National Insurance Institute
Research and Planning Administration

2009

Poverty and Social Gaps

Annual Report

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Foreword

The purpose of this annual report is to provide an updated, in-depth and focused picture of poverty and inequality in Israeli society in 2009, while comparing it to prior periods and to the social situation in the OECD member countries. The report, intended to provide a basis for formulating a well-reasoned social policy and for monitoring the degree of its success, includes a discussion of the effect of the direct tools of redistribution on the social situation. The principal direct tools available to the government are the benefits paid by the National Insurance Institute (hereinafter: NII), transfer payments by the government and other entities, and the tax system. Future reports will relate to effects of additional tools, such as investment in education, health, transportation and employment infrastructures, active labor market policies, changes of the minimum wage, enforcement policy of labor laws, implementation of a negative income tax, and the effects of the job placement program ("Lights for Employment") and various empowerment programs. Some of these issues are discussed in the Annual Surveys of the NII.

A central conclusion of the 2010 OECD Report, on the occasion of Israel's joining the organization, concerned a major weakness in the policy for the reduction of poverty and social gaps in Israel. Comparison of the dimensions of poverty and inequality showed that Israel, generally speaking, was at the undesirable end of the scale. This report shows that, by comparison to the OECD average, the dimensions of poverty in Israel are **twice as high** with regard to the incidence of poverty, **1.5 times as high** with regard to income gaps between the ninth decile and the lowest decile, and that the gap between the overall standard of living and that of the lowest decile was **three times as high** as the average for that ratio in the OECD member countries.

These gaps indicate an exacerbation of the state of Israeli society, both in itself and on a worldwide scale. This means that Israel's socioeconomic policy is on a course which is not sustainable, and which casts a shadow on the country's ability to achieve a high standard of living, not only for a handful of people, but for all residents.

Rational handling of the problem requires the enactment of a strategic interdisciplinary plan, along with continuous tight and consistent monitoring of the extent of its success by means of a transparent objective for reducing poverty and inequality. Such a plan must be founded primarily on increasing employment at a fair salary. At this time, the implementation of some of the tools has been postponed by the government to a later stage, notwithstanding the urgency of the matter nor the fact that the use of tools involving an active labor market policy has been proved to be efficient in the struggle against poverty and economic gaps in several countries.

This report and its predecessors examined the official poverty objective and found that it was not efficient; this conclusion becomes even more striking when we observe this objective against the background of the 2009 data. In view of the importance of performance monitoring of the extent to which a clear and high-quality objective is achieved, it is proposed to replace the existing objective with an alternative one that can become a guiding light for the policy of reducing poverty and inequality.

Daniel Gottlieb
Deputy Director-General for Research and Planning

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Summary and conclusions

The standard of living, the poverty line and the ability of the minimum wage to extricate from poverty

- **The standard of living rose slightly** (0.8%) in 2009. It is measured as the medium real disposable income. Accordingly, **the poverty line**, which is derived from it, also rose. According to an alternative definition of the standard of living (the average income), it remained unchanged relative to 2008.

- **Income from salaried work decreased by 3.5%**, as could be expected in an economy hit by an employment crisis and an increase in the rate of unemployment. This harm was slowed down to a certain degree by **a steep rise in income from pension and capital**, of **about 27%**, which is explained by the continuous rise in the price of stock shares throughout the year (an increase of some 40%) in the capital market, after the steep drop in these prices in the second half of 2008.

- **The gross income per family**, which also includes transfer payments[1], **decreased** at a more moderate rate of **1.4%**, because **the component of monetary support increased** in real terms by **4%**. Disposable income (average per family) increased by 0.4% due to **the reduction in compulsory payments**[2], which **decreased** in 2009 by **9%**.

- **The poverty line in 2009 was NIS 2,270 for a person living alone and NIS 3,630 for a couple. For a family of 9 persons, it was NIS 10,162.**

- **Do the minimum wage** (for a full-time position) **and the child allowance** (if there are children) **extricate from poverty?**

  - **An individual** and **a single mother with one child – yes**.

  - **A single mother with two children – no**. For the purpose of illustration only, the calculation of the amount she needs in order to escape poverty shows that in 2009, she needed an income supplement of 19%, or about NIS 914 per month. The negative income tax, if it is implemented throughout Israel, will produce only about 32% of that amount. In order to solve the problem in this case, it will be necessary to add approximately NIS 600 to the negative income tax, or to raise the minimum wage to NIS 4,600 and to increase enforcement.

  - **A couple with one breadwinner – no**.

  - **A couple with three or more children, working 1.5 full-time positions – no**.

  - **A couple with two full-time breadwinners – yes**.

[1] Transfer payments include NII benefits, payments by government institutions and transfers from households. It should be noted that we consider NII benefits as transfer payments, although some of them are not, because they are given in consideration of insurance premiums paid.
[2] Compulsory payments are direct taxes – that is, payments of income tax, NII contributions and health insurance contributions.

Development of the dimensions of poverty and characteristics of the newly added poor

- **The incidence of poverty among families, persons and especially children increased** in 2009 (to 20.5% (+0.6 percentage points), 25% (+1.3 percentage points) and 36.3% (+2.3 percentage points) respectively). In that year, Israel had **435,100 poor families, including a total of 1,774,800 poor persons, of whom 850,300 were children**.

- In all, **15,000 families were added** to the poor population; **14,300 of those families were Arabs**. At the same time, the number of **poor families among the elderly was reduced by 9,300**. Among **families with children, 23,600 families are newly poor**; these include **20,800 families with 1 to 3 children** and **6,700 single-parent families**.

- **In most of the families newly added to the poor population, the head of the household works** (+18,600); of these, 6,300 families have two breadwinners. Also added were 4,600 families in which no one works.

- In the majority of these families, the head of the household is **between 31 and 45 years old** (+ 18,700).

- In most of the newly poor families, the head of the household has **between 9 and 12 years of education**. In 4,700 families, the head of the household has 13 or more years of education.

- **The families became poorer** (the average income gap ratio, the average distance between the poor people's income and the poverty line, increased to 35.5% (+1.3 percentage points)). **The severity of poverty** (according to the FGT index) **increased steeply and reached a peak**. This index rose by 12.2% in 2009 – a growth rate almost twice that of the annual average in a decade which preceded it.

The effects of transfer payments and benefits on reducing economic poverty

- **Transfer payments** (including direct taxes) **extricated 26.2% of persons and 13.4% of children from poverty**. **This effect was reduced by approximately one-half, relative to 2002** (before the cutback in benefits), and is considerably less than the average parallel effect in the OECD countries.

- **The effect of transfer payments, not including the effect of taxes, contributes to the reduction of poverty by approximately 46%**. **Notwithstanding the progressive nature of the income tax system, from the standpoint of poor people, the effect is regressive**.

- **The effect of the various benefits on the incidence of poverty among recipients of benefits varies among benefits: the incidence of economic poverty declined at the rate of**:

  - **Old-age pension: 55%**.

  - **Unemployment benefit: 47%**; the effect increased relative to 2008, when unemployment benefit reduced poverty by 36%, and the incidence of poverty among recipients of unemployment benefit declined to about 20%.

- **Income support: 17%**, meaning that the incidence of poverty among this group is still quite high, even after receiving the benefit – approximately 58%

- **Child allowance: 6%**.

The dimensions of poverty by population groups

- **The downward trend in the incidence of poverty among Arabs in the last two years has been reversed, and poverty among Arab families increased** from 49.4% in 2008 to 53.5% in 2009. **The severity of poverty** (FGT) **increased by 19%**.

- **The situation of the elderly has improved from the standpoint of the incidence of poverty, but has deteriorated from the standpoint of the depth and severity of poverty.** The incidence of poverty decreased from 22.7% in 2008 to 20.1% in 2009. **The improvement resulted not only from the increase in pensions, but also from the improvement of the situation in the labor market of those persons who are still working**. The contribution made by transfer payments and direct taxes to the reduction of poverty among the elderly families was 63.1% in 2009. **At the same time, the situation of the elderly who remained below the poverty line has deteriorated: the depth of poverty increased from 23.0% in 2008 to 24.8% in 2009, and the severity of poverty also increased.**

- **The incidence of poverty among immigrants continued to decrease**, from 18.8% in 2007 to 18.0% in 2008 and to 17.4% in 2009. The other poverty indices also indicate an improvement in the situation of poor immigrants. The income gap ratio index (depth of poverty) **decreased** significantly, from 29.4% in 2008 to 26.4% in 2009.[3]

- The incidence of poverty among **families with children increased** from 24.5% in 2008 to 26.8% in 2009. **A steep increase** was recorded **among families with 1-3 children**: from 17.8% in 2008 to 20.2% in 2009.

- The increase in the incidence of poverty among large families reflects, inter alia, an increase in the incidence of poverty among the **ultra-Orthodox**. Due to the considerable fluctuations in the annual data, we chose to present a moving average over two years.[4] The incidence of poverty among families rose from 54.9% in 2007/2008 to 56.9% in 2008/2009.

- The continuing decrease in the proportion of **families of working age which do not work** among the entire population was halted and even reversed. The incidence of poverty among these families (which also includes families of unemployed persons) decreased from 71.4% in 2008 to 68.9% in 2009. The reduction of poverty results from both the increase in the number of recipients of unemployment benefits (approximately 50%) and the fact that the unemployment benefit is relatively high. The contribution made by transfer payments to the reduction of poverty increased from 20.2% in 2008 to 23.3% in 2009.

[3] An immigrant is anyone who immigrated to Israel starting in the 1990s. The findings indicate that the situation of veteran immigrants is better than that of newer immigrants.

[4] The definition of the ultra-Orthodox population is according to a study by Gottlieb D. and L. Kushnir, 2009, "Social Policy Targeting and Binary Information Transfer between Surveys", Economics, Vol. 3, June, www.economics-ejournal.org/economics/journalarticles/2009-28

- **The incidence of poverty** among households headed by **persons with 9-12 years of education increased** from 22.1% in 2008 to 24.2% in 2009. The **severity of poverty** (FGT) increased along with it.

The dimensions of poverty by districts

- **The incidence of poverty among families increased in most of the districts, except for the Tel Aviv and Southern Districts.**

  - **Northern District: increased** from 30.9% to 32.3%.
  - **Central District: increased** from 11.3% to 13.0%.
  - **Tel Aviv District: decreased** from 13.7% to 13.1%.
  - **Southern District:** remained at 23.6% (but increased in terms of the number of persons).
  - **Jerusalem District: decreased** from 23.7% to 22.7%. **Arabs: increased** from 59% to 71.2%; the percentage of poor Arab **persons** in the Jerusalem District is 75.3%, and that of poor Arab **children** is 83.1%, compared to 29.2% and 42.4% (respectively) among Jews.
  - **In all districts, the incidence of poverty among children increased considerably.**

- **The severity of poverty: in all districts, except Jerusalem and Tel Aviv, the poor became poor.**

  - **Jerusalem District: continues to be the poorest district for both Arabs and Jews; income gap ratio**: 38% for Jews, 44% for Arabs.

Who are the poorest?

- **The ultra-Orthodox and Arabs in Jerusalem and the South: the proportion of ultra-Orthodox among the poorest population** (the lowest third of the poor population) is **3.6 times the proportion among the entire population**. The chances that Arabs in Jerusalem and the South will be included in the lowest third of the poor population, from the standpoint of income, are also high, although the size of the sample among those populations is too small to calculate separate probabilities.

- **Most of the immigrants and other Jews (not immigrants and not ultra-Orthodox)** are in the middle and upper thirds of the poor income range.

Temporary and persistent poverty?

It appears that the deterioration in the percentage of poor people in 2009 is temporary. In light of the combination of apparent decrease in unemployment in 2010 and the continuation of economic growth at a reasonable level, the increase in poverty in 2009 is apparently, for the most part, a temporary phenomenon. This may be seen from the analysis of the development of consumption relative to income. It has been found that the percentage of persistently poor families (poor families in which not only income, but also monetary expenditures, are below the poverty line) decreased between 2008 and 2009 from 61% to 59%. The other side of this picture is that the percentage of temporarily poor families increased. This outcome is consistent with the fact that the worldwide crisis and its effect on the labor and asset market in Israel primarily harmed the economic situation of families whose income was usually slightly above the poverty line.

Poverty according to the OECD definition

The findings indicate a lower level for families with children and a higher level for small families, such as the elderly. The present composition of the population indicates that, at this stage, the general incidence of poverty is lower.

Incidence of poverty among families (%)

	OECD	vs.	NII
General	20.9		25.0
Families with children	24.7		31.2
Elderly according to retirement age	24.1		21.4

Poverty objective

Technically speaking, the government met its poverty objective in 2009 (!), because the growth in gross income was greater than the change in the GDP per capita plus 10%, as required by the definition of the objective. The outcome obtained is accordingly a strange one: although the dimensions of poverty increased sharply in 2009, the government achieved the calculated objective according to the method which it had determined for itself. A regime of objectives is only beneficial when exercised wisely. Accordingly, the conclusion is that it is important to replace the definition of the objective with a relevant definition as quickly as possible:

> ***Proposal for a more relevant definition of the objective:***
>
> *"The government will aim to reduce the incidence of poverty among persons by about one percentage point per year, until it reaches a level similar to the average level of the OECD, as it prevailed in the mid-2000s –, approximately 10%. This reduction must be achieved simultaneously with a decrease in the depth of poverty."*

Development of income inequality

The Gini index of disposable income inequality increased by about 1% between 2008 and 2009, from 0.3853 to 0.3892. The cumulative increase in the Gini index of disposable income inequality between 2002 and 2009 is 5.8%; the markets actually had the effect of reducing inequality at a similar rate. This means that, over time, government intervention **decreased the efficiency of direct intervention** in reducing the inequality. One expression of this is the reduction in the effect of the policy, from 24.7% in 2008 to 23.7% in 2009. In actual fact, most of the deterioration with regard to inequality this year, as in recent years, resulted from the decrease in the progressive nature of the taxation, benefit and other transfer payment systems, meaning that the deterioration is an outcome of policy more than of the development of the labor and capital markets.

Introduction

Chapter I discusses the subject of poverty in general. **Section 1** of the chapter describes the poverty line and compares it to the minimum income – from work at minimum wage together with child allowances – in order to determine whether the combination of work at minimum wage plus the universal allowances succeeds in preventing poverty. **Section 2** describes the development of poverty over time, emphasizing the situation in 2009 and the changes which took place therein, relative to the previous year. **Section 3** examines the effect of direct government intervention, through the NII benefits, benefits and government and non-government transfer payments, on the reduction of poverty. **Section 4** describes poverty by population groups and geographical areas. In **Section 5**, poverty is divided into two components: persistent and temporary poverty. **Section 6** compares poverty in Israel to that in the OECD member countries, following the OECD definition. **Section 7** analyzes the extent of the government's success in complying with the official poverty objective.

Chapter II examines the inequality of income and expenses among the public, by families, persons, quintiles and deciles. **Section 1** of that chapter contains a review of inequality in 2009 and its development over time. In **Section 2**, inequality is examined by income quintiles; in **Section 3**, the situation in Israel is compared to the situation in the OECD member countries.

Chapter III deals with the causes of poverty and inequality. At this stage, the discussion is focused on the labor market, including a discussion of the distribution of wages by employees in general and poor employees, and the percentages of employment among employees in general and poor employees. The analysis continues with a description of employment by sectors and professions; the distinction is made between employees in general and poor employees. A chart at the end of the chapter links employment to poverty by main population groups.

Chapter IV includes appendix tables which provide additional information.

I. The dimensions of poverty

1. The poverty line and the standard of living

In 2009, the standard of living increased slightly, in real terms, per standard person[5], with regard to median disposable monetary income. This income increased in real terms at the rate of 0.8%, and so did the poverty line, which is derived from it (Table 1). When considered in terms of an alternative indicator of the standard of living – the average income per standard person – the standard of living remained at the 2008 level.

Table 1: Monthly income per household by type of income (in NIS), 2007-2009

Type of income	2007	2008	2009	Real change between 2008 and 2009 (%)
		Averages		
Economic per family	11,303	11,680	11,776	**-2.4**
Economic per standard person	4,282	4,416	4,431	**-2.9**
Gross per family	12,935	13,346	13,599	**-1.4**
Gross per standard person	5,016	5,159	5,241	**-1.7**
Net per family	10,465	10,973	11,377	**0.4**
Net per standard person	4,078	4,261	4,404	**0.0**
		By median		
Median net income per standard person	3,349	3,483	3,629	**0.8**
Poverty line per standard person	**1,675**	**1,742**	**1,815**	**0.8**

The average economic income – the income which originates in the labor and capital markets alone – decreased at a higher rate in real terms: by an average of 2.4% per family (Table 1). This decline reflects a decrease in income from the work of paid employees (about 35%) and self-employed persons (about 2%), as may be expected in an economy affected by an employment crisis with a considerable increase in the percentage of unemployment. This harm to income from work was slowed, to a certain degree, by the steep increase in income from pension and capital (approximately 27%), which is explained by the continuous rise in share prices throughout the year (an increase of some 40%) in the capital market, after the steep drop in share prices in the second half of 2008. Gross income for a family, which also includes transfer payments, dropped at a more moderate rate by a moderate 1.4%, because the component of monetary support increased by approximately 4% in real terms. Notwithstanding these trends, disposable income (average per family) showed a slight increase of 0.4%, because the compulsory payments (income tax, NII and health insurance) decreased in 2009 by considerable percentage (9%). This overview of the situation reflects the effect of the worldwide recession on wages and profits in Israel, as well as on the compulsory payments derived therefrom.

