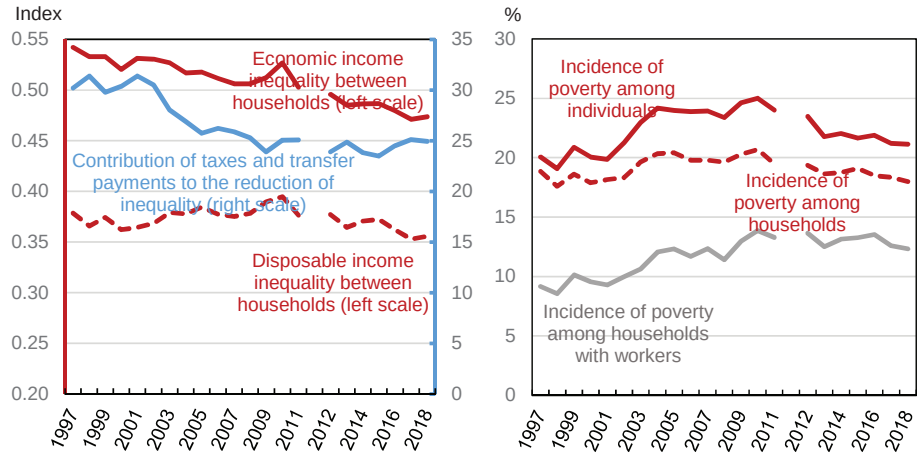
Chapter 7
Welfare Issues

- In 2018, the poverty rate in Israel was 21 percent of the population, similar to the previous year. Inequality remained the same as well.
- Poverty and inequality declined in the past decade, after a significant increase in the previous decade.
- About 5 percent of households with two breadwinners were poor in 2018, compared with 3 percent a decade ago and 2 percent at the beginning of the millennium. The incidence of poverty among households with employed members increased rapidly in the past two decades despite the decline in the average size of these households.
- Notwithstanding the decline in poverty, the incidence of poverty - even among households with employed members - is high compared to other developed countries.

INDICATORS OF THE DEVELOPMENT OF EMPLOYMENT AND INCOME DISTRIBUTION IN 2018-2019[1] AND IN THE PAST DECADE

Positive developments in employment and wages during the past decade, especially among the lowest deciles of the income distribution, were reflected in declines in poverty and inequality (Figure 7.1) following their increase in the previous decade. Most of the indicators of poverty and inequality were similar in level to the late 1990s, prior to the policy measures that contributed to their rise. In the past years, the declines in poverty and inequality were also due to a change in the employment patterns of households, as well as to the increase in minimum wage, the payment of earned income tax credits (EITC) to low-paid workers, and a gradual increase of allowances. Meanwhile, at the recommendation of the Trajtenberg Committee, the tax rates were increased for the upper tax brackets and decreased for the lower brackets. In the past two years, the indicators were stable.

Figure 7.1
Development of Poverty and Inequality[a], 1997–2018



[a] Inequality according to the Gini index. The direct contribution of taxes and transfer payments to the development of inequality is calculated as the difference (in percent) between economic income inequality and disposable income inequality.

SOURCE: Based on Central Bureau of Statistics household expenditure surveys.

[1] The income data are based on household expenditure surveys, and are available through 2018. The employment data and some of the wage data are available through 2019. Almost all indicators of the development of income, across almost all population groups, remained relatively unchanged in relation to 2017. Therefore, this analysis will focus on the development of these indicators in the past decade rather than on their development in 2018.

In recent years, there was marked volatility in the number of respondents to the expenditure surveys from among Arab residents of Jerusalem, which greatly affected the measurement of poverty and inequality. For an analysis of the impact of this volatility on various indicators of income distribution, please see the Poverty and Social Gaps Report for 2019 published by the National Insurance Institute. In this chapter, we chose to present the data, including those of Arab residents of Jerusalem, so as to maintain uniformity with the National Insurance Institute's presentation and with international comparisons.

