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Poverty
and Social Gaps

Annual Report



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POVERTY AND SOCIAL GAPS IN 2007
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PREFACE

The annual report on poverty and social gaps is presented this year in a new structure and expanded format with the aim of constituting the most updated and complete informational infrastructure possible for the formulation of a rational socioeconomic policy. Among other additions, part of the report is devoted to a description of the causes of poverty, at the end of which a simulation is presented regarding government objectives for alleviating poverty and the extent to which these objectives would have been met if the targets set by the government for 2008 to 2010 had already been in place in 2007.

The overall picture that emerges from the report is the stabilization and even reduction of the magnitude of the poverty and inequality. For the first time, there are signs of the trickle-down effect of economic growth, even in the weaker sectors. However, even after four consecutive years of growth, the scope of poverty and inequality in Israel is still large, both from a historical perspective and by international comparison, as described in this report.

Looking at 2008 and ahead to the future, it appears that the socioeconomic conditions in the last quarter of 2008 have begun to be affected by the worldwide financial crisis which escalated during the past year. The consensus forecast is that socioeconomic conditions will continue to worsen throughout 2009. It is reasonable to assume that its impact on Israel will be, *inter alia*, a decrease in demand for Israeli exports, resulting in slowed growth, and reduced demand for workers, a rise in unemployment and, ultimately, an increased need for the social safety net, maybe also during 2010. This impact, stemming from the fact that the Israeli economy is small and open to the world, will occur even if no financial crisis is expected in Israel, similar to that occurring in other countries.

It is important to ensure that the Israeli economy be well prepared for the expected worsening of the socioeconomic situation in order to continue to strengthen the achievements, discernible since 2006. It is important to prepare on two levels and in time for the possible worsening of the socioeconomic situation: one is promoting worthwhile projects of investing in infrastructure, particularly those that will help workers in the periphery areas to integrate more successfully into the labor market, and the other, which pertains more to the National Insurance Institute, is to strengthen the social safety net which was significantly damaged in recent years, particularly with regard to the working age population.

Dr. Daniel Gottlieb
Deputy Director General

SUMMARY OF FINDINGS

Poverty and inequality

In 2007, the standard of living in terms of average income per standard person rose at a real rate of 3.6%. The median income per standard person rose by 4.6% and so did the poverty line deriving from it. These increases primarily reflect the increase in income from work, which stemmed from the increase in the number of employed persons and from the real increase in wages.

- The incidence of impoverished families remained **stable** in 2007: the rate of families whose net income fell below the poverty line was **19.9%** in 2007 compared with **20.0%** in 2006.
- The rate of persons living in poor families **decreased** from **24.5%** to **23.8%**. The incidence of impoverished children, which soared in the past decade at a rate of 60%, showed a decrease for the first time: **34.2%** of children lived in poor families in 2007 compared with **35.8%** in 2006. The decrease in the incidence of impoverished adults and children is statistically significant.
- In 2007, there were **412,900** poor families in Israel, encompassing 1,630,400 persons, of whom **773,900** were children.
- In 2007, poor families became poorer according to various indices of the severity of poverty, which are presented in this report.
- The contribution of the transfer payments to reducing poverty decreased further from 39.3% in 2006 to 38.3% in 2007.
- In the measurement according to general income (income from work, from pension and from capital) the slow but consistent **downward** trend continued in the poverty indices: in 2007, the incidence of poverty reached **32.3%** compared with **32.9%** in 2006.
- The Gini index of inequality in net income **decreased** at a rate of **2.4%** between 2006 and 2007. Cumulatively, the index **rose** by about **4%** between 2002 and 2007.

Since the increase in the 2007 standard of living is ascribed primarily to the positive developments in the labor market (expansion of employment and increase in real wages) the situation of families participating in the labor market improved in comparison to families that do not take part (the elderly and persons of working age who are not working). Below are selected findings according to population groups:

- The incidence of poverty among **large families** (4 or more children) decreased from **60%** to **56.5%**. A similar decrease was also recorded for Arab families, which constitute a large part of that population (from 54% in 2006 to 51.4% in 2007). These decreases are ascribed to the significant increase in income from work in the large families.
- The incidence of poverty among the **elderly** rose a bit, from **21.5%** in 2006 to **22.6%** in 2007. This increase, which is not statistically significant, occurred at the same time as the rise in the standard of living of the elderly, which did not keep pace with the rise in the general standard of living.
- The incidence of poverty among **working families** remained stable at 12.2%. The working families constitute about 46% of the poor families and about 60% of poor families of working age.
- The very high rates of poverty among the nonworking population of working age are continuing to rise: in 2006, **66%** of these families were poor; in 2007, this rate continued to rise to **70%** of them.

- A two-parent family with 4 children which is fulfilling its full earning potential, with both parents earning the minimum wage, is above the poverty line. In contrast, a single-parent family with two children in which the sole provider is earning the minimum wage, is among the poor population.
- A breakdown according to education groups of the head of the household shows that the frequency of poverty among those with little education is 3 times higher than the frequency of poverty among those with higher education and the severity of their poverty, which increased significantly between 2006 and 2007, is 5 times greater.
- The **geographical distribution** of the poverty findings shows that the scope of poverty among families in the Haifa and central areas decreased between 2006 and 2007, but it increased in areas that are characterized by high poverty rates in any case: Jerusalem and the periphery.

This report presents findings from a calculation of the scope of poverty according to additional indices¹, and expanded information on the causes of poverty (focusing on the Israeli labor market) and government policy in this field. Below are selected findings that emerge from these parts of the report.

Additional indices of poverty

- The findings for the middle of the first decade of the 21st century (2004-2005), which were calculated for countries belonging to the OECD and for Israel show that in an **international comparison**, Israel is at the top of the scale, with an incidence of poverty similar to that of the United States and Mexico. From 2005 to 2007, the situation improved somewhat but not to an extent that would change Israel's relative position.
- The financial expenditure for ongoing consumption of 60% of the poor is below the poverty line (which was determined according to income). This indicates the rate of poor persons living in persistent poverty. The picture of persistent poverty is similar to the picture of general poverty: the persistent poverty is higher among the poorer groups.
- The general standard of living among the families in all the quintiles rose between 2006 and 2007, i.e., during that year, the economy's growth also reached the weaker sectors. However, during all the years of growth cumulatively, the lowest quintile only benefited from half the rise in the general standard of living.