[5] The number of standard persons in the family generally takes into account the savings which are achieved by large families on certain expenses, by comparison to smaller families, so that a considerable proportion of the expenses increases more slowly than the size of the family. This applies, for example, to energy expenses and rent.

The poverty lines for families of various sizes, and as a percentage of minimum income and average income[6], adjusted for the period of the survey, are shown in Tables 2 and 2a. The poverty line per standard person[7] in 2009 is about NIS 1,815. For a person living alone, the poverty line is higher, due to the existence of higher costs – about NIS 2,270. For a two-person family, the poverty line is about NIS 3,630; the poverty line for larger families is the product of the poverty line per standard person times the number of standard persons in each family size. Thus, for example, the poverty line of a nine-person family is NIS 10,162.

Table 2: The poverty line by family size, 2009 (average for period of survey)

Number of persons in family	Number of standard persons	NIS per month	Marginal supplement in NIS
1.	1.25	2,268	-
2.	2.00	3,629	1,361
3.	2.65	4,809	1,179
4.	3.20	5,807	998
5.	3.75	6,805	998
6.	4.25	7,712	907
7.	4.75	8,619	907
8.	5.20	9,436	817
9.	5.60	10,162	726

Table 2a shows the extent to which work extricates from poverty, with regard to a family where the income is at minimum wage level for one full-time position (first column), 1.5 full-time positions (second column) or two full-time positions (third column), or alternatively, one full-time position at average wage (last column), together with the universal at working age (child allowances). If the ratio is less than 100%, the amount of the income from work and universal benefits is sufficient to extricate a family in which the head of the household is of working age, from poverty. The table shows that a single mother with two or more children will have to find additional resources, on the order of at least one-fifth of her income, in order to escape poverty. Couples with children will not escape poverty even if there is one breadwinner working at minimum wage. If both of the parents work full time, they will escape poverty, even if they both earn minimum wage. If we assume that the second breadwinner works half time, then couples with three or more children will not escape poverty.

[6] Minimum income and average income are calculated as the sum of the child allowance plus the minimum wage or the average wage, respectively, less compulsory payments.
[7] A standard person is defined according to the Israeli equivalence scale.

Table 2a: Poverty lines as a percentage of family income, 2009 (average for period of survey)

Composition of household	Poverty line as % of minimum disposable income* for 1 full-time employee	Poverty line as % of minimum disposable income* for 1.5 full-time employee	Poverty line as % of minimum disposable income* for 2 full-time employees	Poverty line as % of average disposable income* for 1 full -time employee
Single person	61	-	-	31
Single person with 1 child	94	-	-	47
Single person with 2 children	119	-	-	59
Single person with 3 children	136	-	-	69
Couple	98	65	49	49
Couple with 1 child	124	84	63	64
Couple with 2 children	144	99	75	75
Couple with 3 children	160	111	85	86
Couple with 4 children	166	118	92	93
Couple with 5 children	172	126	99	99

* Calculated as the sum of the children's allowance and the minimum wage or the average wage, respectively, less compulsory payments.

2. The dimensions of poverty in 2009 and their development in recent years

The incidence of poverty **increased** in 2009, among families, persons and children. In 2009, there were **435,100** poor families in Israel, which included **1,774,800** persons, of whom **850,300** were children.

The incidence of poverty among families was 20.5% in 2009, as against 19.9% in 2008 (Table 3). This increase in the incidence of poverty reversed a stability which had been observed over the previous two years. The percentage of persons living in poor families increased from 23.7% to a peak of 25.0%. The incidence of poverty among children, which had soared over the last decade at a rate of about 60%, but which had started to experience a downward trend in 2007 and 2008, also broke the previous record and reached 36.3% in 2009, as opposed to 34.0% in 2008 and 35.8% in 2006.[8]

[8] The increase in the incidence of poverty among persons and children in 2009, relative to 2008, is statistically significant, at a level of significance of 5%; among families, however, the change is not significant.

Table 3: Incidence of poverty (% and absolute numbers), 2008-2009

	Before transfer payments and direct taxes	After transfer payments and direct taxes	% of decrease in incidence of poverty after transfer payments and direct taxes
2009			
Families	33.2	20.5	38.4
Persons	33.9	25.0	26.2
Children	41.9	36.3	13.4
2008			
Families	32.3	19.9	38.3
Persons	32.7	23.7	27.7
Children	40.4	34.0	15.9

	Before transfer payments and direct taxes	After transfer payments and direct taxes	Number rescued from poverty after transfer payments and direct taxes
2009			
Families	706,100	435,100	271,000
Persons	2,405,400	1,774,800	630,600
Children	982,300	850,300	132,000
2008			
Families	680,900	420,100	260,800
Persons	2,283,300	1,651,300	632,000
Children	931,300	783,600	147,700

Chart 1 shows the development of the incidence of poverty among families, persons and children between 1998 and 2009, with 1998 taken as a basis.[9] The rate of increase among persons was high and similar in strength to that which occurred between 2003 and 2004 – 5.6%, by comparison to 5.7% in 2004. Among children, the increase was even steeper than among families – 6.6% (Chart 1).

[9] The incidences of poverty between 1998 and 2009 are reported in Appendix 1.

Chart 1: Incidence of poverty among families, persons and children, 1998-2008 (1998 = 100.0)

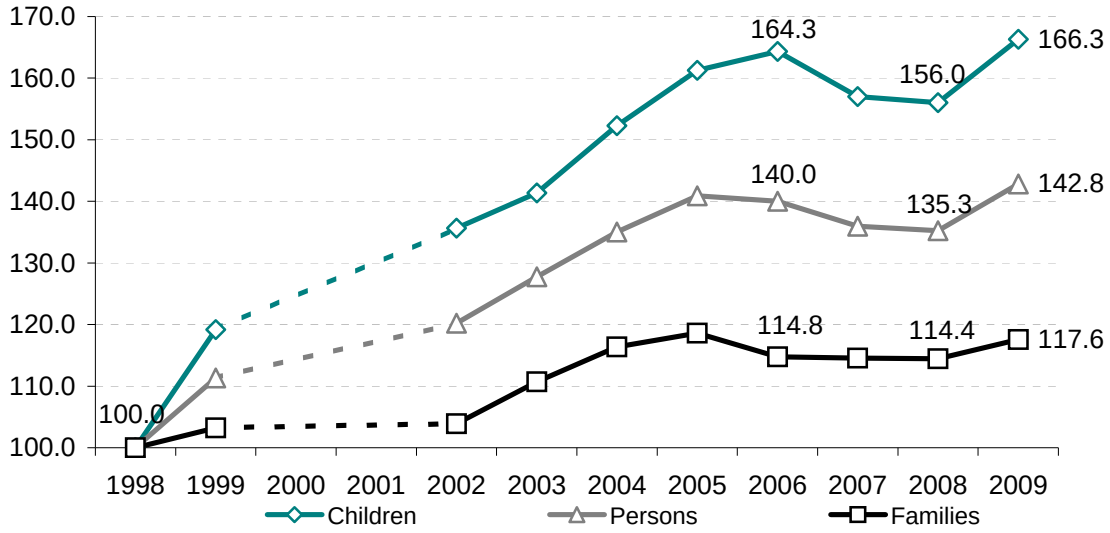


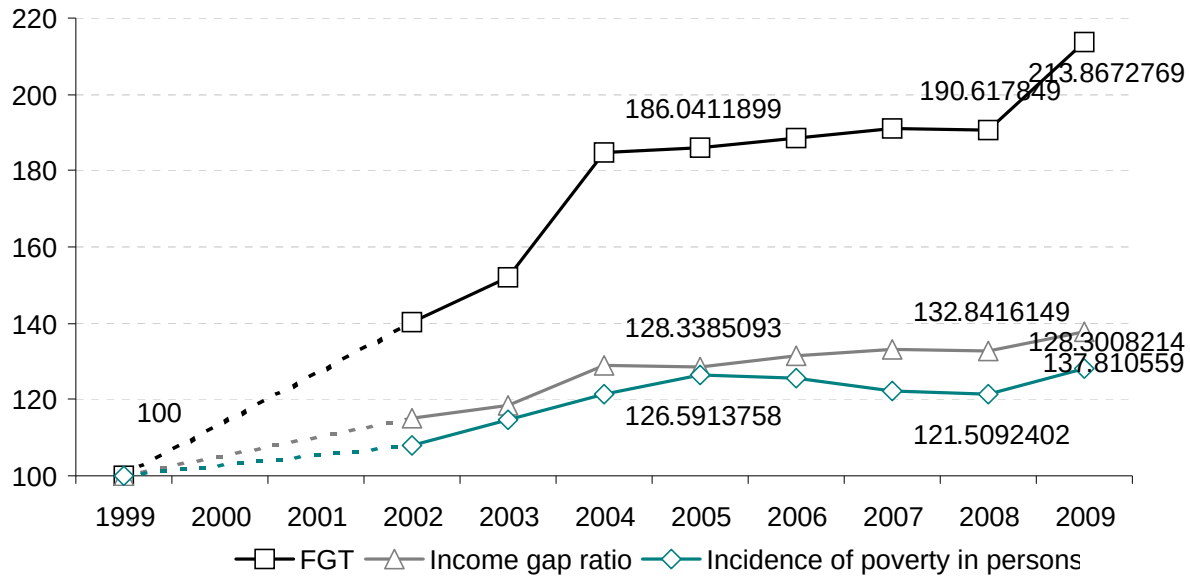
Table 4 summarizes the poverty findings among families, persons and children in the entire population by selected indices, for the years 2003 through 2009, and Chart 2, which follows it, presents the dimensions of poverty by selected indices.

Table 4: Dimensions of poverty by selected indices, 2003-2009

Index	2003	2004	2005	2006	2007	2008	2009
Incidence of poverty in families	19.3%	20.3%	20.6%	20.0%	19.9%	19.9%	20.5%
Incidence of poverty in persons	22.4%	23.6%	24.7%	24.5%	23.8%	23.7%	25.0%
Incidence of poverty in children	30.8%	33.2%	35.2%	35.8%	34.2%	34.0%	36.3%
Income gap ratio	30.5%	33.3%	33.1%	33.8%	34.3%	34.2%	35.5%
Depth of poverty in NIS*	474	531	548	585	620	616	644
FGT index	3.3%	4.0%	4.1%	4.1%	4.2%	4.2%	4.7%
Gini index of poor persons	18.6%	20.5%	19.5%	19.5%	20.5%	20.5%	21.3%
SEN index	0.097	0.111	0.114	0.115	0.114	0.113	0.123

* Distance between the poverty line and the average income of poor persons per standard person in 2009 prices.

Chart 2: Selected poverty indices, 1999-2009



On the average, in 2009, poor families became poorer: the income gap ratio, which expresses the depth of poverty in families (that is, the average distance of poor people's income from the poverty line), increased from 34.2% in 2008 to 35.5% in 2009. The FGT index, which reflects the severity of poverty and combines the effects of the incidence of poverty and the depth of poverty, with greater weight attributed to poorer people, also increased statistically between the two years and reached a peak, as did the SEN index, which is an alternative index of the severity of poverty (see Appendix 10). All of the indices which are reviewed above – incidence, depth and severity of poverty – show an exacerbation of poverty between 2008 and 2009; as may be seen in Chart 2, the dimensions of that exacerbation are similar to those of the situation between 2003 and 2004.

3. The effect of benefits, transfer payments and income tax and other compulsory payments on the dimensions of poverty

Anyone who wishes to reinforce the economic independence of the poor will take a special interest in the concept of economic poverty – that is, the percentage of poor people before direct government intervention through taxation and benefits.[10] Table 3 shows that, when measured according to economic income, the incidence of poverty increased (not a statistically significant increase): in 2009, the incidence of poverty among families, measured according to that income, was 33.2%, compared to the stabilization years of 2007-2008, in which the incidence of poverty remained at 32.3% (as compared to 32.9% in 2006). The incidence of poverty among persons and children also increased between 2008 and 2009. These increases are statistically significant, but are not significant by comparison to the previous peak year, 2006.

[10] Presentation of the gap between the incidence of economic poverty and the incidence after intervention results in an upward bias for the effect of the policy, because it is reasonable to assume that, were it not for the system of financial supports, individuals would make greater efforts to obtain economic income, and accordingly, the incidence of economic poverty would apparently be lower than it actually is. This observation also ignores the more long-term effects of the taxation system and the benefits.

Following a downward trend in the contribution by transfer payments and direct taxes to the reduction of poverty, the percentage of families who were extricated from poverty by these means did stabilize at a level of 38.4%. However, analysis by persons and children shows a certain decrease in their contribution to the reduction of poverty: in 2009, transfer payments and direct taxes extricated 26.2% of persons and 13.4% of children from poverty – compared to 27.7% of persons and 15.9% of children in 2008. For the purposes of comparison: in 2002, transfer payments and direct taxes extricated almost 40% of persons and 30% of children from poverty. These calculations actually represent a deficient estimate of the true effect of the benefits, as, for some families, the benefit, while not extricating from poverty, reduces the depth of poverty.

Table 5 shows the incidences of poverty by various definitions of income, and breaks down the contribution of direct taxes and transfer payments according to type (from NII, from other government institutions and from other households) to the reduction of economic poverty. As may be seen, the contribution made by the transfer payments (without direct taxes) to the reduction of poverty is approximately 461%. The calculations show that, notwithstanding the progressive nature of the income tax system, from the standpoint of the poor people, the system is regressive, because taxation increases the incidence of economic poverty. This phenomenon apparently results from the fact that poor people whose income is close to the poverty line would have been extricated from poverty, were it not for the taxes they have to pay. This is the basis for the idea of a negative income tax, which is capable of reducing this negative effect.[11] The benefits are therefore also necessary in order to offset the negative effect of taxation on the poor.

[11] This example illustrates why the government's definition of its poverty objective is not reasonable, because it selects gross income, which neutralizes the effect of taxation. See 2007 Annual Survey.

Table 5: Incidence of poverty by various definitions of income, and the contribution of direct taxation and various transfer payments to reducing poverty, 2008 and 2009

	Incidence of poverty in families							Rates of change in incidence of poverty in families after intervention by the State, households and individuals					
	Before transfer payments and direct taxes	After compulsory payments only	After transfer payments only	After National Insurance payments only	After payments by State institutions (without NII) only	After transfers from households and individuals only	After transfer payments and direct taxes	After compulsory payments only	After transfer payments only	After National Insurance payments only	After payments by State institutions (without NII) only	After transfers from households and individuals only	After transfer payments and direct taxes
2009													
Incidence of poverty in families	33.2%	35.5%	17.9%	21.0%	31.3%	31.2%	20.5%	6.5	-38.4	-46.1	-36.7	-5.7	-6.1
Incidence of poverty in persons	33.9%	36.4%	22.4%	24.8%	32.5%	32.5%	25.0%	7.0	-26.2	-33.9	-26.8	-4.0	-3.9
Incidence of poverty in children	41.9%	44.8%	33.3%	35.8%	40.8%	40.8%	36.3%	6.5	-13.4	-20.4	-14.6	-2.5	-2.6
Income gap ratio	60.3%	61.3%	35.2%	41.1%	55.8%	57.7%	35.5%	1.6	-41.1	-41.5	-31.9	-7.4	-4.2
FGT	0.1636	0.1829	0.0410	0.0617	0.1374	0.1461	0.0467	10.6	-71.4	-74.9	-62.3	-16.0	-10.7
2008													
Incidence of poverty in families	32.3%	34.6%	17.2%	20.6%	30.4%	30.4%	19.9%	6.7	-38.3	-46.7	-36.3	-5.7	-5.9
Incidence of poverty in persons	32.7%	35.2%	21.3%	23.9%	31.3%	31.5%	23.7%	7.1	-27.7	-34.9	-27.1	-4.4	-3.7
Incidence of poverty in children	40.4%	43.2%	31.4%	33.9%	39.3%	39.5%	34.0%	6.5	-15.9	-22.3	-16.1	-2.7	-2.3
Income gap ratio	59.6%	60.5%	33.5%	39.4%	55.4%	56.9%	34.2%	1.6	-42.6	-43.7	-33.9	-6.9	-4.4
FGT	0.1561	0.1748	0.0365	0.0567	0.1312	0.1392	0.0417	10.7	-73.3	-76.6	-63.7	-16.0	-10.8

Chart 3: Weight of benefits and transfer payments by origin in reducing incidence of poverty in families