The incidence of poverty is particularly high among *Haredi* and Arab households.

Table 7.1 shows selected indicators of poverty, inequality, and income distribution in 2018.[2] The comparison between the population groups in the table illustrates the gaps: Almost half of the Arab and *Haredi* (ultra-Orthodox) households are under the poverty line. The vast majority of children in Arab society and in ultra-Orthodox society live in poverty, and the deep gaps may also hamper their ability to escape poverty through investment in human capital. If income indeed reflects the totality of living conditions of these population groups and the opportunities available to them, the significant difference in their distribution may also result in unbridgeable gaps between population groups, thus impairing social cohesion and the ability to collaborate for common goals.

The targets set by the government in 2010 to increase employment rates among the Arabs and *Haredim* were not fully achieved, despite the increase in their employment rates.

The income gaps between the different population groups reflect, inter alia, the gaps in employment rates and income from wages. In 2010, due to the low employment rates in various population groups, especially in the Arab and ultra-Orthodox populations, the government set targets to increase their employment rates. Table 7.2 depicts the employment and wage rates of different population groups compared to the government target set in 2010. Despite the substantial increase in employment among both the ultra-Orthodox and Arabs, the target set by the government for these groups was not fully achieved. The number of employed ultra-Orthodox women grew twofold or more, and their employment rate—77 percent in 2019—grew well beyond the set target. However, the other groups did not achieve their respective employment targets. ultra-Orthodox men are farthest from the employment targets: The rapid growth in the number of employed *Haredim* was not enough to close the gap, and the rate slowed in recent years. Without a significat change in their employment expansion trend, there is little chance of the employment rate gaps closing.

The income of the Arab and ultra-Orthodox households was also affected by whether they were employed full or part time and by the quality of their jobs. The average number of work hours among *Haredim* and Arabs is significantly lower than among non-*Haredi* Jews. Their hourly wages are also significantly below average, and many of them earn low wages, which primarily reflect low skills.[3] Moreover, the gap between the average hourly wages of the ultra-Orthodox and Arabs and the average hourly wages in the economy has declined somewhat since 2015 (as a result of the improvement in the state of the labor market, and perhaps due to the significant increase in the minimum wage), but the improvement did not fully offset the widening of the gap in the previous decade. In 2017, the Committee to Promote Employment Towards 2030 was established. The Committee's final report has yet to be submitted, but the Committee's discussions and draft report emphasized setting targets for

[2] The official definition of poverty in Israel is based on relative poverty. According to that definition, the poverty line is equal to half the median equivalized income. In addition to the official definition, there are other approaches and indicators for measuring the scope and severity of poverty. One of them is to measure absolute poverty relative to a fixed poverty line.

[3] Bank of Israel (2019). "Research Department Special Report: Raising the Standard of Living in Israel by Increasing Labor Productivity".

Table 7.1
Indicators of poverty and income distribution, 2018

	Total population	Non-*Haredi* Jews[a]	Arabs[b]	*Haredi* Jews	With no wage earners	One wage earner	Two or more wage earners
	(NIS)						
Median of household income	14,609	15,758	10,084	11,730	5,932	10,106	20,925
Median of equivalized income	5,750	6,448	3,094	3,132	3,386	5,019	6,816
Average of equivalized income	6,733	7,449	3,711	3,952	4,889	6,172	7,798
Relative poverty line (50 percent of equivalized median income)	2,875						
Number of households (thousand)	2,609	2,100	379	129	517	784	1,308
	Distribution of households by equivalized income (compared to median income of the total population)[c] (percent)						
Up to 50 percent (poor)	18.0	11.4	45.3	45.1	40.9	24.1	5.3
50–75 percent (vulnerable)	15.5	13.5	24.1	23.7	18.5	17.0	13.4
75–125 percent (lower middle class)	31.5	33.8	22.3	19.7	21.4	29.9	36.4
125–200 percent (upper middle class)	24.0	28.1	6.7	8.8	13.1	19.0	31.4
Above 200 percent (upper class)	11.0	13.2	1.6	2.7	6.1	10.1	13.5
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Number of poor children (thousand)	842	205	389	248	145	485	212
Incidence of poverty among children	30	12	58	63	93	61	11
Income gap - the gap between household income of poor households and the poverty line (percent)	32.2	30.2	35.3	31.5	36.1	31.5	22.4

[a] Including "other".

