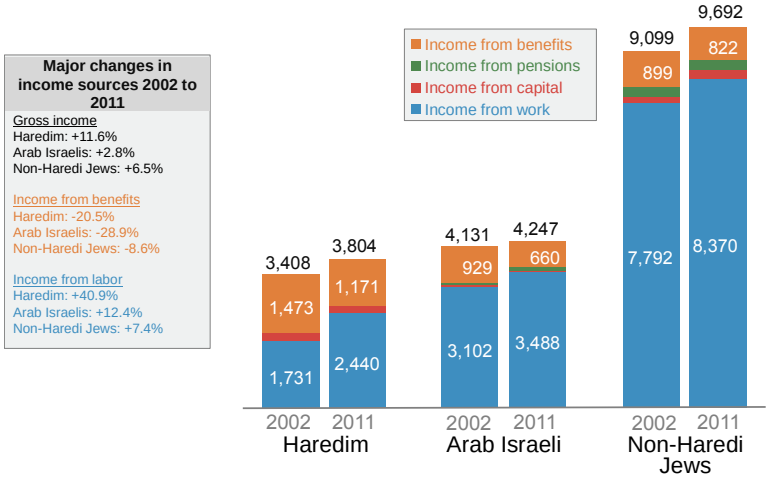
---

[7] Haredim are defined as those living in a household in which the head of the household's last educational institution was a yeshiva or households headed by a woman whose husband's last educational institution was a yeshiva.

Figure 3

Gross monthly household income, ages 59 or under,* 2002 and 2011

monthly income per standardized person,** by source of income and population group, 2011 prices, in shekels



* Head of household and partner (if there is one) age 59 or under

** Calculated using the OECD method

Source: Haim Bleikh, Taub Center for Social Policy Studies in Israel

Data: Central Bureau of Statistics

Poverty Rates

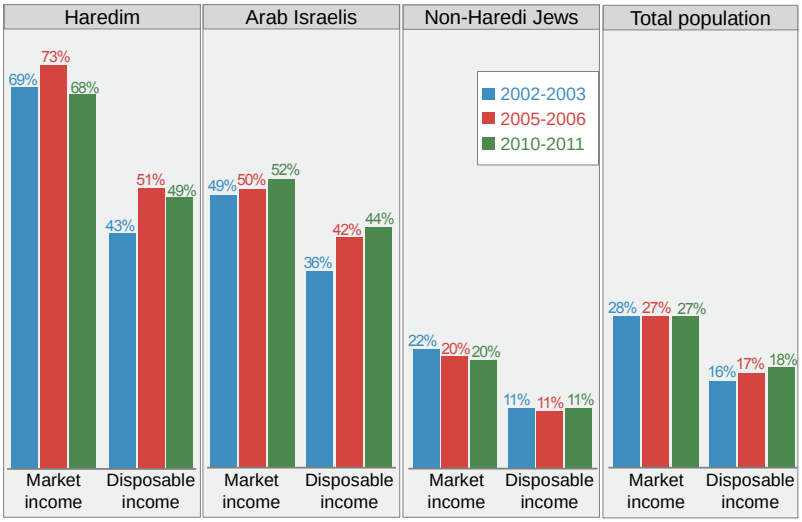
Poverty data for the 59 and under population in Israel are not distributed identically among the different population groups. Figure 4A presents poverty rates for selected periods during the previous decade (2002 and 2011). As can be seen, market income poverty rates among the non-Haredi Jewish population declined by 2 percentage points, especially between the first two periods, compared to a slight increase among the

Arab Israeli population. Among Haredim, poverty rates are significantly higher, at around 70 percent. It should be noted that this is a relatively small population[8] and that there could therefore be fluctuations in poverty rates. On average, in the previous decade, rates of market income poverty for the total population aged 59 and under were relatively stable, ranging from 27 to 28 percent.

Figure 4A

Share of households below the poverty line,* ages 59 and under**

by population group, averages per period, 2002-2011



* Calculated using the OECD method

** Head of household and partner (if there is one) age 59 or under

Source: Haim Bleikh, Taub Center for Social Policy Studies in Israel

Data: Central Bureau of Statistics

[8] In the last decade, the share of Haredi households grew from 3.9 to 4.4 percent out of all households whose members were aged 59 or under.

When measuring poverty rates according to disposable income, a notable increase of some 8 percentage points among the Arab Israeli population can be seen. Most of the increase took place before 2005-2006. Among the Haredi population, poverty statistics are higher and the majority of the increase took place up until 2005-2006 at which point a slight decline began. The rate among non-Haredi Jews remained stable during the decade at around 11 percent.

When comparing Israel to other countries, it is important to emphasize that the figures for developed countries were affected by the sub-prime crisis, which began in 2008, but that the crisis did not have a similar impact on Israel. In addition, in a large number of Western countries, there are long-term trends of population aging and a declining birth rate, while in Israel the population is aging but the birth rate is much higher[9] a factor that influences the measures of poverty and inequality.

The comparison between households whose head is aged 59 or under in Israel and in other developed countries shows higher poverty rates for Israel. According to Figure 4B, rates of market income poverty in Israel are some 27 percent, compared with about 23 percent on average in other developed countries. Disposable income poverty rates are about 18 percent in Israel and about 13 percent on average in the other countries.[10] In a comparison with Figure 1B, it can be seen that the market income poverty rates among working-age individuals in Israel are similar to those

[9] According to OECD data for 2011, the overall fertility rate in Israel is 3 children per woman, while in other developed countries it is under 2.1 children per woman, less than the rate needed to maintain a stable population size (*Society at a Glance*, 2014).

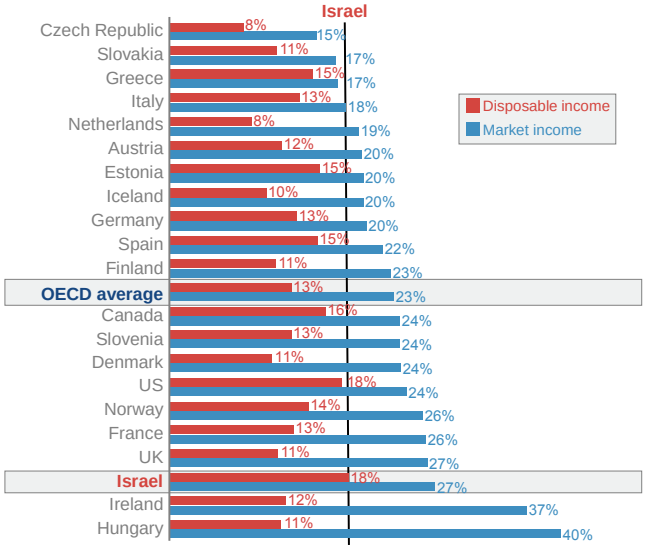
[10] An examination of poverty levels among individuals produces the following findings: in the developed countries, 21 and 10 percent of individuals respectively are below the poverty line according to market and disposable income. In Israel, the figures are 27 and 21 percent in market and disposable income, respectively. This means that in Israel, at least for disposable income, poverty is concentrated in larger families. In other developed countries, the picture is reversed – poverty is concentrated in smaller households (see Appendix Figure 3).

of the general population, while in the OECD market income poverty declines substantially among those of working age (excluding the elderly). From this it can be concluded that the market income poverty rates among the older population are substantially higher in OECD countries than in Israel. As will be explained further on, this difference is the result of gaps in population composition and income structure.

Figure 4B

Share of households below the poverty line,* ages 59 and under**

OECD countries, 2010



* Calculated using the OECD method

** Head of household and partner (if there is one) age 59 or under

Source: Haim Bleikh, Taub Center for Social Policy Studies in Israel
Data: Luxembourg Income Study; Central Bureau of Statistics

Employment Rates Among Ages 59 and Under

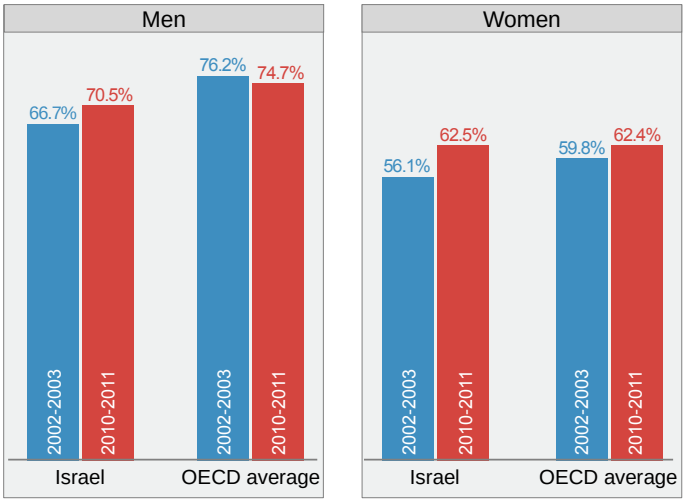
The data show that for poverty rates according to market income among the general population (Figure 1B previously), Israel is close to the OECD average. However, for households headed by persons aged 59 and under, that is, most of the working-age population, Israel is higher by about 4 percentage points. This suggests that the causes of the disparities in market income poverty should be sought out in developments in the labor market. Employment rates in Israel that are taken from the OECD data base include the overall population (including those in compulsory and permanent army service).