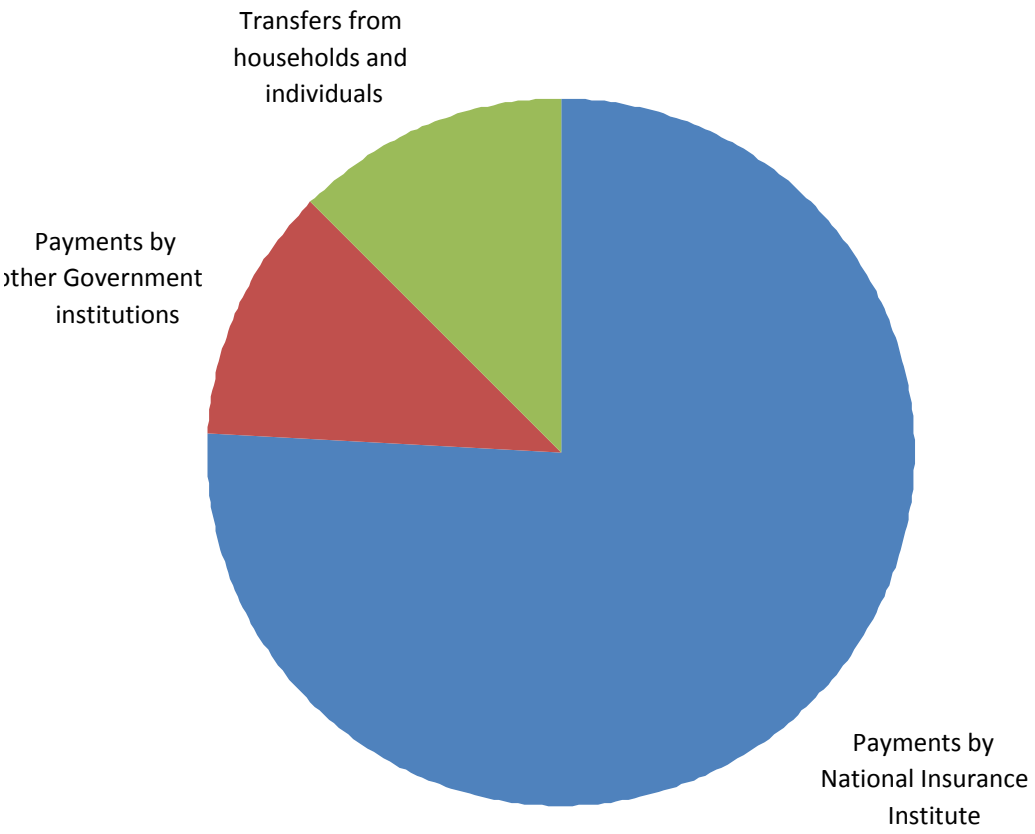


Chart 3 presents the absolute effect of each of the types of benefits and transfer payments: the weight of the NII benefits, which represent the principal transfer payments, constitutes approximately 76% of the "contribution to the reduction of poverty", and the components of support from other government institutions and support from other households (which also include child support payments) account for approximately 12% each, out of the total contribution made by transfer payments. This means that the overall effect of the government (NII and additional government benefits) in the field of transfer payments for the reduction of poverty comes to approximately 88% of the total contribution made by transfer payments to families.[12]

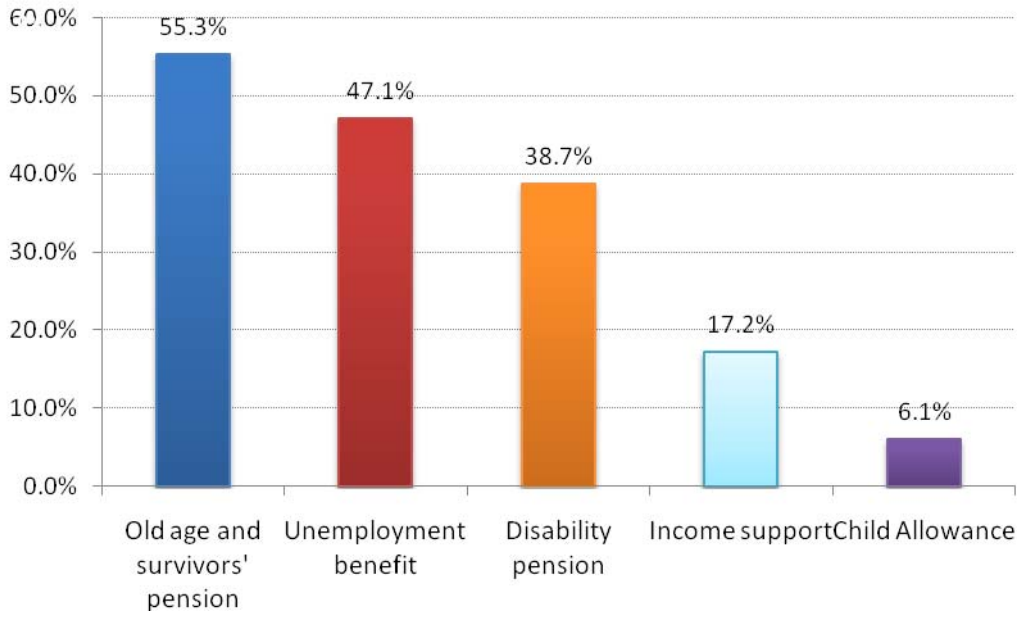
Benefit payments constitute a significant factor in reducing poverty. Chart 4 presents the rate of decrease in the incidence of economic poverty of families, from among the recipients of the various benefits. It may be seen that, among the recipients of old-age and survivors' pensions, the effect is greatest, because the pension payments reduce the incidence of economic poverty among their recipients by 55%.[13] The effect of the other benefits is smaller: in 2009, unemployment benefits reduced the incidence of poverty and families by 47%, as against 36%

[12] There are additional transfers from the government to families, such as benefits in kind, which are not taken into account. There are also types of support which are given to various businesses, within the framework of the Encouragement of Capital Investments Law and other laws, which worked forward increasing profits and, as a result, also increase the incomes of several households (it is reasonable to assume that the beneficiaries are in the upper deciles), but it is difficult to quantify their effects. In addition, there are also capital benefits, such as exemption from income tax on provident funds, advanced study funds and the like. Most of the beneficiaries are outside the poor population.

[13] After payment of the benefit only.

in 2008, and the incidence of poverty declined to 20%. The effect among recipients of income support was relatively slight: the income support payments reduced the incidence of poverty and families by only some 17% among benefit recipients, and the incidence of poverty remained high – approximately 58%. Among families with children, the effect was the least of all, because of the low level of the allowance, after it was cut back in the early 2000s.

Chart 4: Decrease in incidence of economic poverty in families among benefit recipients after benefit payment



The contribution of the policy measures to reducing the **income gap** is shown in Appendix 4, and indicates that the effect of the benefits and taxes on the income gap is significantly greater than their effect on the incidence of poverty, because even those who were not extricated from poverty experienced a significant reduction in the depth of their poverty.

4. Poverty by population group and geographical area

The emerging picture is one of exacerbation of the poverty situation as a result of the economic crisis. We would accordingly expect the greatest harm to appear among those who were harmed by the deterioration in the employment and earnings situation. In fact, the findings do show that the situation of families which participate actively in the labor market declined during the period of the crisis, and the situation of families which are excluded from the labor market remains stable or even improved.

Tables 6 through 8 show selected findings by population group. Table 6 shows the incidence of poverty among families by income before and after transfer payments and compulsory payments, and the percentage of decrease in the incidence of poverty as a result of the transfer payments and compulsory payments, in the various population groups (the same details, for persons, appear in Appendix 3). Table 7 shows the share of each group in the general population and the poor population, and Table 8 shows additional indices for evaluating the dimensions of poverty in the various groups, such as the depth and severity of poverty.

Following are the principal findings which may be gathered from these tables:

- The decrease in the incidence of poverty among Arabs in the last two years has been reversed, and the incidence of poverty among Arab families **increased** from 49.4% in 2008 to 53.5% in 2009. This increase is statistically significant. At the same time, the percentage of Arabs among the poor population **increased** from 33.8% in 2008 and 35.9% in 29th in 2009. The state of their poverty also deteriorated, as shown by the increase in the income gap, from 36.0% in 2008 and 38.3% in 2009, and by the increase in the FGT and SEN indices of the severity of poverty by 19% and 14% respectively.

- The contribution of the **policy measures to the reduction of poverty decreased among Arabs** in 2009, from 13.5% in 2008 to 11.4% in 2009, and it is much lower by comparison to the level among Jews – approximately 47%. The explanation of the large gaps between Arabs and Jews in this area primarily has to do with the composition of the Arab population, relative to the structure of the benefits: old-age and survivors' pensions are the largest, whereas the Arab population is relatively young and is characterized by a large number of children.

- The situation of **the elderly improved** from the standpoint of the incidence of poverty, but deteriorated from the standpoint of the depth and severity of poverty. The incidence of poverty among the elderly was 20.1% in 2009 (as opposed to 22.7% in 2008) and, for the first time, was smaller than that of the entire population. The findings show that the increase in old-age and survivors' pensions and the improvement of the situation in the labor market, for those elderly families who are still working (notwithstanding the economic crisis), are among the factors which lead to the outcome. The contribution made by transfer payments and direct taxes to reducing poverty among the elderly families increased, from 59.4% in 2008 to 63.1% in 2009, as did their contribution to reducing the income gap among the elderly (Appendix 4). At the same time, the situation of the elderly who remained below the poverty line deteriorated: the depth of poverty rose from 23.0% in 2008 to 24.8% in 2009, and the severity of poverty also increased.

- The incidence of poverty among **immigrants continued to decrease**, from 18.8% in 2007 to 18.0% in 2008 and to 17.4% in 2009. The other poverty indices also indicate an improvement in the situation of poor immigrants. The income gap ratio index (depth of poverty) **decreased** significantly, from 29.4% in 2008 to 26.4% in 2009.[14]

- The incidence of poverty among **families with children increased** considerably, from 24.5% in 2008 to 26.8% in 2009. A steep increase was recorded among families with 1-3 children, from 17.8% in 2008 to 20.2% in 2009. This increase is physically significant. In the larger families, the increase in the dimensions of poverty is not statistically significant.

- The increase in the incidence of poverty among large families reflects, among other things, an increase in the incidence of poverty among the **ultra-Orthodox**, who are characterized by large families. In the surveys which were used for the preparation of this report, it was not possible to locate the ultra-Orthodox families directly. In this report, the poverty calculations for the ultra-Orthodox are presented for the first time. Due to the considerable fluctuations in the annual data, we chose to present a moving

[14] An immigrant is anyone who immigrated to Israel starting in the 1990s. The findings indicate that the situation of veteran immigrants is better than that of newer immigrants.

average over two years. This shows that the incidence of poverty among families rose from 54.9% in 2007/2008 to 56.9% in 2008/2009.

- In the distribution of families with children – **single-parent** and two-parent families – it was found that both types of families experienced an increase in the incidence of poverty, but the increase was higher among single-parent families (from 28.8% in 2008 to 32.3% in 2009). It should be noted that the contribution made by the transfer payments and direct taxes to reducing poverty among single-parent families has decreased slightly over the years, by contrast to the trend among the entire population. All of the changes in the poverty indices of single-parent families were not statistically significant.

- Appendix 11, for the first time in the report on poverty and social gaps, shows poverty data for persons divided according to **men and women** (age 18 and up). The findings show that the dimensions of poverty among men are lower than those among women. In 2009, the incidence of poverty among men was 18.8%, as compared to 20.0% for women. Measuring according to economic income – income which originates primarily in the labor market – makes the gaps even greater: 28.0% for men and 31.8% for women. Transfer payments and direct taxes accordingly reduce the gap, and, in fact, the table data show that their contribution is higher in women.

- The incidence of poverty in **working families increased**, from 12.2% in 2008 to 13.4% in 2009. The rising trend in the incidence of poverty is common to wage-earning employees, families with one breadwinner and families with two breadwinners. At the same time, there is a continuing trend of significant increase in the share of working families among the entire poor population. Their share continued to rise from 46.3% in 2008 to 49.0% in 2009. The income gap ratio among these families increased from 26.9% in 2008 to 28.4% in 2009, and the FGT index of severity of poverty increased by approximately 15%. These increases were found to be statistically significant.

- The continuing decrease in the proportion of **families of working age which do not work** among the entire population was halted and even reversed. The incidence of poverty among these families (which also includes families of unemployed persons) decreased from 71.4% in 2008 to 68.9% in 2009. The reduction of poverty results from both the increase in the number of recipients of unemployment benefit (approximately 50%) and the fact that the unemployment compensation is relatively high. The contribution made by transfer payments to the reduction of poverty increased from 20.2% in 2008 to 23.3% in 2009.

- The incidence of poverty among households headed by **persons with 9-12 years of education increased** from 22.1% in 2008 to 24.2% in 2009. The severity of poverty index (FGT) also showed a statistically significant increase in this population group.

Table 6: Incidence of poverty among families by population group (%), 2008 and 2009

	Income before transfer payments and taxes		Income after transfer payments and taxes		Rate of decrease in incidence of poverty after transfer payments and taxes (%)	
	2008	2009	2008	2009	2008	2009
Total population	32.3	33.2	19.9	20.5	38.3	38.4
Jews	28.4	28.9	15.3	15.2	46.2	47.4
Arabs	57.1	60.3	49.4	53.5	13.5	11.4
Elderly*	55.9	54.5	22.7	20.1	59.4	63.1
Immigrants	40.7	40.3	18.0	17.4	55.7	56.7
Ultra-Orthodox**	69.5	70.4	54.9	56.9	21.0	19.2
Families with children – total	30.9	32.6	24.5	26.8	20.6	17.9
1-3 children	24.0	26.0	17.8	20.2	25.8	22.5
4 or more children	65.1	65.5	57.8	59.9	11.1	8.6
5 or more children	77.4	75.9	68.6	69.4	11.4	8.5
Single-parent families	46.9	49.3	28.8	32.3	38.6	34.5
Employment of head of household:						
Working	18.8	19.5	12.2	13.4	34.8	31.6
Employee	19.3	20.2	12.2	13.5	36.8	33.2
Self-employed	15.3	15.2	12.7	12.5	17.3	17.3
Working age but not working	89.5	89.8	71.4	68.9	20.2	23.3
1 breadwinner	35.3	36.4	23.0	24.9	34.7	31.4
2 or more breadwinners	4.7	5.6	3.0	3.7	35.9	32.7
Age group of head of household:						
Up to 30	36.4	37.7	24.4	26.1	32.9	30.7
31-45	26.7	28.3	20.7	22.7	22.5	19.6
46-pension age	21.3	22.3	14.5	14.5	31.9	35.0
Retirement age by law***	58.2	57.6	23.1	20.7	60.3	64.1
Education group of head of household:						
Up to 8 years of study	68.7	68.1	44.6	42.0	35.1	38.3
9-12 years of study	33.5	36.9	22.1	24.2	34.2	34.5
13 or more years of study	23.2	22.9	12.8	13.0	44.9	43.1

* According to the definition which was in force until now: from age 60 for women, age 65 for men

** Due to fluctuations, a moving average over two years is presented. The definition of "ultra-Orthodox" is according to Gottlieb-Kushnir (2009).

*** The definition was adjusted to the retirement age according to the Retirement Age Law. Accordingly, this population will not be fixed until the process of raising the retirement age is completed.

Table 7: Share of types of families in general population and in poor population, according to demographic and employment characteristics, 2008-2009

	Total population		Poor population			
			Before transfer payments and direct taxes		After transfer payments and direct taxes	
	2008	2009	2008	2009	2008	2009
Jews	86.4	86.2	75.9	75.0	66.2	64.1
Arabs	13.6	13.8	24.1	25.0	33.8	35.9
Elderly*	19.6	19.7	33.9	32.4	22.3	19.4
Immigrants	19.0	19.1	24.0	23.2	17.2	16.3
Ultra-Orthodox**	4.7	4.8	10.2	9.8	13.1	12.8
Families with children – total	46.0	46.0	44.1	45.1	56.7	60.2
1-3 children	38.3	38.3	28.4	30.0	34.2	37.8
4 or more children	7.8	7.7	15.6	15.1	22.5	22.4
5 or more children	3.7	3.7	8.9	8.4	12.8	12.5
Single-parent families	5.3	5.7	7.7	8.4	7.7	8.9
Employment of head of household:						
Working	26.9	28.4	0.0180	0.0217	0.062	0.072
Employee	26.5	28.0	0.0170	0.0211	0.061	0.072
Self-employed	29.7	31.3	0.0250	0.0258	0.072	0.074
Working age but not working	50.9	52.3	0.2646	0.2731	0.534	0.538
1 breadwinner	28.0	29.7	0.0396	0.0478	0.135	0.156
2 or more breadwinners	20.6	21.7	0.0036	0.0047	0.013	0.017
Age group of head of household:						
Up to 30	35.4	35.8	0.0546	0.0609	0.142	0.158
31-45	33.9	36.1	0.0452	0.0545	0.128	0.144
46-pension age	39.0	38.3	0.0355	0.0349	0.085	0.086
Retirement age by law***	21.4	23.0	0.0191	0.0217	0.071	0.073
Education group of head of household:						
Up to 8 years of study	35.9	38.4	0.0977	0.1073	0.255	0.270
9-12 years of study	33.9	35.2	0.0455	0.0561	0.126	0.147
13 or more years of study	33.5	34.2	0.0268	0.0272	0.073	0.074

* According to the definition which was in force until now: from age 60 for women, age 65 for men

** Due to fluctuations, a moving average over two years is presented. The definition of "ultra-Orthodox" is according to Gottlieb-Kushnir (2009).

*** The definition was adjusted to the retirement age according to the Retirement Age Law. Accordingly, this population will not be fixed until the process of raising the retirement age is completed.