[b] Including Arab residents of Jerusalem.

[c] Households as a share of the group.

SOURCE: Based on Central Bureau of Statistics Household Expenditure Surveys.

Table 7.2
Employment and wage rates

Population group	Employment rates						Average number of work hours	Wage income, 2018				
	Government target[a]	2010	2018	2019	Distance from the target (percentage points)	Rate of change in the number of employed people since 2010		Median	Average	Average relative to the average in the total population	Average real rate of change since 2010	Rate of those earning low wages[b]
Total population	76.5	71.7	78.3	78.4	1.9	24.4	41.8	9,100	11,943	100	24.2	23.0
Non-*Haredi* Jews[c]	83	77.9	85.0	85.7	2.7	17.5	42.1	9,984	12,927	108	26.1	19.2
Men	83	81.0	87.5	87.7	4.7	16.0	46.0	12,317	15,684	131	23.5	14.4
Women	83	74.9	83.1	83.7	0.7	19.0	38.4	8,245	10,305	86	30.9	23.7
***Haredi* Jews**[d]		49.5	61.3	62.5		138.6	33.2	6,486	8,392	70	26.7	29.9
Men	63	38.0	47.1	48.2	-14.8	135.3	37.1	7,333	9,754	82	34.5	30.0
Women	63	61.7	76.4	77.5	14.5	140.8	30.3	6,162	7,417	62	20.8	29.8
Arabs[e]		49.4	57.0	56.7		46.0	42.1	7,056	7,937	66	13.9	38.3
Men	78	71.6	76.3	76.1	-1.9	34.1	45.8	7,939	8,828	74	20.0	31.6
Women	41	27.1	38.2	37.4	-3.6	77.3	35.2	5,401	6,296	53	6.2	50.7

[a] Government decision number 1994 of July 15, 2010: Setting employment targets for 2010–2020

[b] Calculated according to hourly wage. A low-wage earner is someone whose hourly wage is lower than two-thirds of the median wage of all employed people.

[c] The government target is regarding "the rest of the population that is not included in Sections 2(b)(1) to 2(b)(5)" of the government decision.

[d] An individual is defined as *Haredi* if he lives in a households where the last educational institute of one of the household members is a *Yeshiva* . The use of alternative definitions, according to the National Economic Council definition or self-definition, generates results that are essentially similar.

[e] Including Arab residents of Jerusalem.

SOURCE: Based on Central Bureau of Statistics Labor Force Surveys and Household Expenditure Surveys.

employment quality and wages of the weaker groups in the labor market, in addition to the employment targets focusing on increasing employment rates.

The significant gaps in education and skills explain a large part of the wage gaps between the *Haredim* and Arabs and the non-*Haredi* Jews, and highlight the need for an efficient policy that can contribute to improving the earning capacity of these groups.

Despite the decrease in the poverty level over the past decade, it remained relatively high compared to other developed economies, especially among children (Figure 7.2) and among families with at least one breadwinner (Figure 7.3). In Israel there is a negative correlation between the size of the family and scope of employment in the household, which works to intensify the negative correlation between family size and equivalized disposable income. A report by the Bank of Israel (2019) found that a significant part of the income gaps between the *Haredim* and Arabs and the non-*Haredi* Jews can be explained by lower education and skill levels. In view of demographic projections of a significant increase in the population share of *Haredim* and Arabs[4], and due to achievement gaps in the educational system—which remain extensive—the need for an efficient, focused policy to deal with the specific barriers facing these populations, in an effort to boost their earning capacity, is becoming increasingly clear.

The rate of poor workers in Israel is higher than in other developed economies.