Figure 5A shows that in Israel, among men aged 15-59, the disparities in employment rates have narrowed. The percentage of those employed saw a moderate increase during the previous decade: from 67 percent at the start of the decade to about 70 percent at the end. The corresponding rates in OECD countries in the same years were much higher: from 76 percent at the beginning of the millennium to a high of 78 percent in 2008. Following the crisis that began that year, the rates stabilized at around 75 percent from 2010-2011.

Figure 5A

Employment rates, ages 15-59

by gender, OECD average for 2002-2003 and 2010-2011



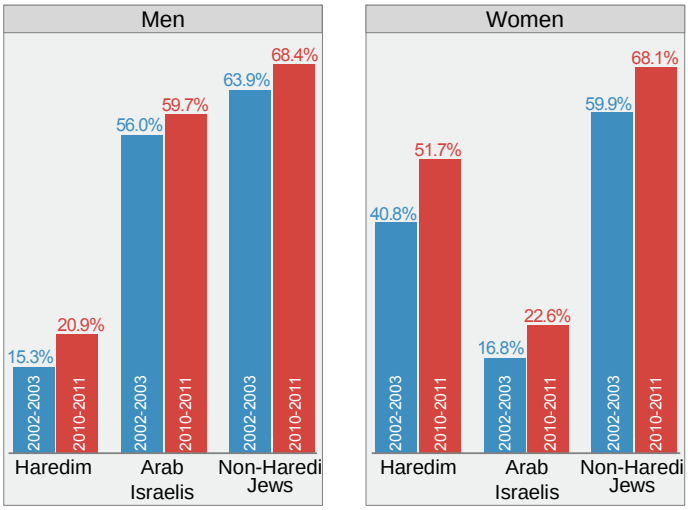
Source: Haim Bleikh, Taub Center for Social Policy Studies in Israel
Data: OECD

Among women in the same age group, employment rate disparities between Israel and the OECD average were fairly minor at the beginning of the period and closed over the decade. In Israel, employment rates for women in those age groups rose from 56 percent at the start of the 2000s to about 63 percent in 2011. The employment rate in OECD countries shows an increase from 60 percent at the start of the 2000s to 63 percent on the eve of the 2008 crisis, and since then, a slight decrease that stabilized at 62 percent.

Figure 5B

Employment rates,* ages 15-59

by gender and population group, average for 2002-2003 and 2010-2011



* Civilian labor force

Source: Haim Bleikh, Taub Center for Social Policy Studies in Israel
Data: Central Bureau of Statistics

In Israel, some of the disparities in employment result from relatively late entry of young adults into the civilian labor market as a result of their beginning higher education studies only after compulsory military service, or, in the case of Haredim, their studying in yeshivas, as well as due to other cultural and societal norms.

In order to give a broader perspective of employment differences between population groups in Israel, the Central Bureau of Statistics labor force surveys must be used. Until 2011, the data reflected only the civilian labor force, and so there is a downward bias in the employment

rates[11] relative to those figures reported by the OECD that are for the overall population. Among women, the most notable changes have taken place among the Haredim, whose employment rates rose from 41 percent at the start of the 2000s to 52 percent a decade later. Arab Israeli women have the lowest rates of employment of any of the groups, at about 23 percent in 2010-2011, following an increase of some 6 percentage points over 2002-2003. Among non-Haredi Jewish women, employment rates in 2010-2011 were about 68 percent on average, compared to some 60 percent in 2002 to 2003.

Developments among men were similar, but the changes between the start and end of the period were less extensive. As of 2010 to 2011, employment rates among Haredi men were about 21 percent, an increase of about 6 percentage points from 2002 to 2003. Among non-Haredi Jews, and Arab Israelis as well, employment rates rose in 2010 to 2011 by several percentage points to about 68 percent and 60 percent, respectively (as opposed to 64 percent among non-Haredi Jews and 56 percent among Arab Israelis at the start of the period). Along with growth in employment rates, the number of work hours is also important.[12]

Figure 6 points to the changes that have taken place in the employment mix in Israel on the basis of work hours. The data show that among women in general, there has been a slight decline in those who are employed on a part-time basis. Haredi women are notable in this context. Even after the decline, more than half of the members of this group are in part-time employment. Among the men, there has been a slight increase in rates of part-time employment, and here, too, the disparities between Haredim and the rest of the population in work hours are prominent.

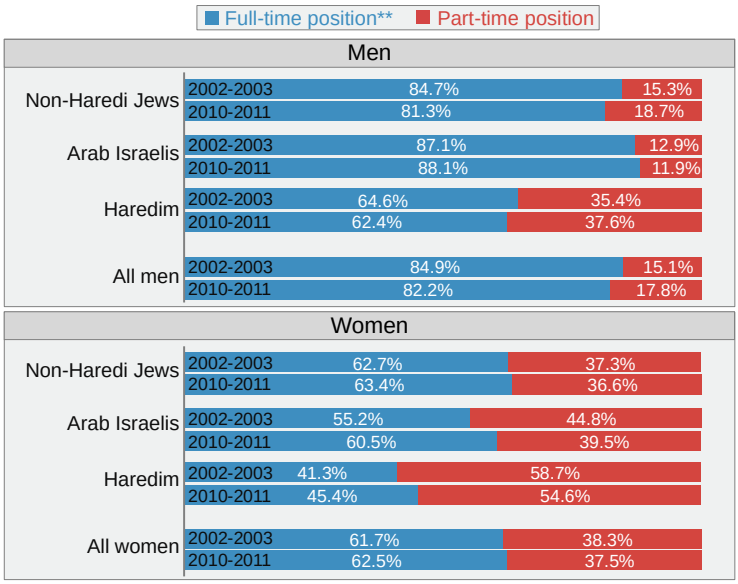
[11] The calculation is done by using the civilian labor force as the numerator and the general population as the denominator. The main downward bias is in the non-Haredi Jews because of their greater representation of army members (permanent and compulsory military service).

[12] A full-time position is defined as at least 35 hours per week.

Figure 6

Employment distribution* by full-time or part-time position, ages 15-59

by gender and population group, average for 2002-2003 and 2010-2011



* Civilian labor force

** Full-time position is 35 weekly hours

Source: Haim Bleikh, Taub Center for Social Policy Studies in Israel
Data: Central Bureau of Statistics

The developments described previously in the area of employment are reflected in the number of income earners in coupled and single parent households (Figure 7A).[13] Among all groups in the population, there has been an increase in the proportion of households with income earners,

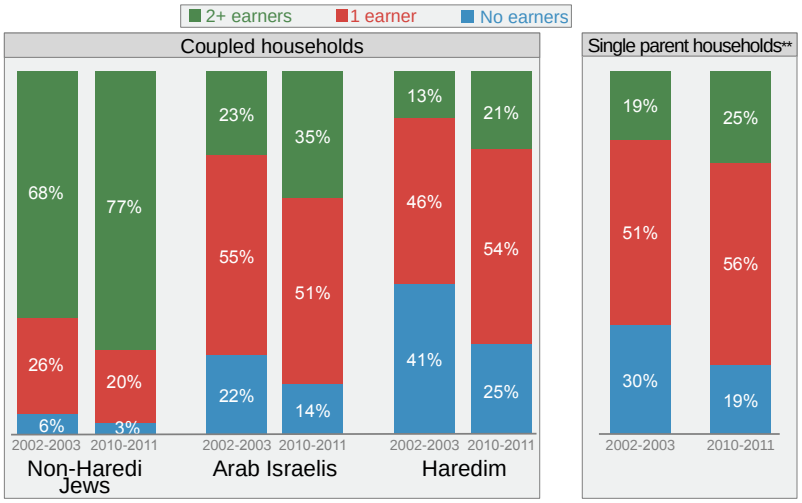
[13] According to the National Insurance Institute definition. By this definition, there may be single parent households with more than two adults and at least two income earners.

with the most striking increases among the Haredim and Arab Israelis. In addition, among all population groups there was an increase in the portion of households with two or more income earners.