The causes of poverty and the policies to reduce it

- There are significant gaps in the wage levels of the poor salaried employees compared with all salaried employees, even after neutralizing the effect of part time positions. Most of the salaried employees in the economy (about 76% of all salaried employees in the economy and about 61% of the poor salaried employees) are working full time. However, while 13% of all full time salaried employees are earning less than the minimum wage, this rate rises to more than one third of the poor who are working in full time jobs.
- The government's objective for reducing poverty was set for 2008 to 2010. Had this government objective been in place in 2007, the government would not have been able to meet it since the gross income in the lowest quintile rose by 1.8% compared with a 3.8% increase in the per capita GDP enhanced by an additional 10% of it.

¹ Recommendations that can be implemented immediately in the "Report of the Team for the Development of Additional Poverty Indices" 2008.

A. INTRODUCTION

The report on poverty and social gaps is presented this year in a new structure and expanded format. The report compares 2007 with 2006 and also reviews trends for the intermediate term. It includes findings that pertain to the measuring method that has been utilized by the National Insurance Institute since the measurement of poverty in Israel began, and additional parts that were not included in previous reports, as specified below.

Poverty in Israel has been measured since the beginning of the 1970s by the relative approach whereby poverty is a phenomenon of relative hardship that must be evaluated in connection with the standard of living that characterizes the society. A family is defined as poor if its standard of living, as reflected in its income, is significantly lower relative to the society and, specifically, its net income per standard person is less than half the median for that income².

Over the years, the measurement of poverty in Israel by this approach has earned broad public recognition. The main advantages of this approach lie in its simplicity, the availability of the data utilized in the calculation and the broad international consensus for it. In effect, over the past 40 years this has become the most accepted approach in countries of the Western world and international organizations, including the European Union and the OECD, which Israel is in the process of joining. Its limitations apply in the extent of its proportionality: there are those who claim that a measurement of poverty must be based on a more absolute index that varies less frequently with regard to the standard of living in the society (since there is no "pure" absolute index). Various components of the approach are also in dispute: the accepted indicator of the standard of living for the purposes of measuring poverty is income. There are those who view expenditure as a preferable representation of standard of living, since it constitutes a better indicator of the concept "permanent income." In contrast, there are those who have reservations about the use of expenditure for the purpose of measuring poverty since it is liable to be the result of the families' preferences and not the result of its objective situation. Moreover, its utilization does not enable assessment of the impact of policy, in areas of direct taxation and pensions, on the standard of living. Additional criticism of the existing approach pertains to the use of financial income and not a broader income concept, which includes all sources of income such as non-monetary benefits given to households by the government, or income in kind stemming from a self-owned apartment. There are those who criticize the scale of equivalence that has served to measure poverty since its inception in Israel without having undergone any changes.

The brisk public debate that developed in Israel in recent years on the subject of poverty and the method of measuring it as described above led the policy makers to establish a team to develop additional poverty indices³ (hereinafter the "Team"), which will recommend indices that will expand our knowledge on the magnitude of poverty in Israel. The Team submitted its recommendations at the beginning of 2008. For the first time, this report also includes findings in accordance with the recommendations submitted in the Team's report – those that can be implemented immediately. This primarily entails analysis by quintiles while addressing the government's poverty objective, which was determined in terms of income in the

² Net income is income after the payment of direct taxes which is disposable for consumption and savings as decided by the family. The concept of the standard person relates to the need to determine a scale of equivalence comparing households of different sizes or compositions

³ See the "Report of the Team for Development of Additional Poverty Indices" headed by Professor Shlomo Yitzchaki, February 2008, published by the CBS.

lowest quintile; by calculating a permanent poverty indicator; and by calculating the scope of the poverty as calculated by the international organizations, of which the OECD serves as a representative in this report. Other recommendations in the Team's report pertaining to utilization of income, which also includes the monetary value of benefits given to households⁴ and the need to measure the poverty, were implemented with expansion of the existing databases so that it would be possible to conduct a proper assessment of these benefits.

The report was developed by presenting the findings according to the existing approach⁵. Later, all the Team's recommendations that could be implemented immediately and are not dependent on an expansion of the database – are implemented. A separate chapter is devoted to analyzing the factors that affect poverty, such as the labor market, benefits and taxes, and a review of the changes that occurred in them during the year under review in the contexts with which the report deals. This part also contains a section devoted to monitoring the **government poverty objective** for reducing poverty and the extent to which it is met.

The findings presented in the report's tables and diagrams usually refer to income surveys. When the data are based on household expenditure surveys, this is explicitly noted.

⁴ This refers to benefits of the Near Cash Money type, which actually constitute an addition to the household's net income.

⁵ Because structural changes were made in this report, all the tables that usually appeared in the reports of previous years were not included here. In order to maintain the continuity of publication, these tables are presented in the Tables Appendix.

B. FINDINGS ON POVERTY AND INEQUALITY

1. Summary of income trends from the income survey data

In 2007, the standard of living in terms of average income per standard person rose at a real rate of 3.6%. The median income per standard person rose by 4.6% and so did the poverty line deriving from it. These increases primarily reflect the increase in income from work, which stemmed from the increase in the number of employed persons and from the real increase in wages (see more detailed findings in the section "the labor market" in Chapter D).

Table 1: Average Monthly Income per Household, by Type of Income (NIS), 2005-2007

Type of income	2005	2006	2007	Real change between 2006 and 2007
Economic per family	10,084	10,705	11,303	5.0%
Economic per standard person	3,804	4,047	4,282	5.3%
Family gross income	11,683	12,347	12,935	4.2%
Gross income per standard person	4,509	4,774	5,016	4.5%
Family net income	9,442	10,077	10,465	3.3%
Net income per standard person	3,666	3,914	4,078	3.6%
Mean net income per standard person	2,986	3,184	3,349	4.6%
Poverty line per standard person (half mean)	1,493	1,592	1,675	4.6%

Table 1 still shows that economic income, which originates solely in the labor market and in capital, without government and other transfers⁶ to individuals and before deduction of direct taxes, rose in real terms by 5% on average per family and by 5.3% on average per standard person. This increase reflects a sharp rise in income from salaried work (at a rate of 8.5% per household), a moderate rise in income from self-employed work (2%) and a decrease in income from pensions and capital. The gross income, which also includes the transfer payments, rose at a more moderate rate of 4% because the rate of financial support dropped at a real rate of about 1%.