Another characteristic of poverty in which Israel stands out negatively is, as mentioned, the high incidence of poverty among households with employed members relative to other developed countries (Figure 7.3). Some of the high incidence of poverty can be explained by the size of households in Israel relative to other developed countries. However, as we shall see later on, the incidence of poverty among households with employed members grew rapidly in the past two decades despite the decline in the size of these households. As is well-known, lack of employment or part-time employment are among the main causes of poverty. The economic policy to reduce inequality and poverty therefore focused in the past two decades on reducing the incentive for nonparticipation in the labor market by lowering allowances and granting incentives for work, and by setting employment targets. These incentives, along with demographic trends and global developments, were indeed reflected in a significant increase in employment rates—especially among population groups that are under-represented in the labor market—as well as a decline in the structural unemployment rate (see Chapter 5). However, already at the beginning of the current decade, there were many findings showing that employment in itself is not enough to escape poverty.[5]

While employment rates increased, poverty rates among households with breadwinners also increased (Figure 7.4). The change in the composition of households—the increase in the percentage of households with employed members over those with unemployed members—was reflected in a decline in the average

[4] PISA 2018 Database; OECD (2019): Israel- Country Note- PISA 2018 Results. OECD. https://www.oecd.org/pisa/publications/PISA2018_CN_ISR.pdf;
N. Blass (2020). "Achievements and Gaps in the Education System in Israel: A Snapshot", Policy Paper, January 2020, Taub Center for Social Policy Studies in Israel.

[5] Chapter 8 in the Bank of Israel's *Annual Report* for 2010; Haya Stier (2011). "Employed and Poor", in Dan Ben-David (ed.). *State of the Nation Report: Society, Economics and Policy*. pp. 133–180. Taub Center.

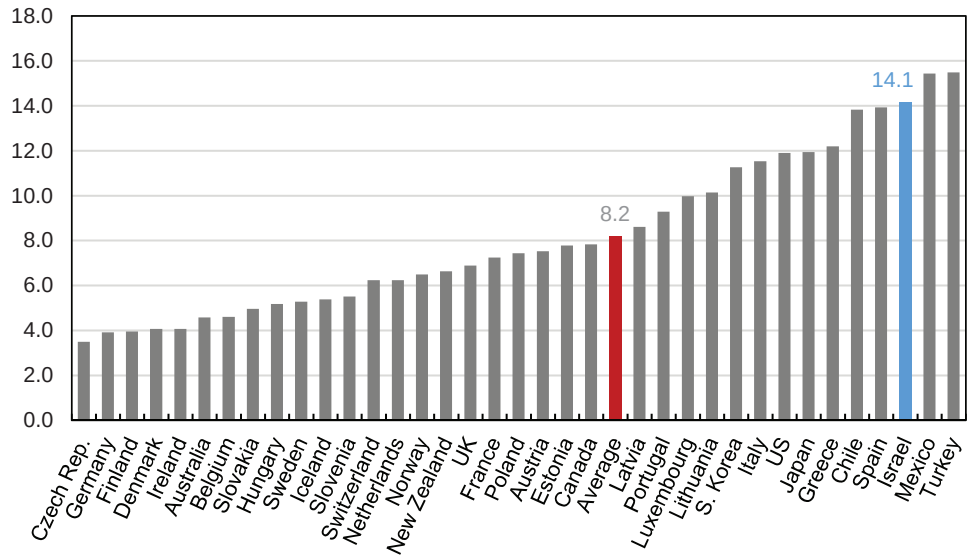
incidence of poverty despite the significant increase in the poverty incidence of households with breadwinners.

Figure 7.2
The Incidence of Poverty Among Individuals by Age Group[a] (percent)

[a] Data for 2016 or the nearest year for which there are data. The incidence of poverty is calculated according to a relative poverty line—50 percent of the median equivalized income). The calculation is based on the OECD weight scale, according to which the equivalized number of people in the household is equal to the square root of the number of people. This weight scale differs from the scale used in Israel, and there may therefore be differences between the data appareing here and the data in other figures or tables.