Figure 7A

Household employment distribution, ages 59 and under*

by household composition and population group,
averages for 2002-2003 and 2010-2011



* Head of household and partner (if there is one) age 59 or under

** Households including children under age 18. The majority of such households are non-Haredi Jews and so a breakdown by population group was not done.

Source: Haim Bleikh, Taub Center for Social Policy Studies in Israel

Data: Central Bureau of Statistics

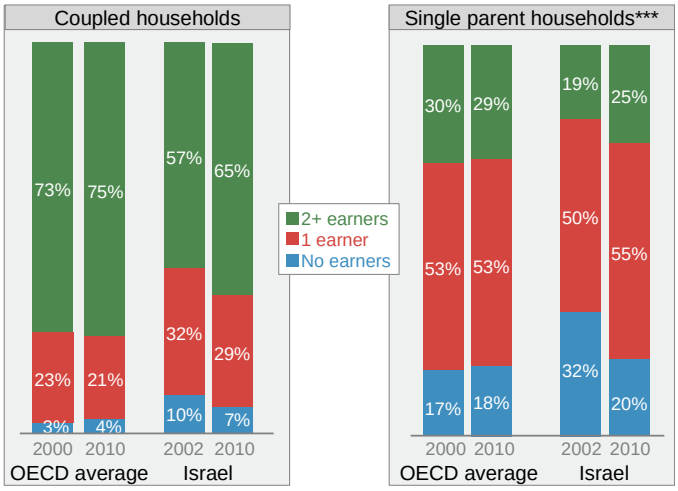
A comparison of developments in Israel and the OECD from the beginning to the end of the first decade of the 2000s points to a higher proportion of households with no income earners in Israel (Figure 7B). At the beginning of the millennium, the proportion of households with two

or more income earners among coupled households in the OECD was some 16 percentage points higher than in Israel. A decade later, the gap had narrowed slightly, but still remained high at 10 percentage points.

Figure 7B

Household employment distribution, ages 59 and under*

international comparison, by household composition, 2000 and 2010**



* Head of household and partner (if there is one) age 59 or under

** Average of 20 OECD countries with data available for the two time periods. Earlier data for Israel are from 2002 and include the population of East Jerusalem.

*** Including children under age 18

Source: Haim Bleikh, Taub Center for Social Policy Studies in Israel

Data: Luxembourg Income Study; Central Bureau of Statistics

Despite the increased employment in these households, the rates of disposable income poverty among coupled and single parent households in Israel increased between the two points in time; this is in contrast to relative stability on average for other developed countries (Appendix

Figure 4). These figures have risen significantly in light of two demographic features[14] of couples aged 59 and under: (1) the high percentage of couples aged 59 and under – who represent 74 percent of all households in this age group compared to 61 percent on average in other developed countries; (2) the greater number of young children – about 75 percent of all couples aged 59 or under in Israel have children under the age of 18 compared to an average in other developed countries of 58 percent. Likewise, the number of household members in these households is on average higher than in other countries (about 5 in Israel relative to an average of 4 in other countries).

Poverty Among Households with Income Earners

As discussed in previous sections, the increase in labor force participation and the reduction in transfer allowances brought about a rise in the portion of income from labor with a concomitant drop in government support. Nevertheless, poverty rates among families with income earners grew (Stier, 2011; Endeweld and Heller, 2014).[15] Figure 8A presents a picture of poverty among these families in selected years between 2002 and 2011. During the decade, the percentage of those who were poor increased: in terms of market income poverty, rates stood at about 16 percent of all households examined in 2002 to 2003; a decade later, they had climbed to 20 percent. For disposable income, the figures for the corresponding periods were about 8 percent and about 12 percent, respectively.

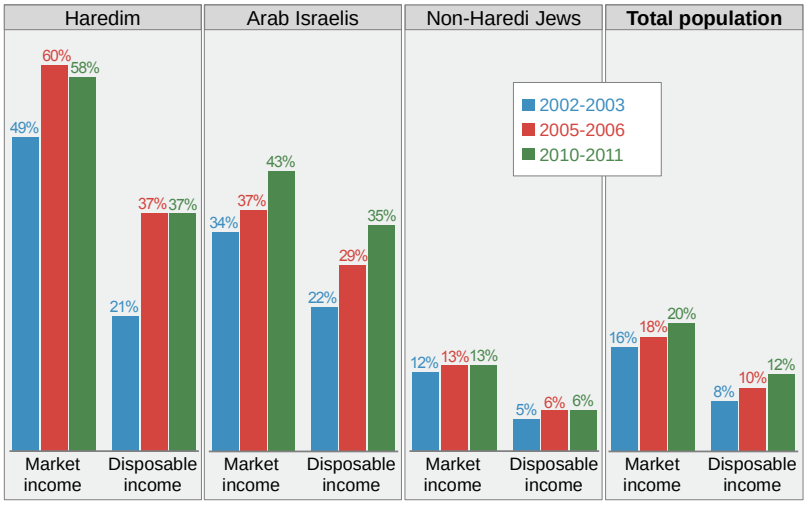
[14] For more on these demographic features, see Appendix Figures 5 and 7.

[15] It is also possible that the causality is in the opposite direction: the rise in the poverty rates and the lowering in the standard of living is what brought about the increase in the employment rate.

Figure 8A

Poverty rates* among households with income earners, 2002-2011

ages 59 and under,** by population group, averages per period



* Calculated using the OECD method

** Head of household and partner (if there is one) age 59 or under

Source: Haim Bleikh, Taub Center for Social Policy Studies in Israel

Data: Central Bureau of Statistics

A breakdown of households with income earners[16] into population groups points to a noticeable increase in market income poverty among the Arab Israeli population, especially toward the end of the period. In disposable income poverty, a fairly consistent rise among this population is evident throughout the entire period. Among Haredi households, most of the increase in poverty rates took place up to 2005 to 2006. Since then, there has been a slight decrease in market income poverty and a stabilizing of disposable income poverty. Among non-Haredi Jews,

[16] Over the years the share of Haredi households has increased from 2.7 to 3.7 percent out of all households with income earners aged 59 and under. Among Arab Israelis the figure have risen from 13.5 to 15.5 percent.

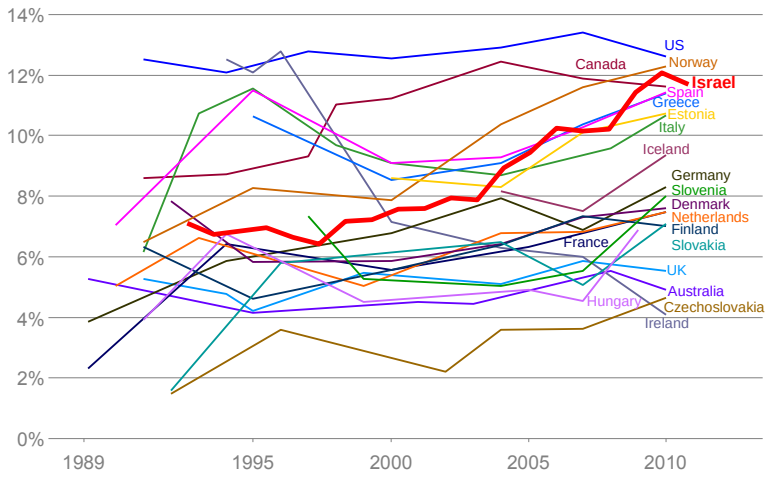
poverty rates are substantially lower relative to other population groups but, even for this group, there was a slight increase.

Figure 8B completes the picture, presenting an international comparison of poverty over time among families with income earners age 59 and younger. As can be seen, the percentage of poor households in this group in Israel was not especially high in the 1990s. However, throughout the period – and especially since the 2000s – poverty rates grew, becoming almost the highest among developed countries.