The poverty line for families of various sizes and as a rate of the minimum wage and the average wage when adjusted for the period of the survey are presented in Table 2. The poverty line in 2007 was NIS 2,100 for a household of one person, NIS 3,350 for a family of two people and so forth. The data in the table show the amount of income from work which is required to get out of poverty, if it is the only source of income: a family of three people (such as a couple with a child or a mother with two children) which has a sole breadwinner earning minimum wage will be below the poverty line. A family of seven people in which both spouses are working full-time and earning minimum wage will be in the same position.

⁶ About 90% of the monetary transfers to individuals originate with the government.

Table 2: Poverty Line by Family Size (average for Survey period)

Number of persons in family	NIS per month	As percentage of minimum wage*	As percentage of average wage*
1	2,093	57.2	27.1
2	3,349	91.5	43.4
3	4,437	121.2	57.5
4	5,358	146.4	69.4
5	6,279	171.6	81.3
6	7,117	194.4	92.1
7	7,954	217.3	103.0
8	8,707	237.9	112.7
9	9,377	256.2	121.4

* The minimum wage and the average wage were calculated according to their weights in the Survey period.

2. The poverty and inequality findings for 2007

The incidence of impoverished families remained **stable** in 2007: the rate of families whose net income fell below the poverty line was 19.9% in 2007 compared with 20.0% in 2006 (Table 3). The rate of persons living in poor families **decreased** from 24.5% to 23.8%. The incidence of impoverished children, which soared in the past decade at a rate of 60%, showed a decrease for the first time: 34.2% of children lived in poor families in 2007 compared with 35.8% in 2006. The decrease in the incidence of impoverished adults and children, which was found to be statistically significant⁷, is demonstrated in Diagram 1, which shows the development of poverty in families, adults and children in recent years.

In 2007, there were 412,900 poor families in Israel, encompassing 1,630,400 persons, of whom 773,900 were children.

Table 3 further shows that in measurement according to the general income, the slow but consistent downward trend continued: in 2007, the incidence of poverty reached 32.3% compared with 32.9% in 2006. Government means to reduce poverty, the transfer payments and the direct taxes also continued to lose their affect in 2007: 38.4% of the families compared with 39.2% of them in 2006 were extricated from poverty following the transfer payments and direct taxes. In contrast, the effect of these means increased somewhat with regard to the incidence of impoverished children (from 13.7% in 2006 to 14.3% in 2007). For the sake of comparison, in 2002, the transfer payments and direct taxes extricated about half the families and about one quarter of the children from poverty.

⁷ At a 5% level of significance.

Table 3: Poverty Incidence (percentages and absolute numbers), 2006-2007

	Before transfer payments and taxes	After transfer payments and taxes	Rate of decrease in poverty incidence after transfer payments and taxes (%)
2007			
Families	32.3	19.9	38.4
Persons	32.5	23.8	26.8
Children	39.9	34.2	14.3
2006			
Families	32.9	20.0	39.2
Persons	33.5	24.5	26.9
Children	41.5	35.8	13.7
2007			
Families	668,600	412,900	
Persons	2,224,600	1,630,400	
Children	901,000	773,900	
2006			
Families	665,800	404,400	
Persons	2,254,800	1,649,800	
Children	921,900	796,100	

Diagram 1: Poverty Incidence of Families, Persons and Children, 2002-2007

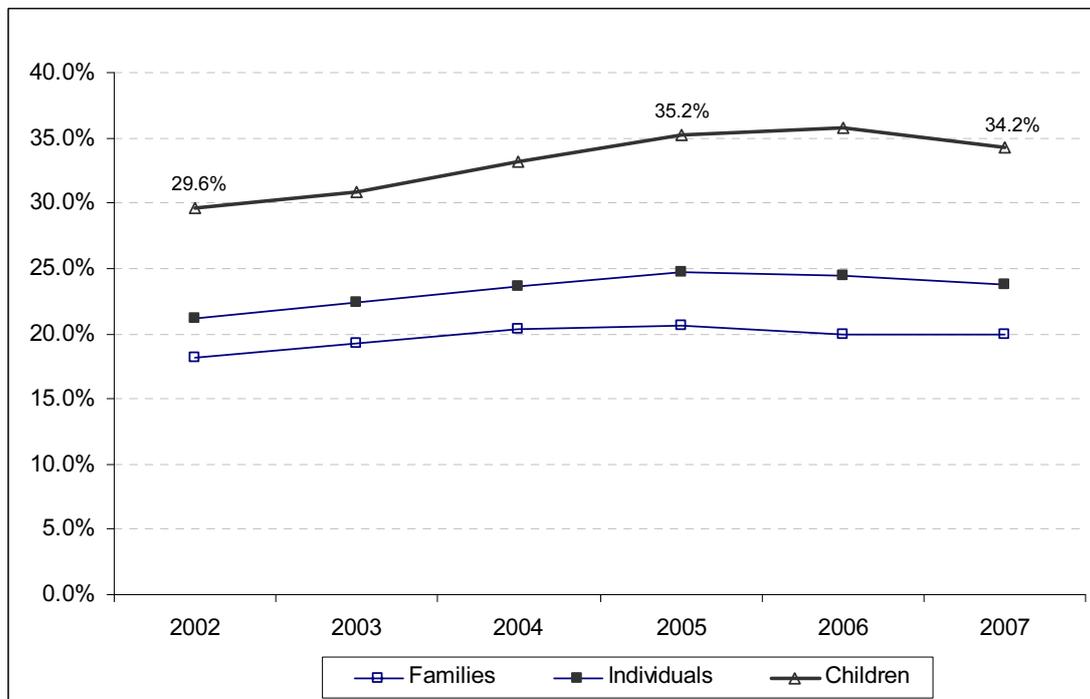
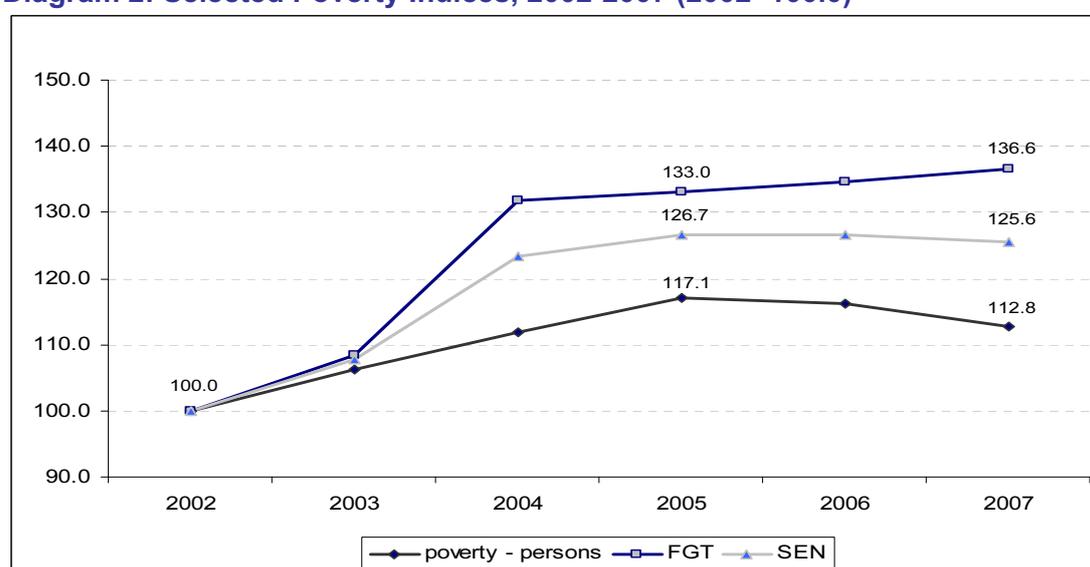