SOURCE: OECD Income Distribution Database (IDD).

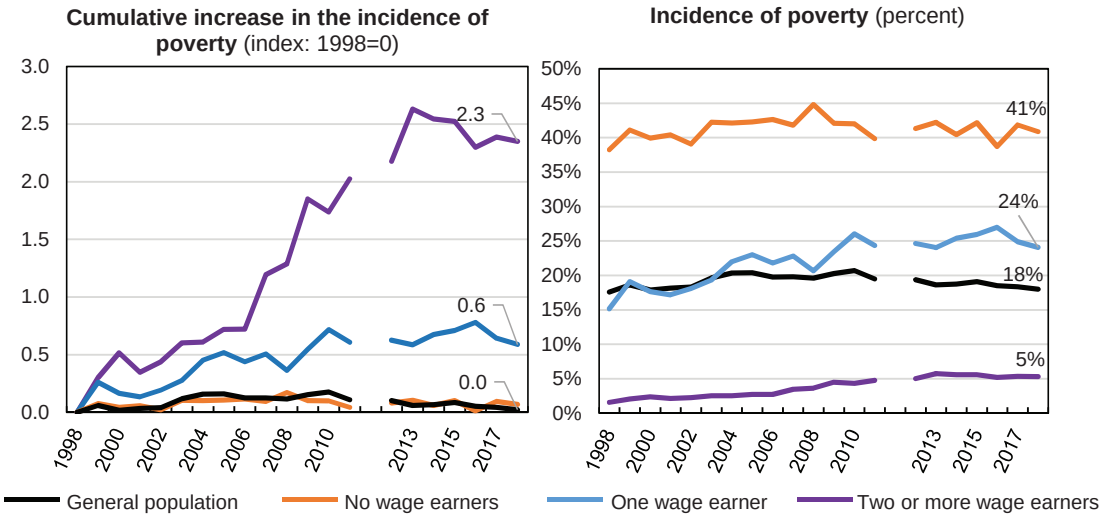
Figure 7.3
The Incidence of Poverty Among Households with at Least One Wage Earner[a], 2017
(percent)



[a] Data for 2017 or the nearest year for which there are data. The incidence of poverty is calculated according to a relative poverty line—50 percent of the median income per equivalized person). The calculation is based on the OECD weight scale, according to which the equivalized number of people in the household is equal to the square root of the number of people. This weight scale differs from the scale used in Israel, and there may therefore be differences between the data appareing here and the data in other figures or tables.

SOURCE: OECD Income Distribution Database (IDD).

Figure 7.4
The Incidence of Poverty Among Households, 1998–2018



SOURCE: Based on Central Bureau of Statistics household expenditure surveys.

As we have seen, the employment rates grew most significantly among population groups also characterized by relatively high poverty rates. This development raises the question of what portion of the increase in the incidence of poverty of employees can be attributed to the change in the composition of workers—a result of the entry of poor people into employment, and what portion may be attributed to the worsening of the situation of more veteran workers.

The increase in the incidence of poverty among workers was caused both by the entry of poor people into employment and the fact that some of persistent workers did not escape poverty.

According to a study we conducted based on panel data, the increase in the incidence of poverty reflects a combination of two factors: a change in the composition of employed persons—more poor people becoming employed—and some deterioration in the relative position of persistent workers, since the growth in their total income was slower than the rise in the median income and consequently, of the poverty line. We found that the most significant was among poor households, but some of them were nevertheless unable to escape poverty. In other words, the entry of poor people into employment contributed to raising the incidence of poverty measured among the employed.

On the other hand, we found that almost all the workers who were poor in 2016 (as well as in 2011, 2005, and 2001) also worked in previous years (Table 7.3). Thus, the higher incidence of poverty among workers does not reflect only the fact that more poor people joined the ranks of the employed, but also the failure to escape poverty by people who were persistently employed. Among poor workers, there is a higher than average representation of individuals with four or more children. It may be assumed that the income of large households was hurt more than others due to the decrease in child allowances, mainly since 2002, which made it more difficult for them to escape poverty and maybe even made them poor, despite their increased labor input. In 2002, the child allowance for 4 children was approx. 43 percent of the minimum wage. In 2018 it was 13.5 percent.