Table 8: Evaluation of the dimensions of poverty in various population groups by selected indices, 2008 and 2009

	Income gap ratio		FGT index		SEN index	
	2008	2009	2008	2009	2008	2009
Total population	34.2	35.5	0.0417	0.0467	0.113	0.123
Jews	32.8	33.1	0.0270	0.0284	0.076	0.079
Arabs	36.0	38.3	0.1010	0.1204	0.263	0.300
Elderly*	23.0	24.8	0.0216	0.0236	0.075	0.075
Immigrants	29.4	26.4	0.0246	0.0207	0.073	0.068
Ultra-Orthodox**	37.8	37.8	0.1135	0.1125	0.300	0.298
Families with children – total	35.4	36.5	0.0519	0.0593	0.140	0.155
1-3 children	33.9	34.7	0.0322	0.0384	0.087	0.101
4 or more children	36.7	38.1	0.1094	0.1209	0.293	0.315
5 or more children	37.1	39.0	0.1278	0.1408	0.341	0.364
Single-parent families	36.9	35.3	0.0612	0.0636	0.161	0.168
Employment of head of household:						
Working	26.9	28.4	0.0180	0.0217	0.062	0.072
Employee	26.5	28.0	0.0170	0.0211	0.061	0.072
Self-employed	29.7	31.3	0.0250	0.0258	0.072	0.074
Working age but not working	50.9	52.3	0.2646	0.2731	0.534	0.538
1 breadwinner	28.0	29.7	0.0396	0.0478	0.135	0.156
2 or more breadwinners	20.6	21.7	0.0036	0.0047	0.013	0.017
Age group of head of household:						
Up to 30	35.4	35.8	0.0546	0.0609	0.142	0.158
31-45	33.9	36.1	0.0452	0.0545	0.128	0.144
46-pension age	39.0	38.3	0.0355	0.0349	0.085	0.086
Retirement age by law***	21.4	23.0	0.0191	0.0217	0.071	0.073
Education group of head of household:						
Up to 8 years of study	35.9	38.4	0.0977	0.1073	0.255	0.270
9-12 years of study	33.9	35.2	0.0455	0.0561	0.126	0.147
13 or more years of study	33.5	34.2	0.0268	0.0272	0.073	0.074

* According to the definition which was in force until now: from age 60 for women, age 65 for men.

** Due to fluctuations, a moving average over two years is presented. The definition of "ultra-Orthodox" is according to Gottlieb-Kushnir (2009).

*** The definition was adjusted to the retirement age according to the Retirement Age Law. Accordingly, this population will not be fixed until the process of raising the retirement age is completed.

Table 9 presents a breakdown of the dimensions of poverty by geographic districts, into Jews and Arabs.[15] Between 2008 and 2009, the incidence of poverty increased in most districts, except Tel Aviv and the South. In the Northern District, the incidence of poverty among families increased from 30.9% to 32.3%; in the Central District, it increased from 11.3% to 13.0%. On the other hand, in the Tel Aviv district, the incidence of poverty among families decreased from 13.7% to 13.1%, and in the Southern District, it remained at 23.6%. The trends of change in the incidences of poverty among persons in the various districts are similar, except for the Southern District, where the incidence increased. In all districts, the incidence of poverty among children increased considerably.

[15] Except in cells where it was not possible to calculate the indices due to the small number of observations. One of the groups for which the number of observations is small is the Bedouin population in the South, especially in the unrecognized settlements. According to a study by Abu Badr and Gottlieb, 2008, "Poverty, Education and Employment in the Bedouin-Arab Society: A Comparative View", Policy Studies Series, Economics and Society Program, Van Leer Institute, Jerusalem, the poverty among Bedouin in the South is great, especially in the unrecognized settlements.

The indices of depth and severity of poverty indicate trends which are not necessarily similar. In all districts except Jerusalem and Tel Aviv, the poor became poorer; in Jerusalem, these indices indicate a certain improvement in their condition. In the Tel Aviv District, the two indices – depth of poverty and severity of poverty – indicate contradicting trends, and it is not possible to determine definitively whether their situation improved or deteriorated.

Similarly to 2008, in the Jerusalem District, the dimensions of poverty, as expressed in the percentage of poor people and the severity of their poverty, were the highest in 2009. The incidence of poverty among families in the Jerusalem District was 33.7%, and 56.5% among children. In the Central and Tel Aviv District, the dimensions of poverty were the lowest of all; the incidence of poverty among families came to 13.0% and 13.1% respectively.

The Jerusalem District continues to be the poorest district for both Arabs and Jews. The gap between the poverty level of Arab and Jewish families in Jerusalem is very large, and increased even further in 2009: the poverty level of Arab families went from twice that to 2.6 times that of Jewish families. The percentage of poor Arab persons in the Jerusalem District is 75.3%; that of poor Arab children is 83 41% – as compared to percentages of 29.2% and 42.4% (respectively) for Jewish persons.

The distance between the two nationality groups is reduced when we compare the situation of the poor families only. In all districts and among both nationalities, the income gap ratio, relative to the poverty line, is between 32% and 34%, except in the Jerusalem District, where the average income gap ratio among the poor is approximately 38% from the poverty line for Jews and approximately 44% for Arabs.

Table 9: Incidence of poverty among Jews and Arabs by district, 2008-2009

	2008					2009				
	Incidence of poverty			Income gap ratio	FGT	Incidence of poverty			Income gap ratio	FGT
	Families	Persons	Children			Families	Persons	Children		
Total*	**19.9**	**23.7**	**34.0**	**34.2**	**0.042**	**20.5**	**25.0**	**36.3**	**35.5**	**0.047**
Jerusalem	32.2	41.1	54.9	43.1	0.107	33.7	43.1	56.5	40.9	0.100
North	30.9	33.7	42.8	32.2	0.051	32.3	35.9	47.0	34.1	0.060
Haifa	18.3	21.1	31.5	31.7	0.031	18.9	22.3	33.5	33.8	0.040
Center	11.3	12.2	17.0	30.4	0.018	13.0	14.2	19.4	32.9	0.026
Tel Aviv	13.7	15.2	23.4	31.5	0.025	13.1	15.1	24.7	32.2	0.023
South	23.6	25.8	35.2	31.3	0.039	23.6	28.2	40.8	36.8	0.055
Jews	**15.3**	**16.4**	**23.6**	**32.8**	**0.027**	**15.2**	**16.9**	**25.1**	**33.1**	**0.028**
Jerusalem	23.7	30.9	44.8	39.1	0.065	22.7	29.2	42.4	37.7	0.056
North	18.5	16.6	19.3	29.6	0.024	17.4	16.5	23.2	27.6	0.021
Haifa	13.3	12.9	17.9	29.4	0.017	13.6	14.1	20.5	33.0	0.024
Center	9.0	8.7	11.5	29.0	0.012	10.3	10.2	13.3	30.6	0.017
Tel Aviv	13.5	14.6	22.1	31.7	0.024	13.0	14.9	24.5	32.0	0.023
South	21.3	20.2	25.6	32.5	0.033	21.2	22.0	30.3	34.8	0.041
Arabs	**49.4**	**53.1**	**62.1**	**36.0**	**0.101**	**53.5**	**57.4**	**66.8**	**38.3**	**0.120**
Jerusalem	59.0	63.2	72.7	47.3	0.200	71.2	75.3	83.1	43.7	0.202
North	45.7	47.6	56.2	32.9	0.073	48.9	51.1	60.1	35.7	0.092
Haifa	43.2	46.5	56.2	33.8	0.074	45.7	47.6	57.1	34.6	0.088
Center	-	-	-	-	-	-	-	-	-	-
Tel Aviv	-	-	-	-	-	-	-	-	-	-
South	-	-	-	-	-	-	-	-	-	-

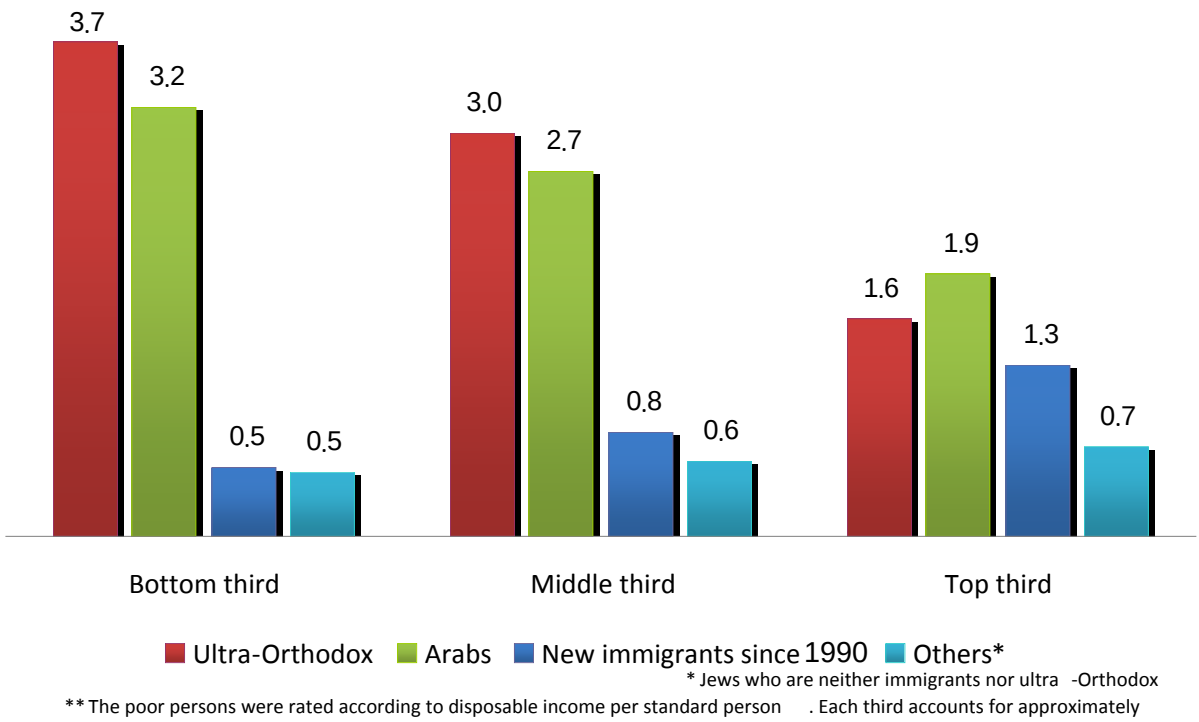
* Including settlements in Judea and Samaria.

Chart 5 shows the probability of a certain population group being in a given third (say, the lowest third) of the poor population, relative to the probability of that population group in the entire population. Thus, for example, the weight of the ultra-Orthodox in the poorest

population (the lowest third) is 3.7 times the weight of the group in the entire population. Arabs' chances of being very poor are also higher than those of the population as a whole. It may be seen that most poor people in these groups (ultra-Orthodox and Arabs) are in the lowest third and the middle third, whereas the majority of immigrants and other Jews (not immigrants and not ultra-Orthodox) are in the middle and upper 30s.

The chances that Arabs in Jerusalem and the South will be included in the lowest third of the poor population, from the standpoint of income, are also high, although the size of the sample among those populations is too small to calculate separate probabilities.

Chart 5: Incidence of poor persons by population group, compared to incidence of groups in entire population



* Jews who are neither immigrants nor ultra -Orthodox

** The poor persons were rated according to disposable income per standard person . Each third accounts for approximately

5. Persistent poverty

The poor population does not remain constant from one period to the next: some poor people are extricated from poverty, while others join the population of the poor. There is also a portion of the poor population whose life in poverty represents a continuous situation. In the professional literature, it is customary to refer to consumption expenses as being primarily affected by stable income, by contrast to temporary changes in income, because, according to the permanent income theory promulgated by Milton Friedman, a family tends to change its current consumption as a result of stable changes in income, whereas temporary changes in income primarily tend to increase savings and the purchase of durable goods. Accordingly, expenditures fluctuate less than current income. The assumption is that, when a sudden loss of current income occurs (for example, when a breadwinner becomes unemployed), the families will attempt to maintain a stable lifestyle, and, in the short term, will bridge the gaps by using savings, loans and so forth. Accordingly, the fact that we find many poor people whose consumption expenses exceed their income does not run counter to economic logic. This indicates that these families belong to the temporary poor. On the other hand, a family which believes that its economic situation has permanently deteriorated, will be forced to cut back its consumption expenses so as not to exceed its income. In this report, we define the

continuing poverty of a certain family as a situation in which both its income and its consumption expenses are below the poverty line.

In Israel, there is as yet no follow-up survey database, which would enable the same families to be monitored in order to measure persistent poverty among them. Accordingly, Recommendation No. 2 (a) of the "Report by the Team for Development of Additional Poverty Indices" proposes that the index set forth here should be considered as an index of persistent poverty.

Table 10 presents the proportions of poor families and poor persons, according to the definition of temporary and continuing poverty. The conclusion which arises from the findings is that the increasing trend which characterizes 2009, from the standpoint of the general dimensions of poverty, does not reflect data on persistent poverty. Between 2008 and 2009, the percentage of persistently poor families – in other words, poor families whose monetary expenses are below the poverty line – decreased from 61% to 59%, and the percentage of persistently poor persons remained unchanged at 64%. The other side of this picture is that the percentage of temporarily poor families increased. This datum indicates that, at this stage, the steep rise in the dimensions of poverty in 2009 should be considered as a temporary phenomenon. This finding is consistent with the increase in real terms in the expenses of most quintiles (Table 12). This datum shows that households apparently consider a decline in their incomes to be a temporary phenomenon and accordingly, notwithstanding the increase in the incidence of poverty by household income, the incidence of continuing poverty by family expenses decreased. This decrease is common to most of the population groups. Among the ultra-Orthodox, the persistent poverty level decreased from 73% in 2008 to 70% in 2009, notwithstanding the exacerbation in the general poverty data for the ultra-Orthodox.[16] Decreases in estimated persistent poverty were also found among Jews, immigrants and the elderly. In single-parent families, persistent poverty decreased from 61% to 52%, notwithstanding the increase in the incidence of poverty by income. On the other hand, persistent poverty in families with children remained almost unchanged, along with the increase in their general poverty data.[17] The table also shows that, among Arabs, there is almost no change in persistent poverty, notwithstanding the increase in their incidence of poverty by income. The same was found in families where the head of the household does not work.

[16] This finding hints that the percentage of employed persons among the ultra-Orthodox poor increased in the last year.

[17] From the standpoint of statistical significance, it is important to use caution when considering the calculations of permanent poverty, especially if the population group under examination and/or the percentage of poor people in it are small.

Table 10: Estimate of persistent poverty –weight of families and persons, out of total poor population whose monetary expenses per standard person are below poverty line (%), 2008 and 2009

	Families		Persons	
	2008	2009	2008	2009
Total population	61	59	64	64
Jews	62	57	65	62
Arabs	61	62	63	66
Elderly*	68	64	72	68
Immigrants	68	61	73	64
Ultra-Orthodox**	73	70	75	73
Families with children – total	63	63	66	66
1-3 children	57	56	58	58
4 or more children	71	73	72	73
5 or more children	72	72	72	73
Single-parent families	61	52	72	57
Employment of head of household:				
Working	56	56	58	62
Employee	55	58	55	64
Self-employed	55	41	59	48
Working age but not working	64	58	74	68
1 breadwinner	56	59	59	64
2 or more breadwinners	54	47	56	52
Age group of head of household:				
Up to 30	54	51	63	60
31-45	61	63	65	68
46-pension age	59	51	60	54
Retirement age by law***	70	66	74	70
Education group of head of household:				
Up to 8 years of study	71	68	73	70
9-12 years of study	62	57	65	62
13 or more years of study	52	54	56	61

* According to the definition that was in force until now: from age 60 for women, age 65 for men

** Due to fluctuations, a moving average over two years is presented. The definition of "ultra-Orthodox" is according to Gottlieb-Kushnir (2009).

*** The definition was adjusted to the retirement age according to the Retirement Age Law. Accordingly, this population will not be fixed until the process of raising the retirement age is completed.

6. Poverty according to the OECD definition

The method used by the OECD for calculating the dimensions of poverty is similar to that of the NII – both define one-half the median disposable monetary income as the relevant indicator of the standard of living, and both define the poverty line as one-half of that indicator. At the same time, the method of translating the number of persons per family into the number of standard persons (the "equivalence scale") is different. The NII, for many years, has used an equivalence scale which is based on the Engel scale, according to which families of different sizes, but with the same percentage of expenditures on food, relative to total consumption expenses, are equivalent from the standpoint of the family welfare. The OECD equivalence scale, on the other hand, is based on the square root of family size.[18] And

[18] Thus, for example, the number of standard persons in a family of four is 2, the number of standard persons in a family of nine is 3, and so forth. This means that poverty among large families – and, as we know, there are many large families in Israel – is lower according to the OECD method, and the opposite is true of small

additional difference lies in the fact that the OECD calculates the median income by persons and not by families; the slightly lowers the poverty line by comparison to the NII calculation. All these mean that the incidence of poverty according to the OECD calculation is slightly lower than that of the NII definition.[19]

The source of the data for calculating poverty in each country consists of surveys of income or expenditures, which are performed by the central bureaus of statistics in the various countries. The OECD calculations for Israel are accordingly based on the same data as the NII calculations.
Table 11 shows the incidence of poverty in families, persons and children, when the poverty line is calculated according to the OECD approach, for the various population groups, in 2008 and 2009. The data for previous years, and for 40% and 60% of the median income, are shown in Appendices 7 and 8.