Table 4 below concentrates the poverty and inequality findings among families, adults and children in the general population according to selected indices, from 2002 to 2007, and Diagram 2 following it presents the incidence of poverty according to selected indices.

Table 4: The Scope of Poverty According to Selected Indices, 2002-2007

Index	2002	2003	2004	2005	2006	2007
Poverty incidence of families	18.10%	19.30%	20.30%	20.60%	20.00%	19.90%
Poverty incidence of persons	21.10%	22.40%	23.60%	24.70%	24.50%	23.80%
Poverty incidence of children	29.60%	30.80%	33.20%	35.20%	35.80%	34.20%
Income gap ratio ("poverty gap ratio")	29.70%	30.50%	33.30%	33.10%	33.80%	34.30%
<u>FGT index (quadratic income gap ratio)⁸</u>	0.0306	0.0332	0.0403	0.0407	0.0412	0.0418
Gini poverty index	0.1833	0.1852	0.2040	0.1948	0.1946	0.2039
<u>SEN Index⁹</u>	0.090	0.097	0.111	0.114	0.114	0.1130

Diagram 2: Selected Poverty Indices, 2002-2007 (2002=100.0)



⁸ The FGT index was developed by Thorbecke, Foster and Greer in 1989 and recently became the most accepted index for reflecting poverty severity. The index varies between zero (when the income of the poor is adjacent to the poverty line) and the poverty incidence (when the income of the poor is zero). The index is calculated according to the following formula: $1/n \cdot \sum ((z_i - y_i)/z_i)^2$, with z_i being poverty line income and y_i being the income of the family.

⁹ An aggregate index that weights the incidence of poverty, the income poverty gap and the Gini index of the poor.

In 2007, poor families became poorer on average: the ratio of the income gap which reflects the depth of the families' poverty (i.e., the distance of the poor persons' income from the poverty line), which was 33.8% in 2006, rose a bit and reached 34.3% in 2007. The FGT Index¹⁰, which shows the severity of the poverty and combines the impact of the incidence of poverty with the severity of the poverty, while giving greater weight to the poorest, rose slightly between the two last years, and the SEN Index also indicates relative stability between the two years. Diagram 2 shows that the rising trends emerging from the three indices presented in the diagram are similar, even though the slight decrease in the incidence of poverty in the past year does not typify the trend in the two indices of the severity of the poverty shown on the diagram¹¹.

3. Analysis by population group

The findings presented until now showed that in 2007, the labor market was the main source for the rise in the standard of living. The rise in economic income resulting from the positive changes in employment and salary leads to a reduction of poverty among the working population (although it also works in the direction of raising the poverty line, which moderates this effect). The findings for population groups in 2007 show, in general, that the state of the population which participates in the labor market improved in comparison with the population that is excluded from it.

The following tables show selected findings by population groups. These groups, which were also presented in the past, were joined by the age groups and education groups of the heads of the households. The definition for families headed by an elderly person remains the same (from the age of 60 for a woman and from the age of 65 for a man). However, another age group has been added – “retirement age” – which takes into account the gradual changes at retirement age, according to law¹².

Table 5 presents the incidence of income poverty before and after transfer payments and direct taxes, and the rate of increase in the incidence of poverty as a result of the transfer payments¹³ in various population groups. Below are the main findings that emerge from these tables:

- The incidence of poverty of families with children declined somewhat, from 25.5% to 24.8%. The decrease was more significant among the large families: from 60% in 2006 to 56.5% in 2007. In contrast, among families with up to 3 children, the incidence of poverty measured by net income did not change, and the downward trend in the effect of the transfer payments on extrication from poverty also continued in 2007.
- The incidence of poverty among the elderly rose by about one percent, from 21.5% in 2006 to 22.6% in 2007. This increase (which is not statistically

¹⁰ This is a well-known index developed by Foster, Greer and Thorbecke in 1984, *Econometrica* 52 typically reflected by the per-capita sum of squared income gaps.

¹¹ The rise in the severity of the poverty of those who remained poor does not contradict the decrease in the incidence of poverty, since someone who is closer to the poverty line has a better chance of being extricated from it, and if no new poor persons are added, then those who remain poor are the poorer ones.

¹² Therefore, this population does not relate to a steady population, until completion of the process of raising the retirement age in accordance with the Retirement Age Law.

¹³ The incidence of poverty of income before the transfer payments and direct taxes may distort the effect of the policy, since it is reasonable to assume that without the existence of the financial support system, the behavior of the individuals and their economic income would have changed.

significant) is explained by the fact that while the rise in the standard of living of the elderly was close to the rise in the general standard of living, it did not keep pace.