Two policy measures have been mentioned in recent years as major contributors to narrowing income gaps and poverty among workers: the earned income tax credits (EITC) (also termed "negative income tax") and minimum wage. Both are intended to support low-income workers and ensure decent standards of living without reducing employment incentives.[6] If the minimum wage is effective—i.e., it is set above the equilibrium wage—it basically becomes a tax on employers and a type of grant for its recipients. There is a difference between these tools in terms of the distribution of cost burden: The cost of minimum wages is borne by the employers of the relevant population (by reducing profitability), workers at low wage levels (through an increase

[6] Brender and Strawczynski (2020) present evidence of the positive effect of the EITC on employment in Israel.(A. Brender and M. Strawczynski, "The EITC Program in Israel: Employment Effects and Evidence on the Differential Impacts of Family vs. Individual-Income Based Design", Discussion Papers Series No. 2020.01, Bank of Israel Research Department (in Hebrew)).The EITC was increased twice: following the recommendations of the Trajtenberg Committee in 2012 and as part of the "Net Family" scheme in 2017. See Chapter 6 in the Bank of Israel *Annual Report* for 2017. For an analysis of the level of the minimum wage in view of the most recent increase, please see Chapter 5 in the Bank of Israel *Annual Report* for 2014.

Table 7.3a
Number of poor individuals and their employment tenure

Individuals aged 25–64 in the survey year[a]

	2016	2012	2005	2001
Number of poor people (thousand)	403	404	322	246
of which : worked during the year (percent)	44.9	41.3	29.7	25.1
of which (percent):				
Arabs	42.6	39.7	41.0	40.9
Haredim	19.7	13.2	11.1	8.2
Worked in the past two years[b]	94.4	96.6	93.0	85.8
Worked in the past three years[b]	88.2	88.5	82.5	
Worked in the past five years[b]	75.1	75.2	68.4	

[a] The data panel on which this study is based includes administrative data that enabled us to follow the employment status and wage income of individuals and households. The sample includes the individuals and households that were sampled in the Central Bureau of Statistics Household Expenditure Surveys between 2002 and 2016. A worker is someone whose annual wage income is positive.

[b] Including the survey year. For instance, "worked in the past two years" relates to a person who worked in the survey year and the preceding year.

SOURCE: Peled-Levy and Shahar (2020), forthcoming.

Table 7.3b
Distribution of the number of children of poor workers who have worked at least two years
(percent)

Individuals aged 25–64 in the survey year

	2016	2012	2005	2001
No children	11	14	7	9
One child	9	8	12	14
Two children	19	20	17	28
Three children	19	21	24	26
Four or more children	41	38	40	24

SOURCE: Peled-Levy and Shahar (2020), forthcoming.

in unemployment), and all households (by way of price increases), whereas the cost of the EITC is incurred by the state (and indirectly, by the employers, employees and households, through an increase in the tax burden).

Minimum wage is currently viewed as a tool that is complementary, rather than alternative, to the EITC. It is therefore customary to take the minimum wage into account when setting the wage level above which the EITC will be granted and the grant amount. An important question is whether the EITC effectively raises the income of poor workers, since employers may take it into account when establishing the equilibrium wage.[7] The answer to the question depends on the elasticities of laber demand and supply.[8]

[7] A study that estimated the mandatory pension savings arrangement in Israel found that the main burden of the employer's payments in respect of low-income employees was offset within a few years by the workers' wages. A. Brender (2016), "The Welfare and Labor Market Effects of Mandatory Pension Savings: Evidence from the Israeli Case", in Beyond the Austerity Dispute: New Priorities for Fiscal Policy, 336–365, Banca d'Italia.