The findings according to the OECD method are similar, from the standpoint of direction; they are, however, less severe than those of the NII approach. The incidence of poverty in families increased between the two years, from 19.0% to 19.4%. The incidence of poverty in persons and children increased more significantly. Although the total change in the incidences of poverty is very similar in the two approaches, the differences are greater when specific population groups are compared.

Thus, for example, with regard to the elderly and large families: the incidence of poverty among the elderly is higher when calculated according to the OECD definition, and totaled 25.1% of elderly families and 23.1% of elderly persons in 2009. On the other hand, the incidence of poverty among families with children is 21.7%; the percentage of poverty among children is low, relative to the Israeli approach, and comes to 28.7%. Because the incidence of poverty among the elderly – most of who are in small families – has decreased considerably, and the incidence of poverty among Arab and ultra-Orthodox families, which are relatively large, has increased, the effects offset each other.

families, such as the elderly and individuals. Initial results of an ongoing study on this subject show that the approach which assumes equality in the standard of living of families according to a consumption basket which includes essential products in addition to food, such as housing, clothing and footwear, leads to an equivalency scale which is very similar to that obtained according to the OECD method.

[19] The OECD also calculates the dimensions of poverty for 60% and 40% of the median monetary income.

Table 11: Incidence of poverty among families, persons and children in selected population groups according to the OECD definition, 2008 and 2009

	2008			2009		
	Families	Persons	Children	Families	Persons	Children
Total population	19.0	19.9	26.6	19.4	20.9	28.7
Jews	15.3	14.2	18.4	15.2	14.5	19.5
Arabs	42.2	42.7	48.8	45.7	46.8	54.2
Elderly*	27.5	25.1	49.9	25.1	23.1	54.3
Immigrants	19.5	16.1	19.7	18.7	16.3	22.0
Ultra-Orthodox**	45.0	46.7	49.8	47.2	49.1	52.3
Families with children – total	20.0	22.8	26.6	21.7	24.7	28.7
1-3 children	15.0	15.0	16.2	16.7	16.8	18.1
4 or more children	44.4	45.2	45.9	46.3	47.8	48.8
5 or more children	49.9	49.5	50.6	53.9	54.8	55.5
Single-parent families	27.1	29.9	34.2	28.9	30.6	36.3
Employment of head of household:						
Working	9.8	12.3	18.0	10.5	13.4	19.9
Employee	9.7	12.3	18.1	10.7	13.7	20.5
Self-employed	9.9	12.0	17.1	9.8	11.9	16.3
Working age but not working	71.6	78.6	86.5	69.4	77.8	87.1
1 breadwinner	19.2	27.4	37.2	20.5	30.2	42.3
2 or more breadwinners	1.8	2.2	2.8	2.2	2.5	2.9
Age group of head of household:						
Up to 30	21.9	23.4	34.1	23.4	25.8	38.7
31-45	17.0	21.6	26.4	19.0	23.4	28.3
46-pension age	14.1	13.8	20.9	13.6	13.8	21.9
Retirement age by law***	28.2	25.8	44.6	26.1	24.6	60.1
Education group of head of household:						
Up to 8 years of study	44.5	46.0	61.1	43.5	47.5	63.6
9-12 years of study	20.3	22.5	31.5	21.6	24.4	35.2
13 or more years of study	12.2	12.2	16.3	12.5	12.9	17.2

* According to the old definition: from age 60 for women, age 65 for men.

** Due to fluctuations, a moving average over two years is presented. The definition of "ultra-Orthodox" is according to Gottlieb-Kushnir (2009).

*** The definition was adjusted to the retirement age according to the Retirement Age Law. Accordingly, this population will not be fixed until the process of raising the retirement age is completed.

7. The poverty objective

As we know, the government established a cumulative poverty objective for itself, according to which the income of persons in the lowest quintile would increase between 2008 and 2010, on the average, at a rate at least 10% greater than the growth rate of the GDP per capita, all in real terms. If the GDP per capita increases by 10% during that period of time (for the sake of illustration only), the objective will be met if the gross family income of the families in the lowest quintile increases by 11% or more (that is, the growth rate (10%) per capita plus (10%*10%); in other words, with the addition of one percentage point). Meanwhile, in the framework of the 2009-2010 budget, achieving the objective has been postponed until 2013.

Table 12 shows a simulation, over time, of the poverty objective compared to the changes in the gross family income of the lowest quintile, as required by the official objective. For the sake of the comparison, the changes in net income per standard person in the same quintile are also presented.

Table 12: Real changes in poverty objective and income of the lowest quintile*, 2002-2009

Year	GLP per person + 10%	Real change in income of lowest quintile from year		
		Gross income per family**	Gross income per standard person	Net income per standard person
2002	-2.6			
2003	-0.3	-1.8	-2.8	-2.3
2004	3.5	-1.8	-1.5	-1.6
2005	3.3	4.4	2.6	3.1
2006	4.2	5.4	4.1	4.8
2007	3.7	1.8	4.2	4.3
2008	2.6	-1.3	-0.6	-0.3
2009	**-1.0**	**1.2**	**-2.1**	**-2.3**

In 2009, the GDP per capita, in real terms, after the addition of 10%, decreased by 1%. This percentage should be compared to the increase, in real terms, in the gross family income of the lowest quintile. The gross income (that is, including benefits, but not including taxation) of the lowest quintile increased, in real terms, by 1.2% between 2008 and 2009.[20] Had the objective been set, at least, in terms of gross income per standard person (in order to neutralize the effect of the change in the composition of the population in the lowest quintile), the gross income would have decreased by 2.1%. Had the objective been set in terms of disposable income per standard person, thereby making it possible to take into account the changes in direct taxation as well, the drop in the income of the lowest quintile would have been even greater – 2.3%.

Technically speaking, the government met its poverty objective in 2009, because the growth in gross income was greater than the change in the GDP per capita plus 10%. The outcome obtained is accordingly a strange one, according to which the dimensions of poverty in 2009 increased sharply, and nonetheless, the government would have met the calculated objective according to the method which it had determined for itself. A regime of objectives is only beneficial when exercised wisely. Accordingly, the conclusion is that it is important to replace the definition of the objective with a relevant definition as quickly as possible, in order to avoid the use of tools with no proper objectives, no performance monitoring and no drawing of conclusions.

The data in the table also show that, in 2005 and 2006 – each year for itself – the government would have achieved the objective which it set for itself in the area of poverty, but that, in the other growth years during the period shown in the table, it would not have done so.

II. The dimensions of inequality

1. Inequality in 2009 and in recent years

Table 13 shows the Gini indices of inequality for economic income and disposable income over time. The index with regard to disposable income shows an increase of approximately

[20] This result is obtained after eliminating the negative incomes in the survey (for example: those of self-employed persons). Had these negative incomes not been eliminated, the result would have been even lower.

1% between 2008 and 2009[21], and a similar cumulative decrease in the three years between 2006 and 2009. The cumulative increase in the Gini index of inequality for disposable income between 2002 and 2009, came to 5.8%.

On the other hand, the index with regard to economic income (which is primarily affected by the developments in the labor market and the capital market) **decreased** this year and during the same cumulative period. This is another indication that this recession has primarily damaged the productive public, causing some of the injured parties to temporarily slip into a poverty situation. Notwithstanding this decrease in inequality which resulted from the market forces, the effect of the tax system acted toward offsetting their effects and brought the inequality at the level of net income up again – among other things, through the income tax reform, which was regressive and beneficial for higher income earners. One expression of this is the reduction in the effect of policy, from 24.7% in 2008 to 23.7% in 2009. In actual fact, the majority of the deterioration in inequality has stemmed, in recent years, from the reduction in the progressive nature of the taxation, benefit and other transfer payment systems.

Table 13: Gini index of inequality with income distribution among the population, 1999-2009

Year	Before transfer payments and direct taxes	After transfer payments and direct taxes	% of decrease resulting from transfer payments and taxes
2009	**0.5099**	**0.3892**	**23.7**
2008	0.5118	0.3853	24.7
2007	0.5134	0.3831	25.4
2006	0.5237	0.3923	25.1
2005	0.5225	0.3878	25.8
2004	0.5234	0.3799	27.4
2003	0.5265	0.3685	30.0
2002	0.5372	0.3679	31.5
1999	0.5167	0.3593	30.5
Change in index (%)			
2009 compared to 2008	-0.4	1.0	
2009 compared to 2006	-2.6	-0.8	
2009 compared to 2002	-5.1	5.8	
2009 compared to 1999	-1.3	8.3	

* Calculation of the Gini index is based on individual observations, in terms of income per standard person, with the weight attributed to each family equal to the number of persons in the family.

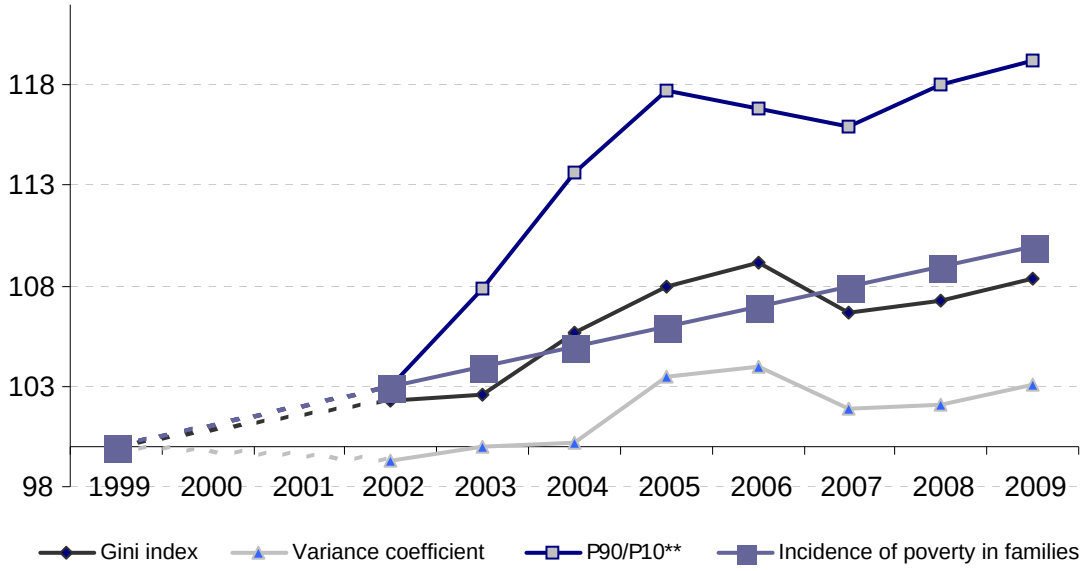
Chart 6 presents a number of indices of inequality – the Gini index, the variance coefficient[22] and the ratio between the maximum income in the ninth decile and the maximum income in the lowest decile (P90/P10). It may be seen that the basic direction of increase in the poverty indices in 2009 also exists with regard to the inequality indices. At the same time, the rate of

[21] Since 2006, a new method has been implemented in income surveys, which involves an averaging of incomes of a given number of observations with especially high incomes ("top coding"). This change admittedly does not affect the dimensions of poverty. It is, however, likely to affect the damages of the equality. At the same time, based on checks performed on past data, these changes are apparently not great with regard to the indices examined.

[22] The ratio between the standard deviation of averages of disposable income per standard person in each decile and the average income for the entire population. For the purpose of calculation, the deciles were classified according to disposable income per standard person; each decile accounts for 10% of the families.

increase is slower for the inequality indices. Also striking is the fact that the gap index (P90/P10) increases more rapidly than the other inequality indices. This development reflects the continuation of the polarization process which has become especially strong since 2002. Comparing the Gini index with the variance coefficient teaches that the level of inequality is less burdensome when the fact that the standard of living has increased over the years is taken into consideration; this fact was taken into account in the variance coefficient.

Chart 6: Incidence of poverty in families and selected inequality indices, 1999-2009



* Ratio between standard deviation of averages of disposable income per standard person in each decile*** and average income for entire population.
** Ratio between maximum disposable income per standard person in ninth decile and maximum disposable income per standard person in first decile.
*** For the purpose of the calculations, the deciles were classified according to disposable income per standard person; each decile accounts for 10% of families.

2. Inequality by quintile

This section presents selected data with regard to the standard of living of the population by quintile[23] in 2008 and 2009.

Chart 7 shows the growth, in real terms, in disposable income per standard person by quintiles in 2009 and during the period between 2002 and 2009. Between 2008 and 2009, the income remained unchanged for the entire population. In the lowest quintile, the income decreased at a rather exceptional rate of 2.3%; in the third and fifth quintiles, there was a modest increase (0.3% to 0.4%); and the second quintile, there was a modest decrease, and only in the fourth quintile did the income stay more or less after 2008 level.

[23] The quintiles were classified according to disposable income per standard person; each quintile accounts for 20% of the families. This definition is also in line with the use of quintiles within the definition of the government poverty objective (see Chapter II above).

More long-term observation, starting in 2002, revealed that income increased in real terms at a cumulative rate of 17% for the entire population. In the three upper quintiles, it increased at a similar rate (between 17% and 19%); in the second quintile, it increased by 13.1%; and in the lowest quintile, the rate of increase was only about one-half that of the second quintile – 5.7%.

Chart 7: Real change in disposable income per standard person by quintile (%)

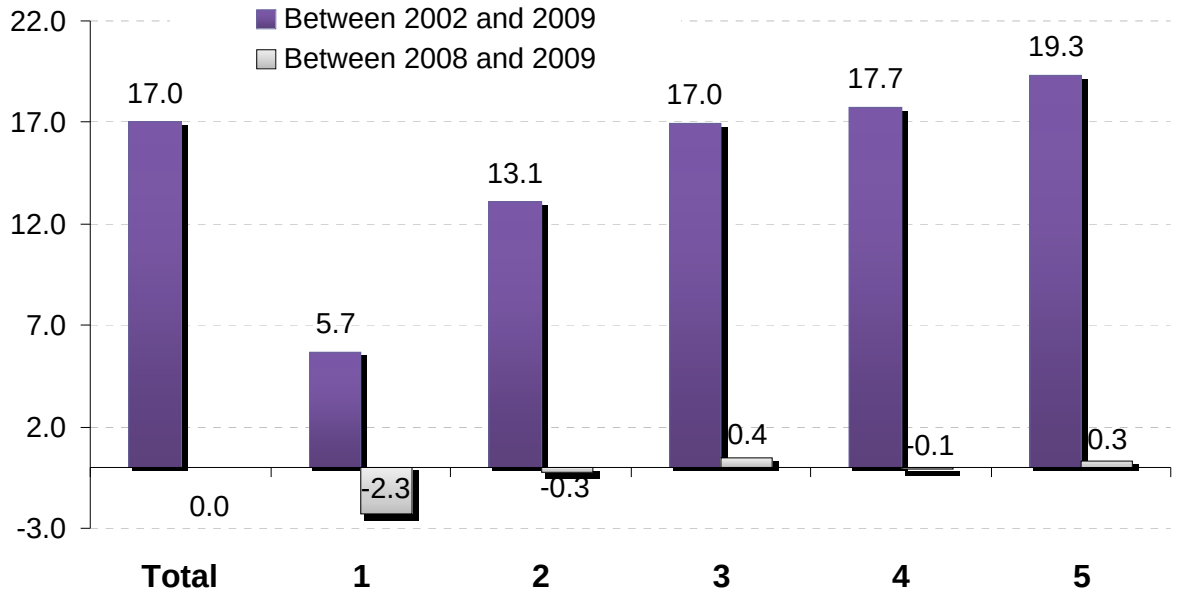


Table 14 below shows the income in 2009, by source and type of income, and the change in real terms, as a percentage relevant to 2008. Table 15 shows income distribution according to its various definitions, among the quintiles. Table 16 shows the changes in the families' expenses and the distribution of those expenses among the quintiles.

The findings in Table 14 show that income from work decreased, on the average, by 3.6%, and that this drop was common to all of the quintiles except the lowest quintile, in which income from work increased by 1%. The income of the highest quintile from work was 13 times the income of the lowest quintile from that source. By contrast in 2008, when decreases were also recorded in income from pension and support, income from these sources increased in 2009: income from pension, provident funds and capital increased at an average rate of approximately 8%; the average rate of increase in income from benefits and support was approximately 5%. The increase in income from benefits and support resulted from the increase in NII payments (5.3%) and from the increase in payments by government institutions (15.1%). The average of compulsory payments – income tax and national and health insurance contributions – decreased by 9%. This drop primarily results from a decrease in income tax payments (14.8%), as a result of the lowering of the taxation rate in almost all of the tax brackets (except for the first tax bracket, which remained unchanged).