- The incidence of poverty among Arabs, which is very similar to the population of large families, decreased by 2.6%, from 54% in 2006 to 51.4% in 2007¹⁴. This significant decrease is explained by the significant increase in the economic income of the Arab households: the economic income per standard person in the Arab population of working age soared at a rate of about 9% between the two years.
- The incidence of poverty among working families remained stable at 12.2%. The poor working families constitute about 46% of all the poor families and about 60% of poor families of working age.
- The very high rates of poverty among the nonworking population of working age continue to rise: in 2006, 89% of these families were poor according to their economic income and 66% were poor according to their net income. In 2007, these rates continued to rise to 91% and 70% respectively. Since the rise in the standard of living in recent years derives from changes that occurred in the labor market, the relative situation of the families that are not participating in the labor market continuously worsened. These families constitute less than one tenth of all the families in Israel, however they make up one third of all the poor families.
- The impact of the transfer payments on extrication from poverty continued to decline, from 39.3% in 2006 to 38.3% in 2007. However, this impact increased among the Arab families: in 2006, 9% of them were extricated from poverty as a result of the transfer payments, and in 2007, this rate increased to 12%. Because there was no real increase in the financial support originating with the government in 2007, there is another explanation for this finding: the decrease in the incidence of poverty among Arab families was also accompanied by a change in the composition of the impoverished Arab population. For example, the rate of poor families headed by an elderly person increased (from 10.6% in 2006 to 11.9% in 2007) and simultaneously there was a decrease in the proportion of the poor population of working age. The poor Arab families in 2007 were those for which the financial support was a larger component than in 2006.
- As anticipated, the incidence of poverty stands in inverse proportion to the education of the head of the household. When measured by economic income, the incidence of poverty among those with less education (eight years of schooling or less) is almost 70% – a finding that alludes to their earning difficulties. When measuring by net income, the incidence of poverty among this group is about 44% – compared with 13% among those with more education (13 years of schooling or more). Between the two years, the incidence of poverty rose among the lower and the higher education groups. In contrast, there was a decrease in the rate of poor families of those with intermediate education (9 to 12 years of schooling).

¹⁴ The survey data on which this report is based do not allow for full and direct identification of the ultra-orthodox Jewish population. However, there is some indication that a similar, albeit more moderate, change also occurred in the ultra-orthodox population, which also constitutes a large part of the population of large families.

Table 5: Poverty Incidence of Families by Family Group (percentages), 2006 and 2007

Population group	Income before transfer payments and taxes		Income after transfer payments and taxes		Rate of decrease of poverty incidence after transfer payments and taxes (%)	
	2006	2007	2006	2007	2006	2007
Total population	32.9	32.3	20.0	19.9	39.3	38.3
Jews	28.8	28.3	14.7	15.0	48.9	46.8
Arabs	59.5	58.3	54.0	51.4	9.2	11.8
Elderly*	56.1	55.9	21.5	22.6	61.7	59.5
New immigrants	39.9	40.2	18.1	18.8	54.7	53.2
Families with children total	31.6	30.5	25.5	24.8	19.4	18.5
1-3 children	24.7	23.8	18.3	18.4	25.7	22.9
4 or more children	65.2	63.2	60.0	56.5	8.0	10.5
5 or more children	74.4	74.9	68.1	66.7	8.5	10.9
Single-parent families	51.1	46.9	29.5	29.8	42.2	36.5
Work situation of head of household						
Working	18.6	18.2	12.4	12.2	33.1	33.1
Employee	19.1	18.8	12.3	12.2	35.6	34.7
Self-employed	16.3	15.4	13.9	12.4	15.2	19.3
Not working, of working age	88.9	91.2	66.6	69.8	25.1	23.5
One earner	35.0	35.2	23.4	23.5	33.0	33.4
Two or more earners	4.4	4.1	2.9	2.8	33.7	30.9
Age group of head of household						
Up to 30	35.1	35.7	23.7	25.7	32.5	28.1
45-31	27.7	26.6	22.0	20.5	20.5	23.0
46 to pension age	23.1	22.0	14.3	14.1	38.2	36.1
Pension age under law**	58.3	59.3	22.0	23.5	62.3	60.5
Education group of head of household						
Up to 8 years of schooling	68.0	69.4	41.3	44.3	39.3	36.2
12-9 years of schooling	33.9	32.6	22.2	20.9	34.6	35.9
13 or more years of schooling	23.0	23.2	12.7	13.4	44.7	42.4

* In accordance with the previous definition: from age 60 for a woman and from age 65 for a man.

** The definition was adjusted to the age of retirement from work under the Retirement Age Law. Thus this population is not permanent, until the process of raising the retirement age is completed.

Table 6: Share of Family Types in Total Population and in Poor Population by Demographic and Employment Characteristics, 2006-2007

Population group	Total population		Poor population			
			Before transfer payments and taxes		After transfer payments and taxes	
	2006	2007	2006	2007	2006	2007
Jews	86.6	86.6	75.8	75.8	63.8	65.4
Arabs	13.4	13.4	24.2	24.2	36.2	34.6
Elderly*	19.4	19.6	33.1	34.0	20.9	22.3
New immigrants	19.0	19.0	23.1	23.6	17.2	17.9
Families with children						
Total	46.2	46.1	44.5	43.5	59.0	57.5
1-3children	38.2	38.3	28.7	28.2	35.1	35.3
4 or more children	8.0	7.8	15.8	15.3	23.9	22.2
5 or more children	3.9	3.9	8.8	9.0	13.2	12.9
Single-parent families	5.6	5.4	8.7	7.8	8.3	8.0
Work situation of head of household						
Working	46.2	46.1	44.5	43.5	59.0	57.5
Employee	38.2	38.3	28.7	28.2	35.1	35.3
Self-employed	8.0	7.8	15.8	15.3	23.9	22.2
Not working, of working age	3.9	3.9	8.8	9.0	13.2	12.9
One earner	5.6	5.4	8.7	7.8	8.3	8.0
Two or more earners	46.2	46.1	44.5	43.5	59.0	57.5
Age group of head of household						
Up to 30	19.0	18.1	20.3	20.0	22.6	23.3
45-31	33.6	34.3	28.3	28.2	37.0	35.3
46 to pension age	30.4	30.9	21.4	21.0	21.8	21.8
Pension age under law**	16.9	16.7	30.0	30.8	18.6	19.7
Education group of head of household						
Up to 8 years of schooling	12.5	11.9	25.9	25.6	25.9	26.5
9-12 years of schooling	38.8	38.4	40.0	38.7	43.1	40.2
13or more years of schooling	48.7	49.7	34.1	35.7	31.0	33.3

* In accordance with the previous definition: from age 60 for a woman and from age 65 for a man.