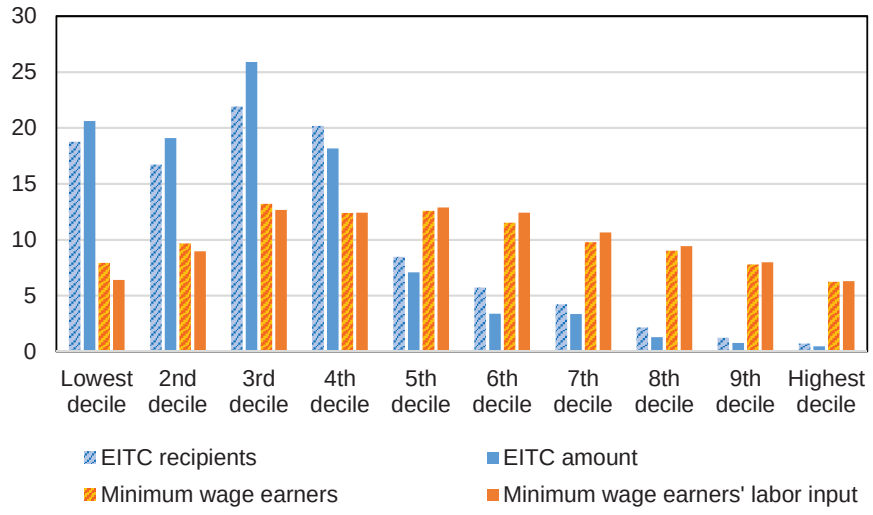
[8] J. Rothstein, (2010). "Is the EITC as Good as an NIT? Conditional Cash Transfers and Tax Incidence", *American Economic Journal*: *Economic Policy*, 2(1), 177–208.

Compared to the EITC, the minimum wage is less focused on households at the lower end of the income distribution. About 60 percent of EITC recipients belong to households in the three lowest deciles of the income distribution, compared with just 30 percent of minimum wage recipients (Figure 7.5). About 90 percent of EITC expenditure reaches households in the lower half of the income distribution. In other words, the EITC is a more effective tool in terms of supporting weaker population groups in the economy.

The EITC and the minimum wage are complementary policy tools aimed at reducing poverty and inequality. Out of the two, the EITC is more focused on households in the lower part of the income distribution, and is therefore a more effective tool in supporting weaker population groups.

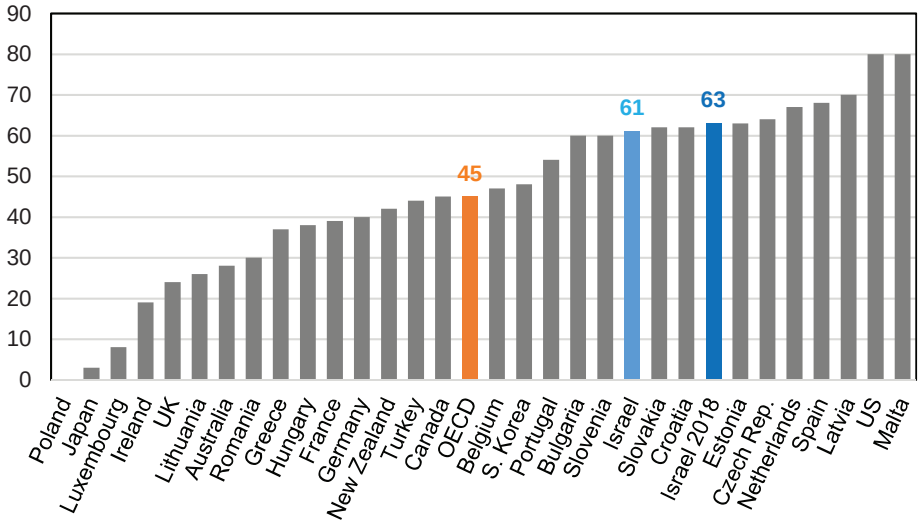
Despite the increase in minimum wage since 2015, to escape poverty, workers earning minimum wage in Israel will need to work more hours than workers with a similar number of children in other OECD countries (Figure 7.6). Since the data presented in the figure relate to 2016, this calculation does not depict the full impact of the most recent increase in the minimum wage. For this reason, we calculated the number of hours a couple with two children earning minimum wage had to work in 2018 to escape poverty (assuming they exhaust the full benefit embodied by the EITC), and found that the number of hours even increased slightly. The reason is that the rate of increase in median wages (and along with it, the relative poverty line) was greater than the rate of the minimum wage increase in those years.