Figure 8B

Poverty rates* among households with income earners, 1989-2011

by disposable income, ages 59 and under,** OECD countries***



* Calculated using the OECD method. Before 2002, Israel data do not include East Jerusalem

** Head of household and partner (if there is one) age 59 or under; household includes children under 18

*** For 21 countries with at least 3 observations over time including 2010. For Israel, there are no data for 1994.

Source: Haim Bleikh, Taub Center for Social Policy Studies in Israel

Data: Luxembourg Income Study; Central Bureau of Statistics

As is well known, poverty rates are negatively correlated with the number of income earners and positively correlated with the number of persons in the household. In other words, the fewer the income earners and the more persons in the household, the greater the chances the household will be beloaw the poverty line (see for example, Kimhi, 2011; National Insurance Institute, various years). Figure 9A presents poverty rates among coupled households according to the number of income earners and children in the household. As expected, in Israel and in other developed countries, households with a single earner have a greater likelihood of being below the poverty line.[17] In Israel, however, the proportion of households with a single earner is greater: about 28 percent, as opposed to about 22 percent on average in the other countries surveyed (Figure 9B). In particular, the group of coupled households with one income earner and at least three children – that is, the group with the highest likelihood of being below the poverty line – comprises about 12 percent of the couples in Israel, as opposed to only about 3 percent on average in OECD countries.

Among all families with two income earners in Israel, poverty rates are relatively low and are similar to those in other developed countries. A more noteworthy figure is the proportion of households with at least two income earners and at least three children: about 16 percent among couples in Israel versus about 6 percent on average in developed countries.[18]

[17] In the case of households with no income earners, the poverty rates among couples under the age of 59 are estimated to be on average about 52 percent in developed countries compared to 82 percent in Israel. The proportion of this population is on average about 3 percent in developed countries compared to about 7 percent of the study population in Israel.

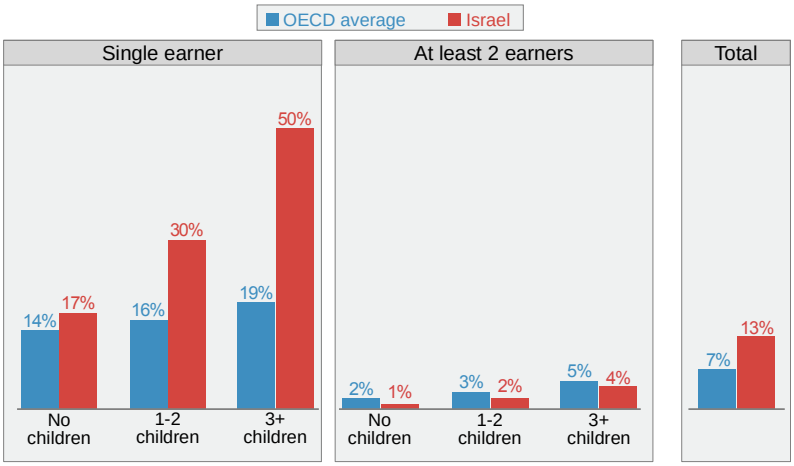
[18] Appendix Figures 6A and 6B show in greater detail the proportion of coupled households aged 59 and under in Israel and the poverty rates among them, by population groups.

Figure 9A

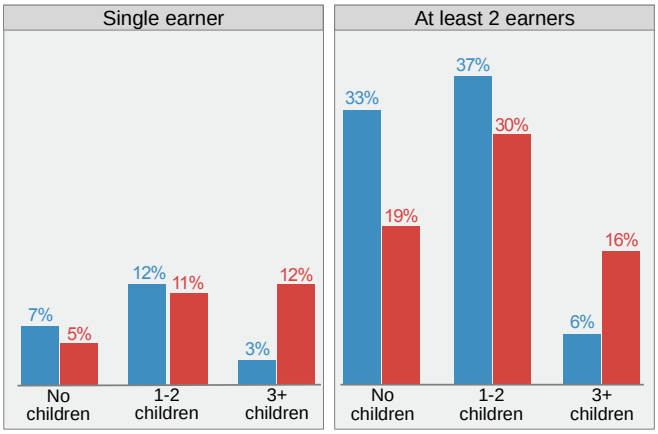
Characteristics of coupled households, 2010

ages 59 and under*

A. Poverty rates** by disposable income



B. Distribution by number of income earners***



* Head of household and partner (if there is one) age 59 or under

** Calculated using the OECD method

*** For 17 countries with sufficient observations in each grouping. Data do not sum to 100 percent since households with no income earners are not included.

Source: Haim Bleikh, Taub Center for Social Policy Studies in Israel

Data: Luxembourg Income Study; Central Bureau of Statistics

2. *Poverty Among the Older Population: An International Comparison*

In general, the share of the older population (aged 65 and over) in the general population is rising in developed countries as well as in Israel. In Israel, however, its share in the general population is lower than the OECD average: about 10 percent compared to about 16 percent on average, respectively.

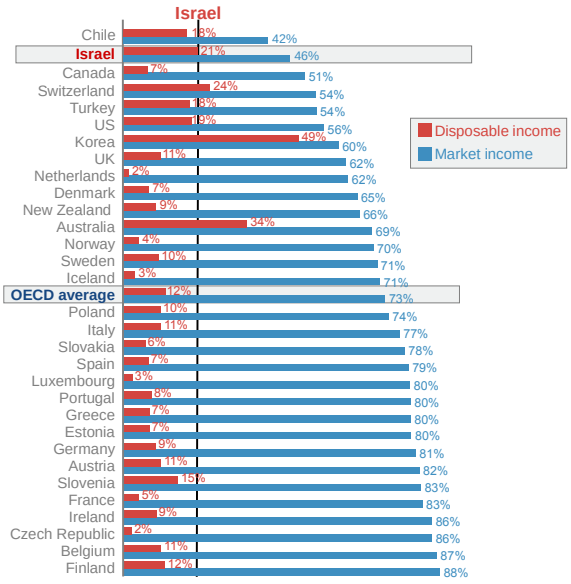
As can be seen in Figure 10, market income poverty rates among those aged 66 and over[19] stand at about 46 percent in Israel, as compared to 73 percent on average in other developed countries. In contrast, in terms of disposable income, about one-fifth of Israeli citizens aged 66 and over are below the poverty line, as opposed to some 12 percent on average in the OECD (and about 9 percent when the calculation is based on the median).

[19] This is the age grouping used by the OECD.

Figure 10

Share of individuals age 66 and over who are below the poverty line, 2011

OECD countries*



* 31 OECD countries. In a few cases, 2011 data are not available and data from 2010 or the average of 2010 and 2012 are used.

Source: Haim Bleikh, Taub Center for Social Policy Studies in Israel

Data: OECD

When comparing poverty rates among retirement-aged individuals, it is important to consider the differences between pension plans. Since they are a main source of income for this population, they greatly influence the structure of income and, in particular, market income. In 2011, about 51 percent of retirement-age individuals in Israel were living in a household in which at least one individual was receiving an occupational pension, that is, in a household with a source of income that increases market

income (Stier and Bleikh, 2014). An extension of the mandatory pension law enacted in 2008 will increase the number of those eligible for an occupational pension in coming generations, but most of today's older population is affected by the law to a limited extent, if at all. For the older population, the main beneficiaries from occupational pensions today are those who worked in the public sector and are entitled to a budgetary pension[20] or to those who had pension arrangements as part of collective agreements in the private sector.

The pension situation in developed countries is complex and requires special consideration (OECD, *Pensions at a Glance*, 2013; Spivak, 2013). Figure 11 illustrates the fundamental differences in income structure among the older population in each country, which is composed of a combination of various pension plans, employment of older individuals, and differences in both retirement age and the proportion of retirement-age individuals in the entire population. As can be seen, the public funding component is dominant in the income of the elderly in most countries, and comprises an average of about 59 percent of total income. In contrast, in Israel, the proportion of income from a public source is only 34 percent. Accordingly, the proportion of income from work (27 percent) and income from capital (including private pensions – 39 percent) is higher than the OECD average. These figures may explain why market income poverty in most developed countries is significantly higher than in Israel.[21] In disposable income poverty, the picture is reversed (Figure 10 above). Given this, the question is, to what extent does overall expenditure on the elderly (public and private) compensate for the loss of income from work after retirement? This will be discussed further on in the chapter.