The decrease in income from work, together with the increase in benefits and support and the decrease in compulsory payments as described above, led to a decrease of 1.7% in gross income per standard person, and to decreases and varying rates throughout the quintiles. In the lowest and highest quintiles, gross income decreased by 2.1% and 2.6% respectively; in remaining quintiles, it decreased at more moderate rates, of up to 1%. On the other hand, transfer payments and benefits rose steeply, by 5% – and the combination left disposable income unchanged in the entire population and in each of the quintiles, with the exception of

the lowest quintile, where disposable income per standard person decreased, in real terms, by 2.3%. Similarly to 2008, the ratio between the corrected disposable income of the highest quintile and the income of the lowest quintile was 8 in 2009. Table 15 shows the share of each quintile in the total income, according to its various definitions. The data show that the share of the highest quintile in income from work decreased from 47.3% in 2008 to 46.5% in 2009. Similarly to 2008, the fourth and fifth quintiles jointly account for about 70% of income from work, but for only about one-third of income from benefits and support. On the other hand, the two lowest quintiles account for 12% of income from work and for one-half of income from benefits and support. The table also indicates the degree of progressiveness of the various types of direct taxation: in 2009, the highest quintile paid almost 72% of income tax, but only 56% of NII contributions and 42% of health insurance contributions.

Almost half the economic income (47.8%), which originates in the labor and capital markets, is held by the highest quintile, by contrast to approximately 3% for the lowest quintile. The direct means of government intervention – direct taxes and transfer payments – reduce the share of the highest quintile to approximately 40% of total disposable income, and raise the share of the lowest quintile to 6.5% thereof.

The trend of changes in expenditures among the various quintiles is less uniform. The findings reported in Table 16 show that monetary expenditures per standard person increased between the two years by 1.8%. The increase in monetary expenditures, in real terms, was characteristic of almost all of the quintiles, except for the second quintile, which showed a decrease of 2%. The greatest increase, approximately 5%, was recorded in the fourth quintile. The share of the total monetary expenditures remained almost unchanged between 2008 and 2009 in the lowest quintile and increased in the middle quintiles from 14.5% to 15.6% (second quintile) and from 18.9% to 19.2% (third quintile). The upper quintiles also reduced their share of the total monetary expenditures, from 23.2% to 22.6% (fourth quintile) and from 31.5% to 30.9% (highest quintile).

Because a change in the composition of the population in the various quintiles is likely to explain some of the changes in the data from year to year (and because the sample changes from year to year), the data in Table 17 represent the composition of persons in the various quintiles (children and the elderly). Between 2008 and 2009, there are shifts from the lowest, fourth and highest quintiles to the middle quintiles (second and third); these accordingly explain the increase in monetary expenditures per standard person in the third quintile, but do not explain the differences in the rates of change in expenditures in the remaining quintiles.

Examination of income and expenditures by quintiles, using the OECD equivalence scale – that is, when the number of standard persons equals the square root of the number of actual persons in the household[24] – shows, as expected, slightly different findings, which are explained by the structure of the equivalence scale.[25] Tables parallel to Tables 14 through 16, which use the OECD equivalence scale instead of the Israeli equivalence scale, appear in the Appendices.

[24] Both for the purpose of classifying the quintiles and for the purpose of calculating the income per standard person. See additional details in the chapter on international comparisons below.

[25] Admittedly, both of the equivalency scales give equal weight to adults and children. However, the equivalency scale of the "square root of the number of persons", which is used by the OECD, provides a greater advantage of scale for large families, and accordingly the supplementary income/expenditures required for each additional person are smaller than those required according to the Israeli scale. As a result, the composition of the quintiles classified by income per standard person in each of the scales is different: the Israeli equivalency scale will tend to include in the lower quintiles a greater proportion of large families, because, as set forth above, their advantage of scale is smaller, and accordingly, the supplementary income/expenditures required in order to remain at a fixed standard of living is greater.

Table 14: Source and type of income by quintile*, 2009, and real change compared to 2008

	Income (NIS per month)							Real change compared to 2008,%					
	Average	1	2	3	4	5	Ratio between income of highest and lowest quintile	Average	1	2	3	4	5
From work	10,380	1,820	4,610	8,320	13,040	24,120	13.3	-3.6	0.8	-4.3	-3.6	-0.8	-5.3
From pension, provident fund and capital	1,470	90	430	970	1,600	4,270	47.4	8.1	-4.3	3.4	7.0	6.4	9.8
Total support and benefits	1,730	1,910	1,960	1,730	1,460	1,570	0.8	4.7	-1.6	1.5	9.2	0.7	17.9
Payments from National Insurance only	1,340	1,540	1,610	1,380	1,130	1,050	0.7	5.3	3.2-	3.2	10.6	7.7	13.2
Payments from State institutions only	190	240	190	150	160	230	1.0	15.1	6.8	-6.0	9.6	13.1	64.2
Payments from households and individuals only	190	140	160	210	170	290	2.1	-6.3	3.1	-5.2	0.5	-34.6	10.6
Total compulsory payments	2,220	270	540	1,120	2,280	6,910	25.6	9.3-	3.1	10.1-	5.9-	6.2-	11.2-
Income tax	1,280	20	140	450	1,170	4,600	230.0	-14.8	-15.0	-24.3	-12.7	-12.2	-15.2
National Insurance	450	60	130	270	520	1,250	20.8	-1.3	10.5	-7.6	-0.4	2.0	-2.5
Health insurance	500	190	270	400	590	1,050	5.5	-0.6	2.2	-2.5	-1.0	0.7	-1.2
Net per family	11,380	3,670	6,450	9,900	13,810	23,050	6.3	0.4	1.1	-1.6	-0.3	1.1	0.7
Gross per family	13,600	3,930	6,990	11,020	16,090	29,960	7.6	-1.4	1.2	-2.3	-0.9	0.0	-2.3
Economic per family	11,780	2,010	5,000	9,210	14,540	28,110	14.0	-2.4	4.1	-3.6	-3.0	-0.2	-3.6
Net per standard person	4,400	1,200	2,350	3,630	5,200	9,630	8.0	0.0	-2.3	-0.3	0.4	-0.1	0.3
Gross per standard person	5,240	1,290	2,540	4,010	5,990	12,370	9.6	-1.7	-2.1	-0.8	-0.1	-1.0	-2.6
Economic per standard person	4,430	560	1,610	3,210	5,290	11,490	20.5	-2.9	3.7	-2.7	-2.2	-1.3	-4.1

* The quintiles were classified according to disposable income per standard person; each quintile consists of 20% of families.

Table 15: Share of each quintile in total income, 2008-2009

	2008						2009					
	Total	1	2	3	4	5	Total	1	2	3	4	5
From work	100.0	3.4	8.9	16.0	24.4	47.3	100.0	3.5	8.9	16.0	25.1	46.5
From pension, provident fund and capital	100.0	1.4	6.1	13.3	22.0	57.2	100.0	1.2	5.8	13.2	21.7	58.1
Total support and benefits	100.0	23.6	23.5	19.2	17.5	16.2	100.0	22.2	22.7	20.0	16.9	18.2
Payments from National Insurance only	100.0	25.0	24.5	19.5	16.5	14.6	100.0	23.0	24.0	20.5	16.9	15.7
Payments from State institutions only	100.0	26.7	24.0	16.4	16.5	16.5	100.0	24.8	19.6	15.7	16.3	23.6
Payments from households and individuals only	100.0	12.7	16.7	19.9	25.0	25.7	100.0	14.0	16.9	21.3	17.4	30.4
Total compulsory payments	100.0	2.1	4.9	9.7	19.8	63.4	100.0	2.4	4.9	10.0	20.5	62.1
Income tax	100.0	0.3	2.4	6.8	17.9	72.6	100.0	0.3	2.1	7.0	18.4	72.2
National Insurance	100.0	2.5	6.4	11.8	22.6	56.6	100.0	2.8	6.0	11.9	23.3	55.9
Health insurance	100.0	7.2	11.1	16.1	23.3	42.3	100.0	7.4	10.9	16.0	23.6	42.1
Net per family	100.0	6.4	11.6	17.5	24.1	40.4	100.0	6.5	11.3	17.4	24.3	40.5
Gross per family	100.0	5.6	10.4	16.1	23.3	44.5	100.0	5.8	10.3	16.2	23.7	44.1
Economic per family	100.0	3.2	8.6	15.7	24.1	48.3	100.0	3.4	8.5	15.6	24.7	47.8

* The quintiles were classified according to disposable income per standard person; each quintile consists of 20% of families.

Table 16: Expenditures by quintile, real rates of change and distribution of expenditures, 2008-2009

	Average	1	2	3	4	5
Expenditure in NIS per month, 2009						
Expenditure for consumption per standard person	5,100	2,760	3,580	4,650	5,890	8,630
Monetary expenditure per standard person	3,870	2,040	2,700	3,500	4,480	6,610
Expenditure for consumption per family	13,010	7,850	9,420	12,300	15,120	20,350
Monetary expenditure per family	9,910	5,910	7,170	9,370	11,520	15,590
Real change compared to 2008						
Expenditure for consumption per standard person	2.4	1.7	0.2	1.7	5.3	1.9
Monetary expenditure per standard person	1.8	2.2	-2.0	0.6	4.9	1.7
Expenditure for consumption per family	5.4	6.1	-1.0	4.2	8.0	7.2
Monetary expenditure per family	4.6	6.3	-3.2	3.2	7.7	6.5
Share of expenditure in total expenditure – 2009						
Expenditure for consumption per family	100.0	12.0	15.4	19.1	22.7	30.8
Monetary expenditure per family	100.0	11.7	15.6	19.2	22.6	30.9
Share of expenditure in total expenditure – 2008						
Expenditure for consumption per family	100.0	12.0	14.5	18.9	23.2	31.3
Monetary expenditure per family	100.0	11.9	14.5	18.9	23.2	31.5

* Source: surveys of household expenditures in 2008 and 2009, Central Bureau of Statistics
** The quintiles were classified according to disposable income per standard person; each quintile consists of 20% of families.

Table 17: Composition of quintiles, 2008 and 2009

	Total	1	2	3	4	5
2008						
Average number of persons per family	3.31	3.93	3.41	3.33	3.10	2.77
Average number of children per family	1.09	1.86	1.23	1.02	0.79	0.56
Average number of elderly per family	0.38	0.36	0.45	0.40	0.34	0.36
2009						
Average number of persons per family	3.34	4.11	3.35	3.29	3.15	2.80
Average number of children per family	1.10	1.97	1.18	0.98	0.82	0.57
Average number of elderly per family	0.39	0.31	0.45	0.41	0.37	0.39

* The quintiles were classified according to disposable income per standard person; each quintile consists of 20% of families.

3. Inequality in Israel in comparison to the OECD

The inequality situation in Israel is grave, not only in a historical perspective (Table 13 and Chart 7), but in an international perspective as well. Comparison to the OECD member countries (Table 18) indicates that the Gini index of inequality is higher in Israel by approximately 22%, relative to the average of the OECD member countries. At the same time, the standard of living in Israel is higher than in some of the very inegalitarian comparison countries. The variance coefficient corrects this difference to a great degree; after the correction, the gap between Israel and the OECD average is reduced to approximately 9%. One of the major problems of inequality in Israel is the polarization between the rich and the poor: the income of the ninth decile was 6.2 times the income of the poorest (first) decile. This ratio became slightly more acute in comparison to 2008. The same applies to the comparison of median income (fifth decile). This was 2.8 times the income of the first

decile.[26] This index as well deteriorated by comparison to 2008. The 2009 values of Israel are 49% (ninth decile compared to lowest decile) and 33% (fifth decile compared to lowest decile) higher than the average gaps in the OECD countries (which refers to the mid-2000s).

The significance of the comparison is that Israel is an especially exceptional situation with regard to the polarization between the poorest and the richest, and between the poorest and the median income – that is, the "middle-of-the-road" families.

Table 18: Selected inequality indices, OECD countries and Israel, mid-2000s and 2009

Country	Gini index		Variance coefficient*		P90/P10**		P50/P10***		Average ranking
	Index	Ranking	Index	Ranking	Index	Ranking	Index	Ranking	
Czech Republic	0.268	5	0.38	8	3.20	5	1.74	2	5.0
Denmark	0.232	1	0.60	18	2.72	1	1.75	3	5.8
Luxembourg	0.258	3	0.30	2	3.25	8	1.86	10	5.8
Sweden	0.234	2	0.65	19	2.79	2	1.72	1	6.0
Austria	0.265	4	0.33	3	3.27	10	1.82	7	6.0
Norway	0.276	11	0.46	14	2.83	3	1.77	5	8.3
Switzerland	0.276	10	0.34	4	3.29	11	1.83	9	8.5
Slovakia	0.268	6	0.37	6	3.26	9	1.86	13	8.5
Iceland	0.280	12	0.54	16	3.10	4	1.76	4	9.0
Holland	0.271	8	-	-	3.23	7	1.86	12	9.0
Belgium	0.271	9	0.30	1	3.43	14	1.97	14	9.5
France	0.281	13	0.37	7	3.39	13	1.82	8	10.3
Hungary	0.291	14	0.48	15	3.36	12	1.78	6	11.8
Finland	0.269	7	0.81	25	3.21	6	1.86	11	12.3
Austria	0.301	16	0.39	9	3.95	15	2.09	18	14.5
Germany	0.298	15	0.45	13	3.98	16	2.08	17	15.3
Canada	0.317	18	0.59	17	4.12	17	2.14	20	18.0
Korea	0.312	17	0.35	5	4.73	24	2.50	27	18.3
Greece	0.321	21	0.43	12	4.39	21	2.18	21	18.8
Spain	0.319	19	0.41	10	4.59	23	2.32	23	18.8
New Zealand	0.335	23	-	-	4.27	19	2.06	16	19.3
Britain	0.335	24	0.71	21	4.21	18	1.99	15	19.5
Japan	0.321	20	0.41	11	4.77	25	2.43	26	20.5
Ireland	0.328	22	0.79	23	4.41	22	2.29	22	22.3
Italy	0.352	25	1.10	26	4.31	20	2.11	19	22.5
Poland	0.372	26	0.71	20	5.63	26	2.42	25	24.3
Portugal	0.416	29	1.13	27	6.05	28	2.35	24	27.0
United States	0.381	28	0.81	24	5.91	27	2.69	29	27.0
Israel 2005	0.376	27	0.72	22	6.12	29	2.69	30	27.0
Turkey	0.430	30	1.45	28	6.49	30	2.67	28	29.0
Mexico	0.474	31	2.70	29	8.53	31	2.86	31	30.5
OECD average	0.312	-	0.66	-	4.16	-	2.09	-	-
Israel 2009	0.379	-	0.72	-	6.19	-	2.77	-	-

Source: OECD (2008) "Growing unequal?" and Research and Planning Administration data processing.

* Ratio between standard deviation of averages of disposable income per standard person in each decile**** and average income for the entire population.

** Ratio between maximum disposable income per standard person in the ninth decile and maximum disposable income per standard person in the first decile.

*** Ratio between mean disposable income per standard person and maximum disposable income per standard person in the first decile.

III. The causes of poverty and inequality

The year 2009 was characterized by a recession, following the worldwide economic crisis which affected Israel's economy in late 2008. The data for the entire economy show that, between 2008 and 2009, there was almost no change (0.2%) in the number of employed

[26] In these comparisons, it is customary to use the highest income in each decile.

persons, following an increase at a rate of 3.3% between 2007 and 2008. The unemployment rate increased in 2009, reaching a level of 7.6%, after a consistent decrease starting in 2006 (6.1% in 2008, 7 .3% in 2007 and 8.4% in 2006[27]). Nominal wages increased by 0.4%; at the same time, price increases at the rate of 3.3% in 2009 led to a decrease of 2.8% in real wages.

The slowdown in the rate of increase of employed persons was not uniform in the various sectors. In the health and welfare, banking and public administration sectors, steep increases were recorded (4.4%, 4.8% and 2.5% respectively); on the other hand, the business services and industrial sectors showed drops between 2% and 4% in the number of employed persons.

The changes in wages between the two periods of the survey were also not uniform. Almost all of the sectors showed a decrease in real wages, except for real wages in the transport and communications sector, which remained almost unchanged. The banking sector recorded a steep drop of 13.0% in real wages; decreases of approximately 3.0%-3.5% were recorded in the trade and business services sectors; in the remaining sectors, real wages decreased by up to 2.0%.

The number of wage-earners remained almost unchanged between the two surveys. Income from employed work by heads of households and spouses decreased by approximately 4.0%, as compared to 0.5% in 2008. Income from employed work by other individuals in the household also dropped (2%), whereas it had increased in 2008. Total income from work decreased by 3.6%, after a decrease of 2.5% in income from self-employed work.

Table 19 shows the distribution of wages for the wage-earning population, divided into poor and non-poor wage-earners, in 2009. Similarly to 2008, the findings show considerable gaps in the wage levels of poor wage-earners, by comparison to all wage-earners: approximately 75% of all wage-earners in Israel's economy are employed full-time, and some 13% of them are paid less than the minimum wage. In the population of wage-earners in poor families, approximately 60% are employed full time, and almost 40% of them earning less than the minimum wage. All of the remaining poor wage-earners who are employed full-time – some 60% – earn more than the minimum wage, but less than the average wage in Israel's economy.

Table 19: Distribution of wages* for all employees and for poor employees, by wage level, 2009**

	Total		Up to 1/2 minimum wage	1/2 to minimum wage	Minimum to average wage	Over average wage
	Absolute numbers (thousands)	Percentages				
Total employees	2,406	100.0	9.0	16.4	42.5	32.1
* Employees employed full-time	1,806	100.0	2.9	10.2	47.4	39.5
Among the economic poor population						
Total employees	330	100.0	29.3	33.0	37.3	0.4
* Employees employed full-time	182	100.0	11.3	30.3	57.9	0.5
Among the net poor population						
Total employees	219	100.0	26.5	31.7	41.3	0.6
* Employees employed full-time	130	100.0	11.9	27.0	60.2	0.8

[27] According to an average calculation, waited in accordance with the income survey.