** The definition was adjusted to the age of retirement from work under the Retirement Age Law. Thus this population is not permanent, until the process of raising the retirement age is completed.

Table 7 presents additional indices for evaluating the poverty of the population groups. The findings in the table show that in the general population, the severity of the poverty as reflected in the income gap ratio index and in the FGT index rose by an identical rate of 1.5% between 2006 and 2007. The meaning of the rise in these indices is that the poor families became poorer. While this change is not statistically significant between 2006 and 2007, it is continuing the trend from previous years.

The severity of the poverty of the families of salaried employees increased somewhat, while the families of the self-employed showed a decrease in the depth and severity of the poverty. In families of working age that are not working, among whom, as stated, the incidence of poverty rose significantly, the severity of the poverty also rose sharply: the income gap ratio rose by about 7%. The index of the severity of the poverty, the FGT, which gives increasingly more weight to families the poorer they are, rose by about 17%. Additional increases for this group were also seen in the elderly population, although the level of the poverty severity index of the elderly is relatively lower (about half of the level in the general population), since the transfer payment system for the elderly brings most of them to a level close to the poverty line. The conclusion drawn from this analysis is that even with regard to the severity of the poverty, the situation of the population groups that are excluded from the labor market worsened in comparison with the situation of the working families.

The FGT index rose slightly among the Arabs. However, due to the decrease shown in the incidence of the poverty, the FGT index, which combines the two influences, dropped by 2.5% between the two years. The Sen index, which also constitutes an aggregate of the income gap ratio, the incidence of poverty and the inequality among the poor, showed a decline (of 4%) in this group.

An examination of the poverty picture by the educational level of the head of the household shows that with the rise in the level of education, not only the incidence of poverty drops (from about 44% for those with 8 years of education or less to about 13% for those with 13 years of education or more), but so does the severity of the poverty among poor: the FGT index shows that the severity of poverty among those with 13 years of education or more is five times lower than the severity of the poverty among those with elementary school education.

Table 7: Estimate of Poverty in Various Population Groups* by Selected Indices, 2006 and 2007

Population group	Income gap ratio		FGT index		SEN index	
	2006	2007	2006	2007	2006	2007
Total population	33.8	34.3	0.041	0.042	0.115	0.113
Jews	31.3	32.0	0.024	0.026	0.071	0.073
Arabs	36.7	37.0	0.110	0.107	0.288	0.276
Elderly**	21.8	23.4	0.019	0.024	0.070	0.081
New immigrants	26.2	27.6	0.021	0.023	0.069	0.072
Families with children						
Total	34.9	35.2	0.052	0.052	0.143	0.140
1-3 children	34.0	33.2	0.034	0.032	0.091	0.087
4 or more children	35.6	37.1	0.103	0.109	0.288	0.288
5 or more children	36.4	37.6	0.115	0.126	0.322	0.333
Single-parent families	35.2	32.8	0.055	0.050	0.151	0.146
Work situation of head of household						
Working	27.2	26.9	0.019	0.018	0.065	0.063
Employee	25.8	26.6	0.016	0.018	0.060	0.063
Self-employed	35.0	30.4	0.037	0.022	0.093	0.066
Not working, of working age	47.8	50.9	0.222	0.258	0.478	0.521
One earner	28.1	27.8	0.041	0.040	0.138	0.139
Two or more earners	22.2	21.3	0.004	0.003	0.014	0.012
Age group of head of household						
up to 30	35.5	34.9	0.052	0.058	0.138	0.154
45-31	35.1	35.1	0.050	0.048	0.138	0.129
46to pension age	33.8	36.9	0.029	0.030	0.079	0.076
Pension age under law***	20.4	21.0	0.017	0.020	0.068	0.075
Education group of head of household						
Up to 8 years of schooling	34.9	38.6	0.089	0.116	0.245	0.286
12-9 years of schooling	34.4	33.1	0.048	0.043	0.131	0.120
13 or more years of schooling	32.1	32.5	0.024	0.024	0.069	0.070

* Some population groups overlap.

** In accordance with the previous definition: from age 60 for a woman and from age 65 for a man.

*** The definition was adjusted to the age of retirement from work under the Retirement Age Law. Thus this population is not permanent, until the process of raising the retirement age is completed.

Table 8 presents the scope of the poverty according to geographic districts, divided by Jews and Arabs. In general, between 2006 and 2007, there was an increased incidence of poverty among families in the Jerusalem district and the periphery areas (north and south), in which the employment possibilities and the level of the infrastructures are lower. In contrast, in the business area of Israel – Tel Aviv, the center and Haifa – in which the possibilities for realizing the fruits of the economic growth are greater, there is a noticeable improvement in the situation of the families.

The findings in the table enable us to focus on the pockets of poverty in Israel. The district with the highest incidence of poverty is the Jerusalem District, in which both Arabs and Jews lead in comparison with their national groups in other districts, although the poverty level of the Arab families in Jerusalem is significantly higher than the Jewish families. The rate of poor children in the Jerusalem district is 56%. Among the Jewish children, 46% are defined as poor while among the Arab children the rate is 74%. In the southern district, a picture emerges regarding the Arabs which is very similar to that of the Jerusalem District. In contrast, among the Jews of the south, the incidence of poverty among the families is relatively high and approaches that of Jerusalem, but the incidence of impoverished children is far lower (about 26%). The Haifa, Tel Aviv and central district are relatively less poor for both national groups.

A study of only the poverty incidence index divides the population clearly into two national groups, with the poverty level of the Arab families far higher than that of the Jewish families. However, an examination of other indices aside from the incidence of poverty shows a more complex picture: the income gap ratio among Jewish families in Jerusalem is similar and, in certain cases, even higher than the depth of poverty among Arabs who do not live in the Jerusalem district and the south, and their poverty severity index (FGT) approaches that of the Arabs of the north. In contrast, among the Jewish families living in districts other than Jerusalem, the scope of poverty is smaller, generally significantly so, than that of the Jews in the Jerusalem district and, of course, than that of the Arabs in all districts in Israel.