---

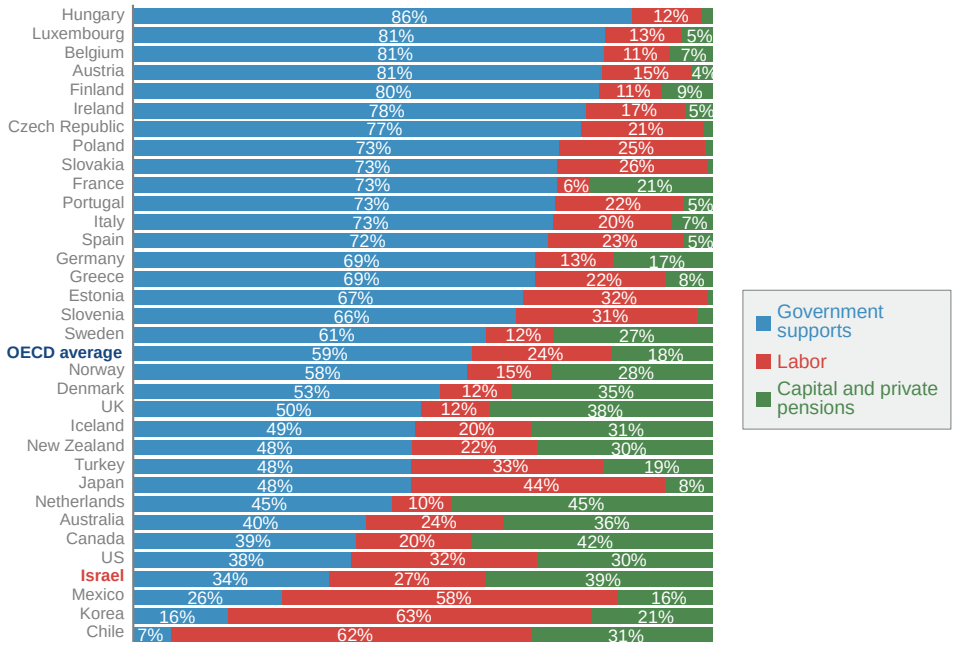
[20] Budgetary pension arrangements refer to the defined benefit pensions paid out of the state budget and provided to veteran state employees, such as teachers, military, police, and local authority employees.

[21] Kimhi and Shraberman (2013) have pointed to employment disparities in Israel's favor among men aged 65-74, compared to OECD countries. This has also contributed to an increase in market income.

Figure 11

Income sources among the older population

as percent of household income in OECD countries, late 2000s



Source: OECD, *Pensions at a Glance 2013*

3. *Taxation and Welfare: Sources and Uses*

The government has several means by which to reduce disparities in cash income, including a mechanism for direct taxation on the one hand, and provision of transfer payments to those who are entitled on the other. The direct tax burden on household income in Israel is lower than the average in OECD countries. As the Bank of Israel has shown, most of the

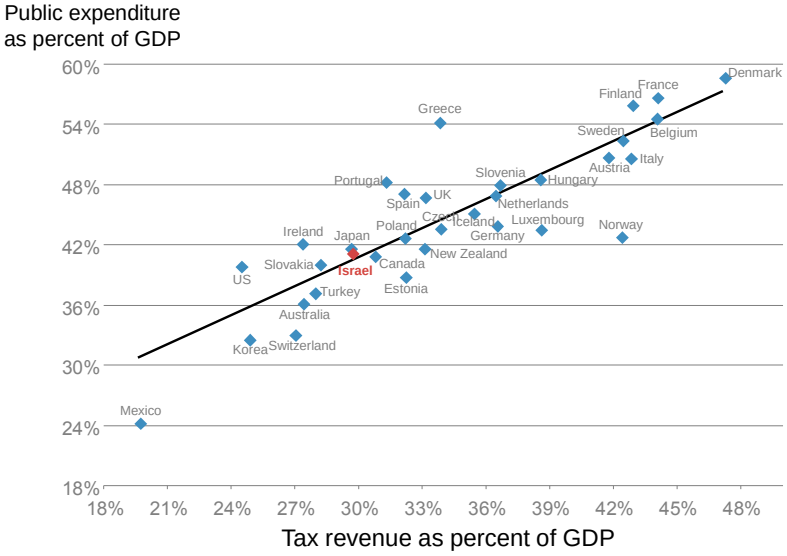
disparity stems from lower direct tax rates for income quintiles 1 to 4 (Bank of Israel, 2014). Accordingly, in Israel, the proportion of indirect taxes as a percentage of all taxes is higher than in the developed countries (Bank of Israel, 2013).

From a more general perspective, the size of government expenditures is determined, among other things, on the basis of tax revenues that comprise about 81 percent of the overall public revenues in Israel and 82 percent on average in the OECD. Figure 12 presents an international comparison of the relation between the overall tax burden and the size of public expenditures (including defense spending).

Figure 12

Tax revenues and public expenditure

as percent of GDP in OECD countries, 2012*



* 33 OECD countries. Data for Turkey are from 2011.

Source: Haim Bleikh, Taub Center for Social Policy Studies in Israel
Data: OECD

As expected, a higher tax burden is correlated with higher public spending, but it is important to remember that correlation between two variables does not necessarily indicate causality. A high tax burden can be a result of greater demand for public services. For example, total spending on public pensions could be high if the proportion of individuals of retirement age in the overall population is high – a situation requiring a higher tax burden. The level of taxes can also be determined in light of supply, that is, a state may establish a policy of higher taxation in order to provide a higher level of services. Either way, the government of Israel has fewer resources at its disposal compared to other OECD countries, and, as a result, the share of public spending in GDP is also relatively low. When interest payments and defense spending in Israel are deducted (which are significantly higher than in other developed countries), the resources left for civilian spending are even more limited.

From 1995 to 2007, the tax burden in Israel ranged from 34 to about 36 percent of total GDP. Beginning in 2008, the overall tax burden declined, and in 2012, it stood at some 29.6 percent of GDP. The trends in the developed countries during those years differed greatly from country to country. Since the mid-1990s, on average, the tax burden ranged between 34 and 35 percent of GDP, and from 2009 to 2010 there was a slight decline, to about 33 percent of GDP, and afterwards, a return to a level of 34.2 percent of GDP. As of 2012, the total public revenues were an average of 41.8 percent of GDP in the developed countries and 36.4 percent in Israel – a gap in revenues of 5.4 percent of GDP where 85 percent of it is explained by gaps in the overall tax burden. By way of example, Israel's GDP for 2012 was about 1 trillion shekels; this means that if the overall tax burden was similar to the OECD average, some 46 billion shekels would have been added to state coffers. Clearly, such an amount would have enabled the state to meet higher spending targets.

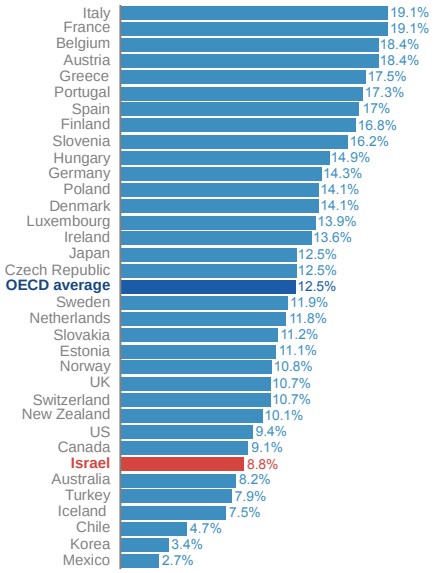
Figure 13 focuses on public social expenditure (cash benefits), which are intended to mitigate inequality and market income poverty. Israel's spending on these payments is about 8.8 percent of GDP, in contrast to an average of about 12.5 percent of GDP in the OECD. This difference could be due to several factors, such as: (A) different needs, derived from

demographic differences and pension arrangements (for example, privately funded pensions as opposed to publicly funded ones); (B) differences in the amounts of various government transfer allowances and accessibility or eligibility to these benefits; (C) a preference for provision of social services as opposed to cash payments for entitled individuals; (D) a shortage of sources of income from taxes in Israel.