* 35 or more hours per week.
** Minimum and average wage in the economy were adjusted to the period of the 2009 income survey.

The data in Table 20, which presents the percentage of wage-earners in 2008 and 2009 by employment sectors, show that the number of poor wage-earners in the trade sector increased (from 12.3% to 15.0%), although there was no change in the number of non-poor wage-earners in that sector. In the transport and communications, education, and social community services sector, the number of poor wage-earners decreased, while the number of non-poor wage-earners in those sectors remained almost the same. In the electricity and water, hospitality and food services, agricultural and public administration sectors, there were no significant changes between the two years in the percentage of poor and non-poor wage-earners.

Table 21 presents the wages of persons employed in the sector, by comparison to the average wage for the period of the survey and the change in wages, in real terms, between 2008 and 2009 by employment sectors. According to the findings, in 2009, wages for all wage-earners decreased in real terms by 2.7%, whereas the decrease for poor wage-earners was at a lower rate – 1.6% – and the wages of non-poor wage-earners decreased by 2.1%. The wages of poor wage-earners came to 42% of the average wage, in a range between 28% of the average wage in the health and welfare services sector and 54% of the average wage in the electricity and water and the transport and communications sectors. The real wages of poor wage-earners dropped steeply (12.6%) in the business services, banking and insurance sector, as well as in the construction, trade, transport and communications, and health and welfare services sectors. In the industrial, hospitality and food services, education, and social community services sectors, the real wages increased; and the remaining sectors, the real wages remained unchanged. On the other hand, in almost all sectors, the salaries of non-poor workers decreased between 2008 and 2009; and some sectors, however, the rate of decrease was lower than the rate of decrease in the salaries of poor workers.

Table 20: Percentages of employment and change in employment, by economic sector (%), 2008-2009

Economic sector	Percentage employed in sector					
	2008			2009		
	Total	Poor	Non-poor	Total	Poor	Non-poor
Total	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	1.0	2.2	0.9	1.0	2.4	0.8
Industry (mining and manufacturing)	16.5	12.4	16.8	15.5	13.0	15.8
Electricity and water	0.8	0.3	0.8	0.8	0.2	0.8
Construction and building	4.8	12.4	4.1	4.1	12.1	3.3
Wholesale and retail trade	12.3	12.3	12.3	12.5	15.0	12.3
Hospitality and food services	4.6	5.7	4.5	4.6	5.7	4.5
Transport, storage and communications	6.2	5.3	6.3	6.3	3.9	6.5
Business services, banking and insurance	16.6	9.5	17.2	17.4	8.9	18.3
Public administration	4.8	1.9	5.1	4.9	1.8	5.2
Education	13.7	21.3	13.0	13.3	19.4	12.7
Health and welfare services	9.7	8.6	9.8	10.3	9.1	10.5
Community, social and other services	6.0	7.1	5.9	6.0	6.5	6.0

* Average wage calculated according to income survey data, including "Unknown sector" which was omitted from the list; cases with few observations are marked "–".

Table 21: Wages as a percentage of average wage and changes therein, by economic sector (%), 2008-2009

Economic sector	Wage as % of average wage of employees*:			% of real change in workers' wages between 2008 and 2009		
	Total	Poor	Non-poor	Total	Poor	Non-poor
Total	100.0	42.0	105.8	- 2.7	- 1.6	- 2.1
Agriculture	70.6	46.3	77.8	- 3.6	-	- 1.7
Industry (mining and manufacturing)	115.6	52.0	120.8	- 5.0	2.7	- 4.4
Electricity and water	174.8	54.0	177.2	0.1	-	- 0.9
Construction and building	81.5	52.5	92.1	- 4.8	- 5.2	- 1.7
Wholesale and retail trade	81.0	45.3	85.4	- 6.8	- 2.5	- 5.7
Hospitality and food services	58.6	38.5	61.1	- 0.5	0.8	- 0.1
Transport, storage and communications	102.3	54.1	105.2	- 0.2	- 1.5	- 0.8
Business services, banking and insurance	133.3	34.6	138.1	- 0.5	- 12.6	- 0.3
Public administration	128.3	49.8	131.1	- 2.2	-	- 2.1
Education	80.8	38.1	87.4	- 1.8	5.1	- 1.8
Health and welfare services	87.4	27.8	92.6	- 2.9	- 6.7	- 2.3
Community, social and other services	69.2	30.4	73.5	1.9	6.9	1.8

* Average wage calculated according to income survey data, including "Unknown sector" which was omitted from the list; cases with few observations are marked "–".

Table 22 and 23 present the employment and wage data by economic sector according to professions. It is possible to see an increase in the share of poor wage-earners in the "Sales and service workers" and "Clerical workers" sectors, from 21.7% to 24.6% and from 8.3% to 10.1% respectively, between 2008 and 2009, by contrast to a decrease in the share of non-professional workers from 18.2% to 14.8% between the two years (Table 22). Decreases in real wages characterized most of the professions, especially among the non-poor (Table 23). The steepest drop in wages was among non-professional workers and workers in the "Academic professions and managers" sectors in the non-poor population (6.6% and 5.7% respectively), and among professional and non-professional workers in the poor population (approximately 5%). On the other hand, among non-poor workers, decreases in real wages were recorded in almost all professions (except "free professions", where real wages remained unchanged); among poor workers, there were also increases in real wages in some professions – most strikingly, in the "clerical workers" profession, where real wages increased by 21.8% between 2008 and 2009.

Table 22: Percentages of employment and change in employment, by profession (%), 2008-2009

Profession	2008			2009		
	Total	Poor	Non-poor	Total	Poor	Non-poor
Total	100.0	100.0	100.0	100.0	100.0	100.0
Academic professions and managers	18.5	6.5	19.6	19.2	5.8	20.6
Free and technical professions	15.3	14.7	15.4	15.4	14.3	15.6
Clerical workers	17.8	8.3	18.7	18.2	10.1	19.1
Sales and service workers	20.4	21.7	20.2	20.2	24.6	19.8
Professional workers	17.8	29.8	16.7	16.7	29.3	15.5
Non-professional workers	7.6	18.2	6.6	7.3	14.8	6.6

* Total including "Unknown".

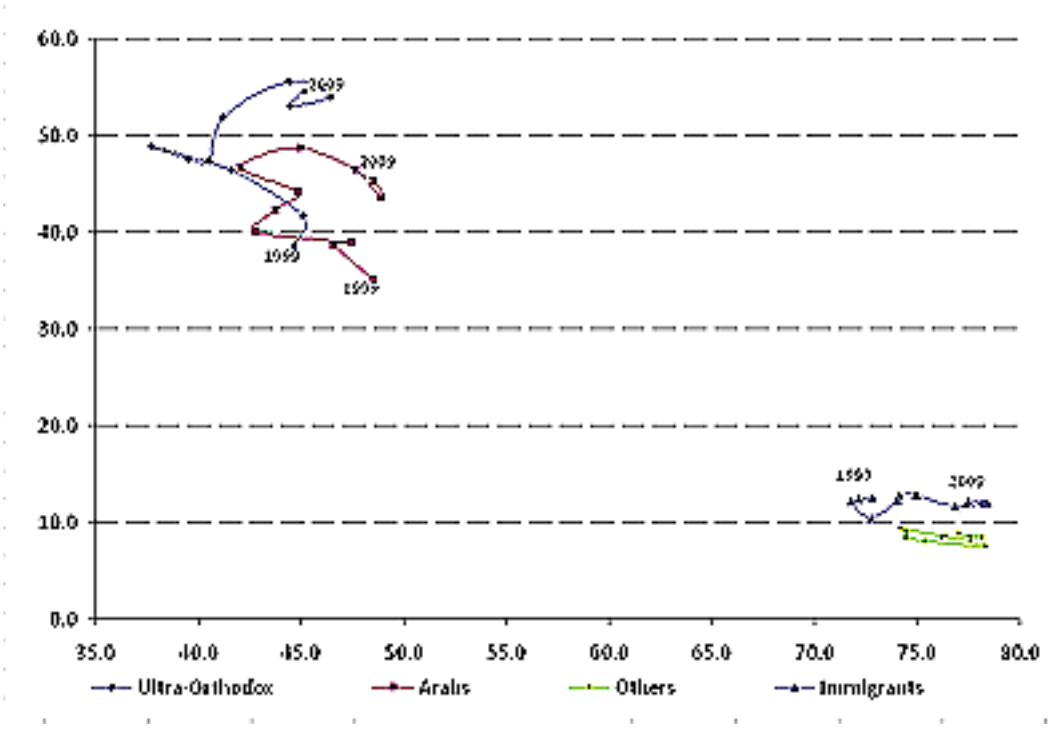
Table 23: Percentages of wages and changes therein, by profession (%), 2008-2009

Profession	Percentage employed in profession					
	Wage as % of average wage of employees*:			% of real change in workers' wages between 2008 and 2009		
	Total	Poor	Non-poor	Total	Poor	Non-poor
Total	100.0	42.0	105.8	- 2.7	- 1.6	- 2.1
Academic professions and managers	175.5	43.8	179.2	- 5.5	3.9	- 5.7
Free and technical professions	104.8	39.3	110.8	- 0.2	4.4	0.1
Clerical workers	85.1	41.0	87.5	- 2.8	21.8	- 2.5
Sales and service workers	63.9	33.5	67.7	- 4.0	- 2.5	- 2.8
Professional workers	85.5	52.9	91.7	- 1.8	- 5.2	- 0.4
Non-professional workers	49.4	37.2	52.1	- 6.1	- 5.3	- 6.6

* Total including "Unknown".

Chart 8 illustrates the transformations which the labor market is capable of providing from the standpoint of the struggle against poverty, provided that, along with the increase in the percentage of employment, decent wages are paid for work. The chart shows the percentages of employed persons relative to the incidences of poverty (among persons), broken down by Jews, Arabs, ultra-Orthodox and immigrants, for the years 1999-29. The chart shows that, since 2006, there has been an inverse relationship (as expected) between the percentage of employment and the percentage of poverty among Arabs: between 2006 and 2008, the percentage of employment among Arabs increased and, at the same time, their incidence of poverty decreased. In 2009, however, as a result of the recession, the percentage of their employment fell and the incidence of their poverty rose. Among the ultra-Orthodox, the inverse relationship appeared only in 1999-2000; between 2001 and 2009, however, the percentage of employment increased, and nonetheless, the incidence of poverty also increased. Among new immigrants, an inverse relationship between the percentage of employment and the incidence of poverty appeared for only some of the years (2001-2002 and 2005-2006). Between 2008 and 2009, the percentage of employment of new immigrants increased, but the incidence of poverty remained unchanged. Among others (Jews who are neither immigrants nor ultra-Orthodox), there is an inverse relationship between the percentage of employment and the incidence of poverty for almost all years.

Chart 8: Percentage of employed and percentage of poverty among persons by group, 1999-2009



Source: Processing by the Research and Planning Administration of income survey data for the years shown in the chart; data were taken from age 25 to retirement age under law.

*Due to fluctuation, a moving average over two years is shown. Definition of "ultra-Orthodox" according to the Gottlieb-Kushnir study.

**Others – Jews who are neither immigrants nor ultra-Orthodox.

IV. Appendices

Appendix 1a: Incidence of poverty, 1998-2009, including East Jerusalem

Year	Incidence of poverty (%)		
	Families	Persons	Children
1998	17.4	17.5	21.8
1999	18.0	19.5	26.0
2002	18.1	21.0	29.6
2003	19.3	22.4	30.8
2004	20.3	23.6	33.2
2005	20.6	24.7	35.2
2006	20.0	24.5	35.8
2007	19.9	23.8	34.2
2008	19.9	23.7	34.0
2009	20.5	25.0	36.3

Appendix 1b: Incidence of poverty, 1999-2009, not including East Jerusalem

Year	Incidence of poverty (%)		
	Families	Persons	Children
1999	17.8	18.8	24.9
2000	17.5	18.8	25.2
2001	17.7	19.6	26.9
2002	17.7	20.0	28.0
2003	19.2	21.5	29.4
2004	20.3	23.2	32.5
2005	20.3	23.7	33.8
2006	20.2	23.9	34.6
2007	19.5	22.8	33.2
2008	19.6	22.7	32.5
2009	20.0	23.8	34.4

Appendix 2: Number of poor families and poor persons after transfer payments and taxes, 2008-2009

	2008		2009		Change between 2008 and 2009	
	Families	Persons	Families	Persons	Families	Persons
Total population	420,100	1,651,300	435,100	1,774,800	15,000	123,500
Jews	278,100	916,400	278,800	961,300	700	44,900
Arabs	142,000	734,900	156,300	813,500	14,300	78,600
Elderly*	93,700	149,800	84,400	143,900	- 9,300	- 5,900
Immigrants	72,400	191,000	70,800	208,100	- 1,600	17,100
Ultra-Orthodox**	54,800	326,800	56,700	348,700	1,900	21,900
Families with children – total	238,200	1,339,400	261,800	1,470,500	23,600	131,100
1-3 children	143,500	632,000	164,300	727,100	20,800	95,100
4 or more children	94,700	707,300	97,400	743,400	2,700	36,100
5 or more children	53,900	448,700	54,600	473,900	700	25,200
Single-parent families	32,200	132,500	38,900	152,900	6,700	20,400
Employment of head of household:						
Working	194,400	978,800	213,000	1,085,500	18,600	106,700
Employee	169,400	855,600	187,800	958,300	18,400	102,700
Self-employed	25,000	123,100	25,200	127,200	200	4,100
Working age but not working	135,600	532,100	140,200	550,900	4,600	18,800
1 breadwinner	168,300	827,100	180,500	901,000	12,200	73,900
2 or more breadwinners	26,200	151,700	32,500	184,500	6,300	32,800
Age group of head of household:						
Up to 30	92,100	354,200	95,500	385,200	3,400	31,000
31-45	151,000	831,500	169,700	904,300	18,700	72,800
46-pension age	92,300	333,400	93,100	357,700	800	24,300
Retirement age by law***	84,700	132,200	76,700	127,700	- 8,000	- 4,500
Education group of head of household:						
Up to 8 years of study	107,100	362,400	98,900	352,400	- 8,200	- 10,000
9-12 years of study	176,200	768,400	194,800	874,900	18,600	106,500
13 or more years of study	136,800	520,500	141,500	547,400	4,700	26,900

* According to the definition which was in force until now: from age 60 for women, age 65 for men.

** Due to fluctuations, a moving average over two years is presented. The definition of "ultra-Orthodox" is according to Gottlieb-Kushnir (2009).

*** The definition was adjusted to the retirement age according to the Retirement Age Law. Accordingly, this population will not be fixed until the process of raising the retirement age is completed.

Appendix 3: Incidence of poverty among persons by population group (%), 2008 and 2009

	Income before transfer payments and taxes		Income after transfer payments and taxes		Rate of decrease in incidence of poverty after transfer payments and taxes (%)	
	2008	2009	2008	2009	2008	2009
Total population	32.7	33.9	23.7	25.0	27.7	26.2
Jews	26.0	26.7	16.4	16.9	36.9	36.7
Arabs	60.0	62.7	53.1	57.4	11.6	8.4
Elderly*	52.5	51.0	21.8	20.3	58.4	60.2
Immigrants	34.7	35.2	17.2	18.0	50.5	48.7
Ultra-Orthodox**	72.9	73.8	59.7	61.3	18.2	16.9
Families with children – total	35.2	36.8	28.9	31.2	18.0	15.2
1-3 children	24.2	26.1	18.3	20.6	24.3	21.0
4 or more children	67.3	68.1	59.5	62.1	11.6	8.7
5 or more children	78.0	77.7	68.6	70.9	12.0	8.7
Single-parent families	50.0	50.3	32.5	34.8	35.0	30.8
Employment of head of household:						
Working	23.2	24.2	16.8	18.4	27.6	24.2
Employee	23.7	25.1	16.8	18.7	29.0	25.7
Self-employed	20.0	18.5	16.9	16.6	15.6	10.3
Working age but not working	93.0	93.8	81.6	80.2	12.3	14.5
1 breadwinner	47.9	49.7	35.6	38.7	25.7	22.1
2 or more breadwinners	6.8	7.7	4.4	5.2	36.1	32.8
Age group of head of household:						
Up to 30	41.3	43.7	28.7	31.6	30.7	27.7
31-45	33.3	34.3	27.7	29.3	16.8	14.5
46-pension age	20.8	22.0	15.5	16.2	25.3	26.1
Retirement age by law***	55.3	55.5	22.4	21.4	59.5	61.4
Education group of head of household:						
Up to 8 years of study	67.4	67.7	51.3	51.9	23.8	23.3
9-12 years of study	35.4	39.0	26.9	30.0	24.2	23.1
13 or more years of study	23.3	23.1	15.3	15.6	34.4	32.3

* According to the definition which was in force until now: from age 60 for women, age 65 for men.

** Due to fluctuations, a moving average over two years is presented. The definition of "ultra-Orthodox" is according to Gottlieb-Kushnir (2009).

*** The definition was adjusted to the retirement age according to the Retirement Age Law. Accordingly, this population will not be fixed until the process of raising the retirement age is completed.