Table 9 presents the Gini indices for economic income and net income from 2002 to 2007. The Gini index of inequality in net income decreased by 2.4% between the two years¹⁵. The large increase in the Gini index for net income, which characterized the years 2002 to 2005, became more moderate and between 2002 and 2007, the index rose cumulatively by about 4%.

In contrast, the downward trend in the index of inequality in economic income continued, and in 2007, a decrease of 1.8% was recorded in the Gini index of economic income per standard person. Cumulatively since 2002, the index according to that income showed a decrease of 4%.

¹⁵ From 2006, a new method was implemented in the income surveys in which the few top incomes are averaged ("truncated"). This change does not affect the calculation of half-median income poverty, but it is liable to affect calculations of the Gini index of inequality and the distribution of income. However, examinations conducted regarding past data show that these changes are not sizeable.

Table 8: Poverty Incidence by District and Religion, 2006-2007

District and religion	2006					2007				
	Poverty incidence			Income gap	FGT	Poverty incidence			Income gap	FGT
	Families	Persons	Children			Families	Persons	Children		
Total										
Jerusalem	31.3	39.5	51.4	37.9	0.081	33.3	42.6	55.6	41.4	0.103
North	31.5	35.3	45.0	35.2	0.062	32.4	35.5	44.9	29.8	0.047
Haifa	20.3	23.4	35.5	31.3	0.036	18.2	20.7	31.4	34.6	0.037
Center	12.9	14.7	21.7	31.1	0.022	12.2	13.3	18.8	32.3	0.022
Tel Aviv	12.3	14.7	24.5	31.8	0.021	12.1	13.0	20.3	32.8	0.023
South	22.5	26.6	38.2	31.7	0.040	23.2	26.1	36.4	33.7	0.043
Jews										
Jerusalem	21.7	27.9	39.4	35.8	0.048	23.6	31.4	45.9	36.0	0.057
North	15.0	13.2	16.2	26.9	0.016	18.4	16.0	17.7	28.4	0.022
Haifa	14.9	14.4	21.5	29.4	0.021	13.2	13.1	20.4	31.3	0.020
Center	10.3	10.8	15.3	27.8	0.014	10.1	10.2	14.2	30.1	0.015
Tel Aviv	12.1	14.4	23.9	32.1	0.021	12.0	12.8	19.8	32.3	0.022
South	20.0	20.4	27.1	30.7	0.031	20.8	19.8	25.7	30.3	0.028
Arabs										
Jerusalem	64.8	66.0	73.9	40.1	0.157	69.9	69.3	74.1	47.3	0.212
North	51.1	53.6	62.1	36.9	0.101	48.1	51.1	60.4	30.1	0.067
Haifa	48.4	52.3	61.4	33.0	0.087	44.0	44.3	50.8	37.8	0.089
Center	55.5	58.5	67.9	37.8	0.111	44.9	47.5	51.8	37.6	0.095
Tel Aviv*										
South	69.2	74.1	81.0	33.7	0.112	69.8	71.5	77.6	40.5	0.151

* Not calculated because of the few observations.

Table 9: Gini Index of Inequality in Income Distribution in the Population, 2002-2007

Year	Before transfer payments and direct taxes	After transfer payments and direct taxes	Percentage of decrease resulting from transfer payments and taxes
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
Change in index (percentages)			
2007 as compared to 2006	-2.0	-2.3	
2007 as compared to 2002	-4.3	4.1	

* The Gini index calculation was 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.

C. ADDITIONAL POVERTY INDICES

1. Financial data by quintiles

In accordance with the first recommendation in the Team's report for developing additional poverty indices, data regarding the population's standard of living by quintiles¹⁶ in 2006 and 2007 are presented in this section.

Diagram 3 shows the increase in real income by quintiles in the past year and for the period 2002 to 2007. Between 2006 and 2007, real income rose in all the quintiles. In the top quintile, the increase was relatively moderate (2.5%), and it was highest in the second quintile (5.7%). In the first, third and fourth quintiles, income rose by about 4%. In a longer observation of 5 years, real income rose on average by about 17%, while in the bottom quintile, income rose at the lowest rate, at half that amount. In the other quintiles, real income rose between 15% and 19%. 2007 contributed about half the increase in the income for the bottom quintile from 2002 to 2007.

Diagram 3: The Real Rise in Net income Per Standard Person by Quintiles (percentages)

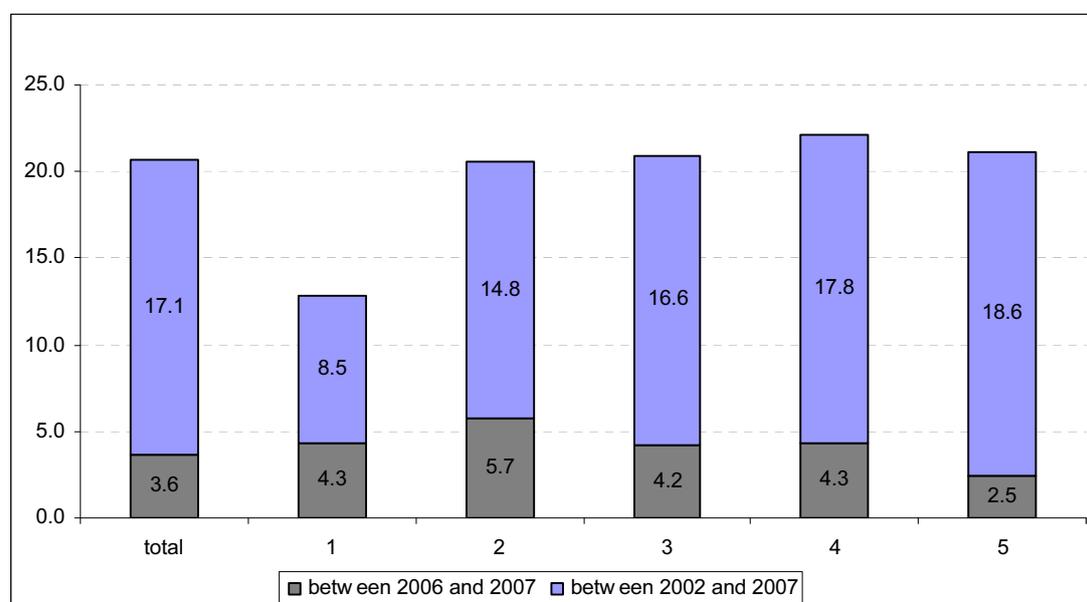


Table 10 below shows income in 2007 by source and type of income, and the real change in percentages compared with 2006; Table 11 shows the division of the income "pie" into their various definitions among the quintiles; and Table 12 shows the changes in the families' expenditures and the division of the expenditures "pie" among the quintiles.