Figure 13

Public social expenditure,* 2011

cash benefits, as percent of GDP in OECD countries



* Including pensions for civil service employees, old-age and survivors allowance, disability allowance, unemployment benefits, transfer allowances to families, and other social benefits according to OECD definitions

Source: Haim Bleikh, Taub Center for Social Policy Studies in Israel
Data: OECD

Figure 14A examines the average level of government financial assistance per individual[22] as a percentage of per capita GDP of individuals who are not of retirement age,[23] including children. Spending on cash transfer payments for individuals in Israel totals about 4.4 percent of GDP per capita, compared with an average of 5.4 percent in the developed countries.[24] It should be noted that the level of government financial assistance is critically important, especially for reducing income disparities, in light of Israel's unique demographic characteristics (see, for example, Appendix Figures 5 and 7). For this reason, Israel's relatively low ranking in terms of resources allocated to the non-retirement age population is not surprising in view of the low tax burden and the low share of government transfer allowances out of GDP (Figures 12 and 13 above).

A similar examination of government monetary spending on the retirement-age population will not yield an accurate picture. In particular, it would not be correct to speak only about public monetary spending on pensions because there are countries where pension arrangements incorporate private elements that supplement income, like in Israel, the

---

[22] The average is not calculated by the number of users (number of recipients of actual cash assistance) since these data are not available. Rather it is based on the size of the population that is under retirement age.

[23] In order to obtain comparable figures, the total nominal expenditure on cash transfer payments should be divided by the number of potential users. As noted, retirement ages are not the same in all countries. Therefore, in order to give an estimate of individuals in this age group, the actual retirement age for men and women in each of the countries must be taken into account. Thus, for example, if the retirement age in a country is 63 for men and 61 for women, then all men over 63 and all women over 61 will be considered to be of retirement age. Individuals who are not at retirement age were calculated by subtracting individuals of retirement age from the total population.

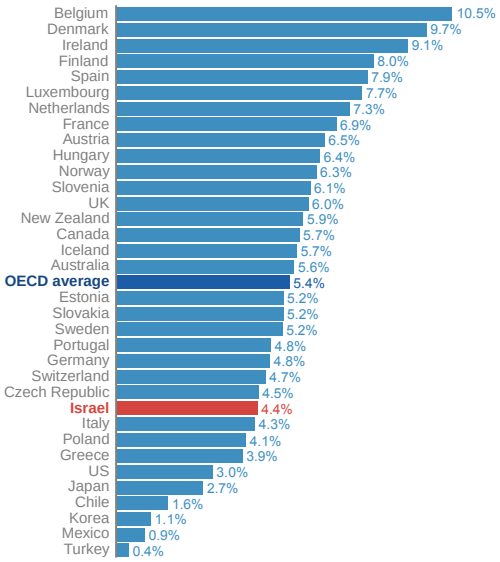
[24] In 2009, cash benefits in developed countries to individuals who are not of retirement age reached its peak of about 5.7 percent of per capita GDP, partly because of an increase in unemployment payments. In Israel, the average for this age group was stable at about 4.5 percent of GDP.

US, Canada, and other countries. Therefore, the total monetary resources allocated to individuals of retirement age will also be composed of private and public pension components, including survivors' pensions.

Figure 14A

Cash benefits* to individuals under retirement age**

as percent of per capita GDP in OECD countries, 2011



* Including disability allowance, unemployment benefits, transfer allowances to families, and other social benefits according to OECD definitions

** Calculation for the individual is based on an estimate of the population under the average retirement age in each country, including children.

Source: Haim Bleikh, Taub Center for Social Policy Studies in Israel

Data: OECD

According to Figure 14B, total monetary resources for the elderly in Israel stand today at about 58 percent of per capita GDP, and is 5 percentage points higher than the average for other developed countries (and 7 percentage points higher than the median). On a more detailed level, the high ranking of Turkey, for example, is the result of public expenditure close to the OECD average relative to GDP and from a comparatively small retirement-age population. In other words, in relation to Turkey's resources, the national priorities place this population's needs relatively high. In Sweden, public expenditure for retirement age is similar to that in Turkey (with additional components of private pensions) and is slightly under the OECD average, since the share of retirement age individuals in the population is relatively high. An interesting point is that in 10 out of 14 countries (for example, Canada and Norway) where poverty rates among the retirement-age population are lower than the median (9.3 percent), overall resources for the elderly have not exceeded the median for all countries (52 percent of per capita GDP).[25] In contrast, there are countries (such as France and Italy) where poverty rates among the elderly are fairly low, but where expenditures for the elderly are higher than the median.

From the perspective of Israel, these findings probably suggest that it is not sufficient to look at the average amount of resources for the elderly, but rather the distribution of resources within the group of retirement-age individuals must be examined. When all of the resources available to the older population are taken into consideration, the Gini coefficient in disposable income among the older population in Israel was about 0.37, compared to an average of about 0.3 in the OECD countries (Appendix Figure 8). This figure reflects differences in income from occupational pensions among many older people in Israel. At the same time, low levels

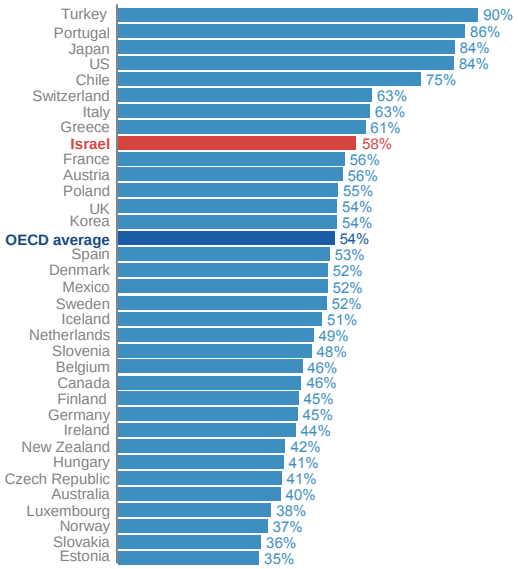
[25] An examination of the data show an increase in average overall pension expenditures in the developed countries between 2005 and 2009, from some 50 to about 54 percent of per capita GDP, while in the following years there was relative stability. In Israel, on the other hand, the numbers in the same period ranged from 58 to 60 percent of per capita GDP.

of inequality in OECD countries reflect a different pension structure that is based on the public sector (which is characteristically more universal) (Figure 10B).

Figure 14B

Pension income for individuals over retirement age,* 2011

old-age and survivors allowance and private pensions
as percent of per capita GDP, OECD countries



* Calculation for the individual is based on an estimate of the population over the average age of retirement in each country

Source: Haim Bleikh, Taub Center for Social Policy Studies in Israel
Data: OECD

4. Conclusion

An international comparison of market income poverty and inequality rates shows that for the general population in Israel, these are similar to the OECD average. However, differences in the demographic makeup and social welfare systems in the various countries have a significant impact on income structure. Therefore, in examining the data, the population was divided into two groups, one aged 59 and under and the other aged 66 and over.

Among the population group of those aged 59 and under, the findings point to poverty and inequality rates that are among the highest in the Western world in both market and disposable income. Differences in demographic characteristics play a substantial role in this, and especially the fact that, on average, households in Israel are larger than households in OECD countries. In addition, in this group, there were disparities between Israel and other countries in employment rates and in the number of income earners in coupled households. Even after some improvement over the decade, there is still a gap of about 10 percentage points to Israel's disadvantage in the share of households within the total group that have at least two income earners – 65 percent in Israel, compared with 75 percent on average in the OECD.

An examination of developments within Israel from 2002 to 2011 in the group aged 59 and under indicates an increase in employment rates among all population groups, along with a significant and real increase in market income, primarily among Arab Israelis and Haredim (who are for the most part in the lower part of the income distribution). This increase has helped to reduce the levels of market income inequality in recent years, although for the reason explained above there was no accompanying significant decrease in poverty rates. That is, the new entrants to the labor market earn low wages and although their position has improved somewhat, they remain below the poverty line in market income. On the other hand, Israel experienced an increase in disposable income inequality until 2006, since the real increase in disposable income among non-Haredim (the upper level of the income distribution) was

relatively high (Appendix Figure 2). Since 2007, there has been a decline in the index, that is, a narrowing of gaps among groups. Nevertheless, poverty rates in disposable income have also risen, especially among Arab Israelis and Haredim.

Along with income from work, an important factor in reducing income disparities among the working-age population is public social expenditure. In Israel, the percentage of per capita GDP dedicated to cash benefits to individuals is lower than the OECD average. In addition, the impact of these payments on reducing disparities could be even more limited in light of the fact that households in Israel are larger on average than in the OECD.