Figure 7.5
Distribution of Earned Income Tax Credit Recipients and Minimum Wage Earners[a] (as a share of all EITC recipients or all minimum wage earners in each income decile[b], individuals up to age 18 in the survey year, percent)



[a] Eligibility for and amount of the earned income tax credit are calculated using a simulation, in accordance with wage income and other characteristics. Minimum wage earners are identified by hourly wage. A minimum wage earner is someone whose hourly wage is lower than 105 percent of the minimum hourly wage. The distribution of labor input (total work hours) represents the distribution of the income increment amount at the time the minimum wage was raised.
[b] Deciles of households by equivalized disposable income, 2018.
SOURCE: Based on the 2018 Household Income Survey.

Figure 7.6
Number of Minimum Wage Work Hours Needed to Get Out of Poverty[a], 2018



[a] For a couple with two children. This is an estimate of the number of weekly work hours at minimum wage that a household receiving subsistence allowances needs to work in order to be above the poverty line. The poverty line is calculated as 50 percent of median disposable income. The figure for Israel in 2018 was calculated by the Bank of Israel according to Central Bureau of Statistics Household Expenditure Surveys and administrative data regarding child allowances and earned income tax credit, assuming that both spouses work at a similar scope and maximize their eligibility for the earned income tax credit.

SOURCE: OECD (2020), Working Hours Needed to Exit Poverty (indicator); Israel 2018: Bank of Israel calculations.

The finding presented in the figure mainly expresses the relatively low level of subsistence allowances in Israel.[9] It is worth keeping in mind that in most poor households in Israel there are more than two children. In other words, to escape poverty, greater labor input will be required. This finding is in line with the results of Brender and Strawczynski's study (2014)[10], according to which social benefits granted to families with young children in Israel are lower than in other OECD countries. The benefit amounts in Israel were lower across each of the 14 types of households reviewed.

The development of the incidence of poverty and inequality in the past decade, along with the challenges facing us in the coming decade, highlight the need to formulate an economic policy that will reduce poverty and inequality while boosting productivity. The Committee to Promote Employment Towards 2030, which was established in 2017, included representatives from various government ministries, the National Insurance Institute, academia, and the Bank of Israel. The Committee held a series of

[9] OECD (2019). *Society at a Glance 2019*: *OECD Social Indicators*, OECD Publishing, Paris. https://doi.org/10.1787/soc_glance-2019-en

[10] See A. Brender and M. Strawczynski (2017). "Government Support for Young Families in Israel", *Israel Economic Review* 61, March–June, pp. 54-103 (in Hebrew).

plenary and working team meetings, and its interim recommendations were issued in March 2018.[11] The Committee's final report has yet to be submitted. A key topic in the draft report, in addition to the recommendations for organizational and institutional changes, is setting targets for employment quality and narrowing the wage gaps and employment segregation among the target populations (Arab men, women in general, and *Haredi* women in particular). Among other things, the Committee is considering setting wage targets, the achievement of which will require measures to increase the earning capacity of the weaker population groups.

[11] The summary of the Committee's meetings and details of its interim recommendations can be found at: /https://www.molsa.gov.il/Publications/Committees/Pages/CommitteeDetails.aspx?ListID=d2edcbe1-8259-4ac9-ba8e-7a663354ebc3&WebId=afed72e6-a3fa-4073-af2c-6778e4646403&ItemID=1