Appendix 4: Ratio of income gaps in families by type of family, 2008-2009 (%)

	Income before transfer payments and taxes		Income after transfer payments and taxes		Total effect on the income gap[+]	
	2008	2009	2008	2009	2008	2009
Total population	59.6	60.3	34.2	35.5	89.2	87.3
Jews	63.0	62.7	32.8	33.1	107.8	109.0
Arabs	53.6	56.0	36.0	38.3	53.9	48.1
Elderly*	80.8	80.4	23.0	24.8	139.7	144.2
Immigrants	67.8	65.1	29.4	26.4	120.9	123.5
Ultra-Orthodox**	66.1	66.1	37.8	38.2	72.6	70.3
Families with children – total	54.6	56.4	35.4	36.5	71.6	65.9
1-3 children	51.9	53.3	33.9	34.7	85.0	74.0
4 or more children	57.4	59.8	36.7	38.1	56.1	57.4
5 or more children	59.2	62.8	37.1	39.0	57.1	53.9
Single-parent families	67.4	63.5	36.9	35.3	106.2	92.6
Employment of head of household:						
Working	38.1	39.4	26.9	28.4	90.9	89.1
Employee	37.8	39.5	26.5	28.0	93.7	91.4
Self-employed	40.3	39.1	29.7	31.3	68.0	70.1
Working age but not working	94.2	94.6	50.9	52.3	61.8	63.7
1 breadwinner	41.0	42.7	28.0	29.7	85.8	83.2
2 or more breadwinners	24.4	25.7	20.6	21.7	121.6	116.6
Age group of head of household:						
Up to 30	54.4	54.6	35.4	35.8	97.0	89.2
31-45	53.0	55.8	33.9	36.1	69.8	68.3
46-pension age	64.3	62.4	39.0	38.3	84.5	87.0
Retirement age by law***	81.3	80.6	21.4	23.0	141.8	145.7
Education group of head of household:						
Up to 8 years of study	67.4	68.9	35.9	38.4	80.7	79.0
9-12 years of study	55.3	55.4	33.9	35.2	82.3	83.4
13 or more years of study	60.3	62.1	33.5	34.2	102.9	98.2

* According to the definition which was in force until now: from age 60 for women, age 65 for men.

** Due to fluctuations, a moving average over two years is presented. The definition of "ultra-Orthodox" is according to Gottlieb-Kushnir (2009).

*** The definition was adjusted to the retirement age according to the Retirement Age Law. Accordingly, this population will not be fixed until the process of raising the retirement age is completed.

[+] This effect is composed of two groups: (a) families which stayed poor, (b) families which left the circle of poverty. With regard to the second group, the improvement of the income gap is at least equal to the gap before the transfer payments. Accordingly, the overall effect can be greater than 100%.

Appendix 5: Effect of transfer payments[28] and direct taxes on inequality with distribution of income among the entire population, 2008-2009

	Share of each decile in total income**					
	Before transfer payments and taxes		After transfer payments		After transfer payments and taxes	
	2008	2009	2008	2009	2008	2009
Lowest	0.0	0.0	1.7	1.6	1.9	1.8
2	1.4	1.3	3.1	3.0	3.5	3.4
3	3.1	3.0	4.1	4.1	4.6	4.5
4	4.6	4.5	5.3	5.3	6.0	5.9
5	6.3	6.3	6.7	6.8	7.4	7.4
6	8.1	8.3	8.3	8.4	9.0	9.1
7	10.4	10.7	10.1	10.4	10.8	11.0
8	13.3	13.6	12.7	12.8	13.1	13.2
9	18.1	18.2	16.8	16.8	16.5	16.4
Highest	34.8	34.1	31.4	30.8	27.3	27.4
Ratio between income of highest quintile and income of lowest quintile	38.9	41.6	10.2	10.4	8.1	8.5

* The families in each column were ranked according to the appropriate income level per standard person. Each decile accounts for 10% of the persons in the population.

** In terms of income per standard person.

[28] This analysis is deficient, because some of the transfer payments are not reported and were accordingly not included. Thus, for example, there is no report on tax benefits, primarily in the area of savings. Information is also missing with regard to grants in the business sector, pursuant to the Encouragement of Capital Investments Law. This missing information, were it accessible within the framework of the income or expenditure survey, would apparently have changed the share of the upper deciles in the national economy.

Appendix 6: Monetary data by quintile, according to OECD equivalence scale

i. Income by source and type, 2009, and real change relative to 2008

	Income (NIS per month)						Change compared to 2008 (%)					
	Average	1	2	3	4	5	Average	1	2	3	4	5
From work	10380	1180	4000	7450	12470	25120	- 3.6	- 8.0	- 3.3	- 3.2	- 2.5	- 4.0
From pension, provident fund and capital	1470	80	430	990	1540	4030	8.1	- 18.0	- 3.6	4.9	12.9	9.4
From benefits and support	1730	1930	1970	1740	1480	1550	4.7	- 1.0	- 0.1	7.7	6.0	13.9
From compulsory payments	2220	220	450	950	2040	7000	- 9.3	0.0	- 8.0	- 6.2	- 7.2	- 10.1
Net per family	11380	3090	5950	9240	13450	23690	0.4	- 1.9	- 1.9	- 0.2	0.7	1.2
Gross per family	13600	3310	6400	10190	15490	30690	- 1.4	- 1.9	- 2.3	- 0.8	- 0.4	- 1.6
Economic per family	11780	1380	4380	8370	13920	28900	- 2.4	- 2.8	- 3.3	- 2.7	- 1.2	- 2.6
Net per standard person	6580	1760	3400	5300	7640	13930	0.1	- 2.9	- 1.5	0.1	0.4	0.8
Gross per standard person	7840	1890	3640	5830	8760	17970	- 1.6	- 2.9	- 1.9	- 0.4	- 0.7	- 2.0
Economic per standard person	6680	670	2330	4670	7770	16820	- 2.8	- 3.3	- 2.8	- 2.5	- 1.7	- 3.1

* The quintiles were classified according to disposable income per standard person; each quintile consists of 20% of families.

ii. Expenditures by quintiles, distribution of expenditures and real rates of change, 2007-2008

	Average	1	2	3	4	5
Expenditure in NIS per month, 2009						
Expenditure for consumption per standard person	7,590	4,210	5,390	6,940	8,960	12,430
Monetary expenditure per standard person	5,760	3,090	4,050	5,300	6,880	9,470
Expenditure for consumption per family	13,010	7,220	9,330	11,850	15,580	21,060
Monetary expenditure per family	9,910	5,390	7,080	9,080	11,970	16,060
Real change compared to 2008						
Expenditure for consumption per standard person	2.3	3.9	- 1.8	1.0	7.2	0.8
Monetary expenditure per standard person	1.6	3.8	- 4.2	0.5	7.9	- 0.1
Expenditure for consumption per family	5.4	8.2	- 2.3	2.8	11.7	5.3
Monetary expenditure per family	4.6	8.5	- 4.6	1.9	12.3	4.0
Share of expenditure in total expenditure – 2009						
Expenditure for consumption per family	100.0	10.8	15.5	18.7	22.6	32.4
Monetary expenditure per family	100.0	10.5	15.7	18.8	22.5	32.6
Share of expenditure in total expenditure – 2008						
Expenditure for consumption per family	100.0	11.1	14.3	18.2	24.0	32.4
Monetary expenditure per family	100.0	10.9	14.3	18.3	24.2	32.4

* Source: surveys of household expenditures in 2008 and 2009, Central Bureau of Statistics.
** The quintiles were classified according to disposable income per standard person; each quintile consists of 20% of families.

Appendix 7: Incidence of poverty, with the poverty line set at 40% of median income according to the OECD definition, 2008 and 2009

	2008			2009		
	Families	Persons	Children	Families	Persons	Children
Total population	11.0	12.0	16.6	11.6	13.1	18.3
Jews	8.7	8.6	12.1	8.5	8.5	11.9
Arabs	25.7	25.9	28.9	31.1	31.6	35.8
Elderly*	12.0	11.8	40.8	11.1	11.0	42.8
Immigrants	8.9	8.7	14.2	8.0	7.7	12.2
Ultra-Orthodox**	32.8	33.7	35.9	32.8	33.6	35.9
Families with children – total	12.3	14.1	16.6	13.7	15.7	18.3
1-3 children	9.1	9.1	9.9	10.3	10.3	10.9
4 or more children	27.9	28.6	29.1	30.8	31.5	32.2
5 or more children	31.5	31.6	32.3	35.3	35.5	36.3
Single-parent families	17.7	18.8	22.5	18.7	19.1	23.3
Employment of head of household:						
Working	4.8	5.9	8.7	5.7	7.1	10.1
Employee	4.8	6.0	8.9	5.7	7.1	10.2
Self-employed	4.9	5.5	7.4	5.9	6.9	9.1
Working age but not working	57.0	63.9	71.6	54.4	63.9	72.9
1 breadwinner	9.6	13.7	18.4	11.2	16.1	21.7
2 or more breadwinners	0.6	0.8	1.0	1.2	1.2	1.2
Age group of head of household:						
Up to 30	14.6	15.0	22.6	16.0	16.6	23.2
31-45	10.3	12.8	15.8	11.9	14.8	18.0
46-pension age	9.2	9.3	14.3	9.2	9.5	14.9
Retirement age by law***	11.8	11.6	36.3	10.9	11.1	48.2
Education group of head of household:						
Up to 8 years of study	26.7	29.7	42.9	27.2	33.2	47.7
9-12 years of study	11.6	12.9	18.1	13.0	14.9	21.4
13 or more years of study	7.0	7.6	10.7	7.2	7.8	10.7

* According to the definition which was in force until now: from age 60 for women, age 65 for men.

** Due to fluctuations, a moving average over two years is presented. The definition of "ultra-Orthodox" is according to Gottlieb-Kushnir (2009).

*** The definition was adjusted to the retirement age according to the Retirement Age Law. Accordingly, this population will not be fixed until the process of raising the retirement age is completed.

Appendix 8: Incidence of poverty, with the poverty line set at 60% of median income according to the OECD definition, 2008 and 2009

	2008			2009		
	Families	Persons	Children	Families	Persons	Children
Total population	25.7	26.8	35.1	25.7	27.4	36.5
Jews	21.2	19.7	24.7	20.6	19.5	25.6
Arabs	54.7	55.6	63.1	58.0	58.8	66.5
Elderly*	37.5	34.1	50.7	34.3	31.3	60.5
Immigrants	29.4	24.0	27.7	27.6	23.7	30.2
Ultra-Orthodox**	57.0	59.3	63.5	58.4	60.9	64.9
Families with children – total	27.0	30.3	35.1	28.5	31.8	36.5
1-3 children	21.1	21.0	22.5	22.9	22.8	24.4
4 or more children	56.5	57.4	58.4	57.0	58.4	59.4
5 or more children	64.9	64.2	65.4	64.6	65.4	66.2
Single-parent families	35.6	37.4	42.1	39.1	39.8	45.7
Employment of head of household:						
Working	15.4	18.9	27.0	15.8	19.5	28.1
Employee	15.5	18.9	27.0	16.0	19.8	28.6
Self-employed	15.2	18.7	26.6	15.0	17.8	24.4
Working age but not working	79.9	85.4	91.6	77.3	84.6	92.5
1 breadwinner	29.6	40.7	53.6	29.9	41.7	56.5
2 or more breadwinners	3.4	4.3	6.0	4.2	5.1	6.5
Age group of head of household:						
Up to 30	30.8	33.3	47.0	30.2	33.6	49.8
31-45	23.3	29.0	35.1	25.0	30.2	36.0
46-pension age	18.1	17.6	25.6	18.4	18.3	27.6
Retirement age by law***	38.6	35.4	45.6	35.7	33.3	68.6
Education group of head of household:						
Up to 8 years of study	55.6	57.7	75.0	53.4	57.2	73.6
9-12 years of study	27.8	30.2	40.8	28.9	32.0	44.7
13 or more years of study	17.5	17.6	23.2	17.4	17.7	23.2

* According to the definition which was in force until now: from age 60 for women, age 65 for men.

** Due to fluctuations, a moving average over two years is presented. The definition of "ultra-Orthodox" is according to Gottlieb-Kushnir (2009).

*** The definition was adjusted to the retirement age according to the Retirement Age Law. Accordingly, this population will not be fixed until the process of raising the retirement age is completed.

Appendix 9: Incidence of poverty among persons, by economic income and net income, and effect of transfer payments and direct taxes, according to the OECD approach (1/2 median)

	Income before transfer payments and taxes		Income after transfer payments and taxes		Rate of decrease in incidence of poverty after transfer payments and taxes (%)	
	2008	2009	2008	2009	2008	2009
Total population	29.6	30.5	19.9	20.9	32.8	31.4
Jews	24.0	24.7	14.2	14.5	40.8	41.5
Arabs	52.0	53.6	42.7	46.8	17.9	12.7
Elderly*	53.8	51.9	25.1	23.1	53.4	55.4
Immigrants	32.5	32.7	16.1	16.3	50.6	50.3
Ultra-Orthodox**	65.9	67.6	46.7	49.1	29.2	27.5
Families with children – total	30.3	31.8	22.8	24.7	24.9	22.4
1-3 children	21.2	22.8	15.0	16.8	29.1	26.5
4 or more children	56.7	58.2	45.2	47.8	20.3	17.7
5 or more children	65.4	68.1	49.5	54.8	24.3	19.5
Single-parent families	47.1	48.0	29.9	30.6	36.5	36.4
Employment of head of household:						
Working	19.3	20.1	12.3	13.4	36.5	33.2
Employee	19.9	20.9	12.3	13.7	38.2	34.6
Self-employed	15.3	14.7	12.0	11.9	21.5	19.3
Working age but not working	92.9	93.6	78.6	77.8	15.4	16.9
1 breadwinner	42.6	44.6	27.4	30.2	35.7	32.3
2 or more breadwinners	3.8	4.2	2.2	2.5	42.7	39.1
Age group of head of household:						
Up to 30	37.5	38.4	23.4	25.8	37.7	32.7
31-45	28.4	30.0	21.6	23.4	23.9	22.2
46-pension age	19.2	19.7	13.8	13.8	27.8	30.2
Retirement age by law***	56.8	56.4	25.8	24.6	54.5	56.4
Education group of head of household:						
Up to 8 years of study	63.6	64.0	46.0	47.5	27.7	25.7
9-12 years of study	31.8	34.1	22.5	24.4	29.2	28.5
13 or more years of study	20.6	21.0	12.2	12.9	40.7	38.6

* According to the definition, which was in force until now: from age 60 for women, age 65 for men.

** Due to fluctuations, a moving average over two years is presented. The definition of "ultra-Orthodox" is according to Gottlieb-Kushnir (2009).

*** The definition was adjusted to the retirement age according to the Retirement Age Law. Accordingly, this population will not be fixed until the process of raising the retirement age is completed.

Appendix 10: Statistical significance of changes in selected poverty indices by population group

Population group	Incidence of poverty in families	Incidence of poverty in persons	Incidence of poverty in children	Income gap ratio	FGT
Total population	No	Yes	Yes	Yes	Yes
Jews	No	No	Yes	No	No
Arabs	Yes	Yes	Yes	Yes	Yes
Elderly*	Yes	No	Yes	No	No
Immigrants	No	No	Yes	Yes	No
Ultra-Orthodox**	No	No	No	No	No
Families with children – total	Yes	Yes	Yes	No	Yes
1-3 children	Yes	Yes	Yes	No	Yes
4 or more children	No	No	No	No	No
5 or more children	No	No	No	No	No
Single-parent families	No	No	No	No	No
Employment of head of household:					
Working	Yes	Yes	Yes	Yes	Yes
Employee	Yes	Yes	Yes	Yes	Yes
Self-employed	No	No	No	No	No
Working age but not working	No	No	No	No	No
1 breadwinner	Yes	Yes	Yes	Yes	Yes
2 or more breadwinners	Yes	Yes	No	No	No
Age group of head of household:					
Up to 30	No	Yes	Yes	No	No
31-45	Yes	Yes	No	Yes	Yes
46-pension age	No	No	Yes	No	No
Retirement age by law***	Yes	No	Yes	No	No
Education group of head of household:					
Up to 8 years of study	No	No	No	Yes	No
9-12 years of study	Yes	Yes	Yes	No	Yes
13 or more years of study	No	No	No	No	No

Appendix 11: Incidence of poverty among persons*, by gender (%), 1999-2009

Year	Men			Women		
	Before transfer payments and taxes	After transfer payments and taxes	Rate of decrease in incidence of poverty after transfer payments and taxes	Before transfer payments and taxes	After transfer payments and taxes	Rate of decrease in incidence of poverty after transfer payments and taxes
1999	25.6	15.2	40.5	30.9	17.1	44.8
2002	27.0	16.2	40.0	31.5	16.9	46.3
2003	27.7	17.4	37.1	32.8	18.8	42.6
2004	27.6	18.0	34.7	32.2	19.7	38.8
2005	28.2	18.7	33.6	32.0	20.2	36.9
2006	26.8	18.2	32.2	32.1	19.6	38.9
2007	26.8	18.1	32.6	30.8	19.2	37.6
2008	26.3	17.6	33.1	31.4	19.5	38.0
2009	27.9	18.8	32.7	31.8	20.0	36.9

* Men and women, age 18 and up.

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