In addressing public spending, it is important to note that the tax burden in Israel, especially in recent years, is among the lowest in the Western world. This is one reason that total public spending is lower than the average in other developed countries – and after deducting defense expenditures and interest on debt, civilian expenditure is reduced even further. Given the integral connection between the level of taxes and public spending, it is of paramount importance that the public discussion focus on both the sources of the budget and its uses, and not on each component separately.

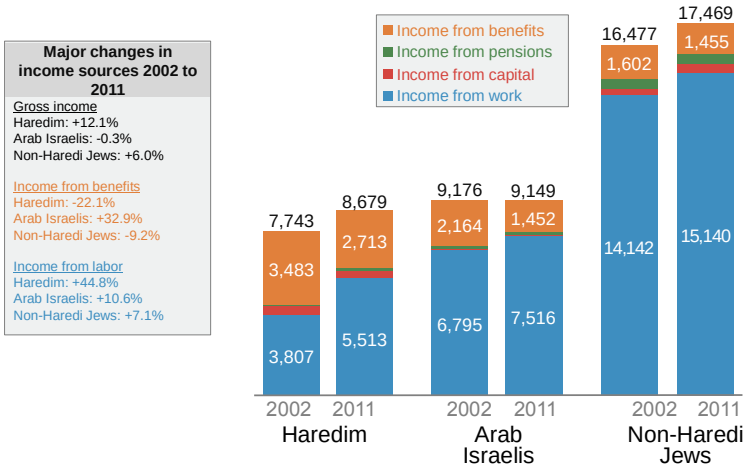
Among the population over age 66 in Israel, too, the rate of disposable income poverty is among the highest in the Western world, even though financial expenditures on the elderly per individual (both public and private) as a percentage of per capita GDP are no lower than the average in the developed countries. This indicates high levels of inequality within this population. Therefore, it is important to find the balance between, on the one hand, increasing economic incentives that will aid in widening employment circles and increasing income from work and, on the other hand, finding solutions and resources that will assist the population that is left behind – in particular those elderly who may not have a pension or others who may not have accumulated sufficient pension funds to ensure a reasonable standard of living.

Appendix

Appendix Figure 1

Gross monthly household income, ages 59 and under,* 2002 and 2011

by source of income and population group, 2011 prices, in shekels



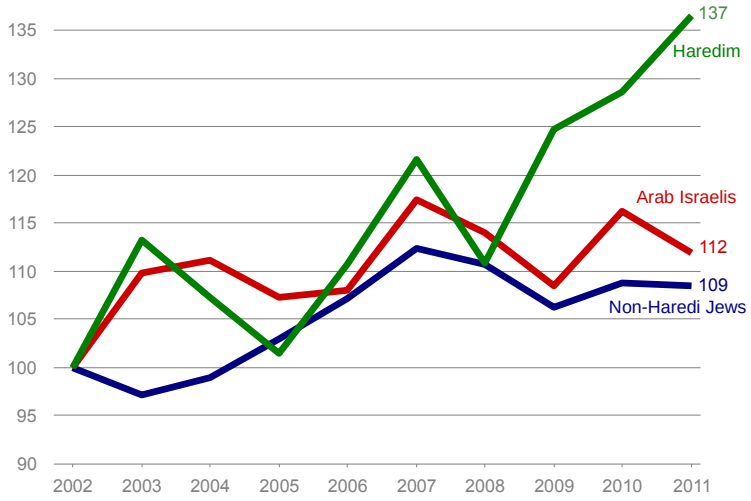
* Head of household and partner (if there is one) age 59 or under

Source: Haim Bleikh, Taub Center for Social Policy Studies in Israel
Data: Central Bureau of Statistics

Appendix Figures 2A and 2B

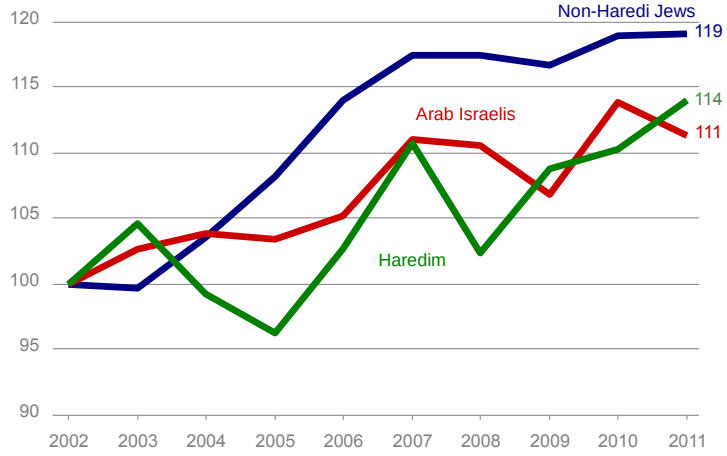
A. Changes in market income per standardized person,* 2002-2011

ages 59 and under,** by population group, in shekels, Index: 2002=100



B. Changes in disposable income per standardized person,* 2002-2011

ages 59 and under,** by population group, in shekels, Index: 2002=100



* Calculated using the OECD method

** Head of household and partner (if there is one) age 59 or under

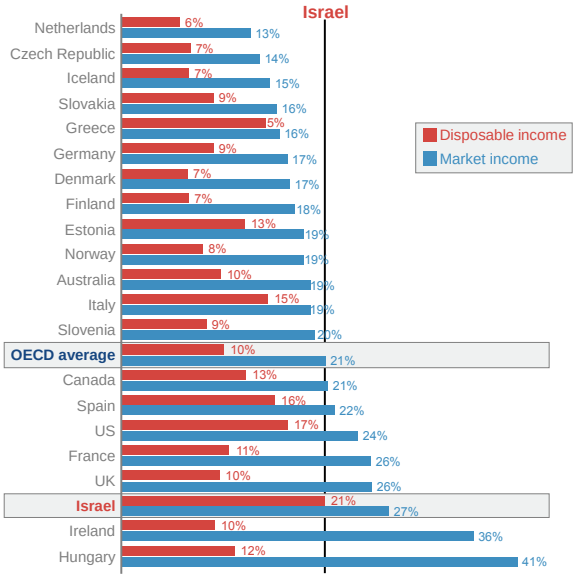
Source for both: Haim Bleikh, Taub Center for Social Policy Studies in Israel

Data for both: Central Bureau of Statistics

Appendix Figure 3

Percent of individuals below the poverty line,* 2010

ages 59 and under,** OECD countries



* Calculated using the OECD method

** Head of household and partner (if there is one) age 59 or under

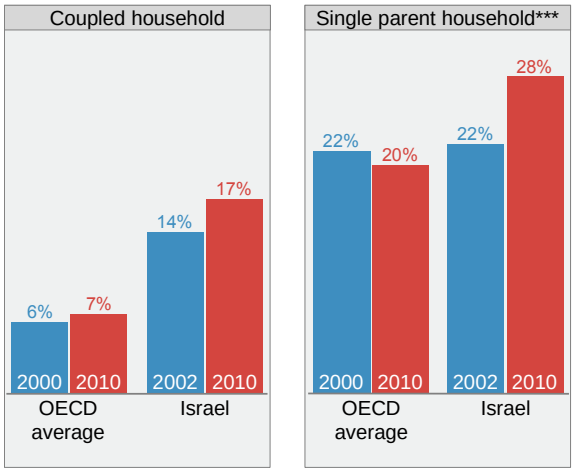
Source: Haim Bleikh, Taub Center for Social Policy Studies in Israel

Data: Luxembourg Income Study; Central Bureau of Statistics

Appendix Figure 4

Share of households below the poverty line,* ages 59 and under**

international comparison, by household composition, 2000 and 2010



* Calculated using the OECD method; average of 20 countries with data available. Earlier data for Israel is from 2002, including the population of East Jerusalem

** Head of household and partner (if there is one) age 59 or under

*** Including children under 18

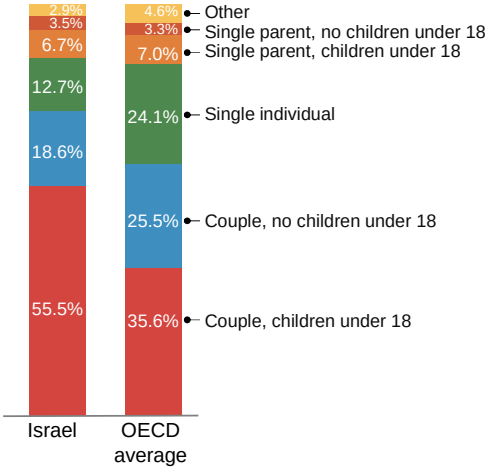
Source: Haim Bleikh, Taub Center for Social Policy Studies in Israel

Data: Luxembourg Income Study; Central Bureau of Statistics

Appendix Figure 5

Household composition, ages 59 and under*

international comparison,** 2010



* Head of household and partner (if there is one) age 59 or under

** Average of 20 OECD countries with data available

Source: Haim Bleikh, Taub Center for Social Policy Studies in Israel

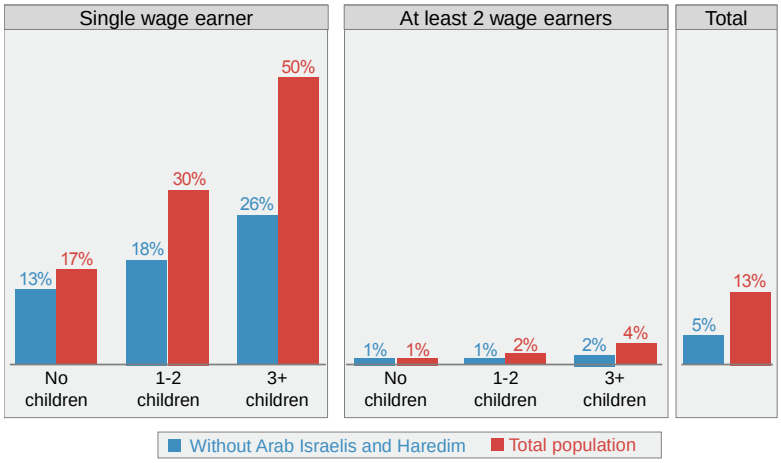
Data: Luxembourg Income Study

Appendix Figure 6A and 6B

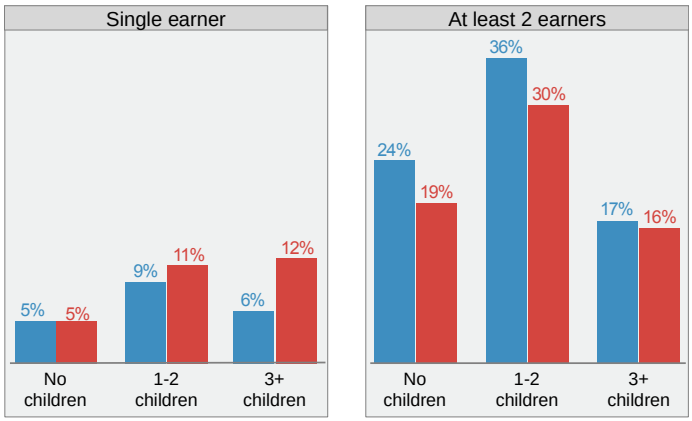
Characteristics of coupled households, 2010

ages 59 and under,* by population group

A. Disposable income poverty rates**



B. Distribution by number of earners***



* Head of household and partner (if there is one) age 59 or under

** Calculated using the OECD method

*** Data do not sum to 100 percent since households with no income earners are not included

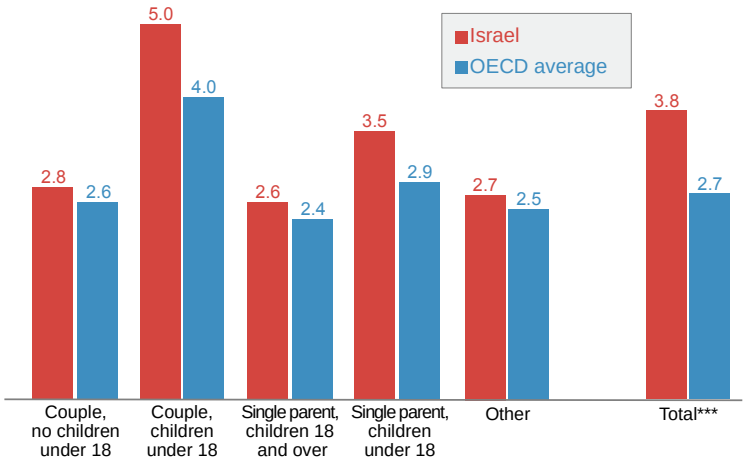
Source: Haim Bleikh, Taub Center for Social Policy Studies in Israel

Data: Central Bureau of Statistics

Appendix Figure 7

Average household size, ages 59 and under*

international comparison,** by household composition, 2010



* Head of household and partner (if there is one) age 59 or under

** Average of 20 OECD countries with data available

*** Estimate includes households of single individuals

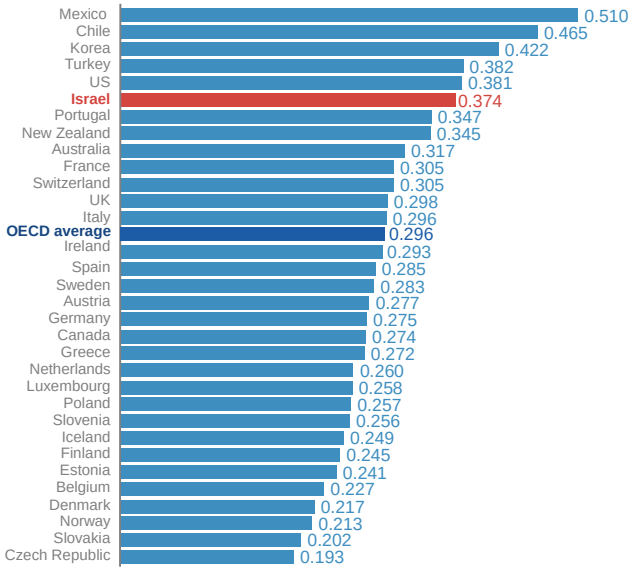
Source: Haim Bleikh, Taub Center for Social Policy Studies in Israel

Data: Luxembourg Income Study; Central Bureau of Statistics

Appendix Figure 8

Income inequality, ages 66 and above, 2011

Gini coefficient for disposable income, OECD countries*



* 32 OECD countries. In a few cases, 2011 data are not available and data from 2010 or the average of 2010 and 2012 are used.

Source: Haim Bleikh, Taub Center for Social Policy Studies in Israel

Data: OECD

References

English

Kimhi, Ayal (2011), "Income Inequality in Israel," in Dan Ben-David (ed.), *State of the Nation: Society, Economy and Policy 2010*, Taub Center for Social Policy Studies in Israel, pp. 113-151.

Kimhi, Ayal and Kyrill Shraberman (2013), "Employment and Income Trends Among Older Israelis," in Dan Ben-David (ed.), *State of the Nation Report: Society, Economy and Policy in Israel 2013*, Taub Center for Social Policy Studies in Israel, pp. 119-162.

Luxembourg Income Study (LIS) Database, http://www.lisdatacenter.org (multiple countries; 2016). Luxembourg: LIS.

OECD (2013), *Pensions at a Glance*, OECD Publications.

OECD (2014), *Social Expenditure Update*, OECD Publications.

OECD (2014), *Society at a Glance*, OECD Publications.

Stier, Haya (2011), "Working and Poor," in Dan Ben-David (ed.), *State of the Nation: Society, Economy and Policy 2010*, Taub Center for Social Policy Studies in Israel, pp. 153-203.

Stier, Haya and Haim Bleikh (2014), "Poverty Within the Elderly Population in Israel," in Dan Ben-David (ed.), *State of the Nation: Society, Economy and Policy 2014*, Taub Center for Social Policy Studies in Israel, pp. 393-434.

Hebrew

Bank of Israel (2014), "Issues in Welfare Policy," *Annual Report 2014*, pp. 201-223.

Bank of Israel (2013), "Issues in Welfare Policy," *Annual Report 2013*, pp. 195-214.

Endeweld, Miri and Oren Heller (2014), *Wages, the Minimum Wage and their Contribution to Reducing Poverty: Israel in an International Comparison*, Discussion Paper 119, National Insurance Institute.

National Insurance Institute, *Poverty and Social Gaps Report*, various years.

Spivak, Avia (2013), *Pension in Israel and Abroad: Major Developments, Approaches and Ideological Influences*, The Van Leer Jerusalem Institute.