The findings in Table 10 show that income from work rose on average by 7.5% and that the increase, at more or less similar rates, was common to all the quintiles. In contrast, income from pensions, providence funds and capital decreased in the two top percentiles. Because these two quintiles hold 80% of the income from these sources (Table 11), the income from this source also decreased on average at the steep rate of 11%. Income from pensions and support payments showed a more

¹⁶ The quintiles were sorted according to net income per standard person, with each quintile including 20% of the families. This definition also correlates with the definition of the government's poverty objective (see Chapter D below).

moderate drop. These three sources of income compose the gross family income and their combined impact led to a real increase of 4.2% in that income. The net family income, which is also affected by offsetting the compulsory payments from these amounts (which increased between 3% and 12% in the various quintiles) – rose at a more moderate rate of 3.3%. However, the increases in the bottom quintile and the top quintile were lower than the real increases recorded in the various incomes in the intermediate quintile: the gross and net family income in the lowest quintile increased at a rate of 1.8%, and in the top quintile at rates of 1% and 2.6% respectively – compared with increases of 3% – 5% in the other quintiles.

This picture changes when we examine the changes in the adjusted incomes which neutralize the effect of the family size: the real increases in various types of income become more similar. The reason for the difference between the family income and the income per standard person lies in the composition of the population in the quintiles that were defined. Table 13 presents data on the composition of the population in the quintiles during the two years. The table shows that in 2006, the average number of children in the lowest quintile was higher than in 2007, and the number of elderly was a bit lower, i.e., there was a trickle of families with children from the lowest quintile to other quintiles. This change in the composition of the population in the lowest quintile leads to a drop in the level of family income, even if the standard of living of the families in the lowest quintile in terms of income per standard person did not change, or even rose.

Part 3 in Chapter D of the report expands on the government's objective of reducing poverty, based on the change in income of the lowest quintile.

Table 11 shows that the proportion of the top quintile in the total net income decreased from 40.9% in 2006 to 39.9% in 2007, at the expense of an increase in the proportional part of the third and fourth quintiles. This change in the division of the income pie is another expression of the drop in the Gini index of inequality, which was presented in Table 9.

The findings presented in Table 12 show that the real change in expenditures was more moderate in comparison with the change in income: expenditure for consumption per standard person rose by 2.5% and the monetary expenditure (which does not include the component of expenses in kind for the purpose of housing owned by the tenants) rose by 2.2%. However, this increase was not uniform in the various quintiles: while expenditures in the middle quintiles rose at rates of between 3% and 5% and in the top quintile it rose by a rate of up to 1%, it remained unchanged or even dropped a bit in the lowest quintile.

The test of income and expenditure by quintiles using the official equivalence scale of the OECD, according to which the number of standardized persons equals the square root of the number of persons in the household¹⁷, raises various findings somewhat as anticipated, which are explained by the structure of the equivalence scale¹⁸. Tables parallel to Tables 10 to 12, which utilize the OECD's scale of

¹⁷ For the purpose of both sorting the quintiles and calculating the income per standard person, see additional details in the chapter on international comparisons, below.

¹⁸ While the two equivalence scales provide equal weight to an adult and to a child, the equivalence scale of "the square root of the number of persons" used by the OECD, provides greater advantages to the size of the family and therefore the increment in the income / expenditure required for an additional person is relatively smaller than that required according to the Israeli scale. As a result, even the component of the quintiles sorted according to income per standard person is different in each one of the scales: the Israeli equivalence

equivalence instead of the Israeli scale of equivalence, are presented in the appendix of tables. The main findings that emerge from a comparison between the two types of calculations pertain to that.

scale is slanted to encompass a higher proportion of large families in the lower quintiles since, as stated, their economy of scale is smaller and therefore the required increment in income / expenditure is greater in order to remain at a steady standard of living.

Table 10: Source and Type of Income by Quintiles*, 2007 and Real Change as Compared to 2006

Source/type of income	Income (NIS per month)							Real Change as Compared to 2006, percentages					
	Average	1	2	3	4	5		Average	1	2	3	4	5
From work	10,080	1,750	4,470	8,110	12,540	23,550	13.5	7.5	6.0	7.6	7.4	8.9	6.9
From pension, prov. fund and capital	1,300	80	410	880	1,440	3,670	49.0	-11.3	-25.6	14.5	0.8	-4.4	-17.8
From benefits	1,560	1,820	1,870	1,460	1,310	1,340	0.7	-1.2	-1.4	-0.1	-3.4	-0.9	-0.2
Compulsory payments	2,472	258	604	1,245	2,598	7,654	29.6	8.3	2.7	5.9	9.0	12.3	7.3
Net family income	10,470	3,390	6,140	9,200	12,690	20,900	6.2	3.3	1.8	5.8	4.7	5.5	1.0
Gross family income	12,940	3,640	6,750	10,440	15,290	28,550	7.8	4.2	1.8	5.8	5.2	6.6	2.6
Family economic income	11,300	1,820	4,850	8,930	13,880	27,040	14.9	5.0	4.9	8.3	6.6	7.4	2.8
Net income per standard person	4,080	1,140	2,210	3,350	4,820	8,860	7.8	3.6	4.3	5.7	4.2	4.3	2.5
Gross income per standard person	5,020	1,230	2,410	3,760	5,720	11,970	9.7	4.5	4.2	5.7	4.8	5.3	3.8
Economic income per standard person	4,280	500	1,540	3,090	5,060	11,220	22.4	5.3	4.8	9.2	7.0	5.9	4.0

* The quintiles were classified according to net income per standard person; every quintile includes 20% of the families.

Table 11: Share of Each Quintile in Total Income, 2006-2007

Source/ type of income	2006						2007					
	Total	1	2	3	4	5	Total	1	2	3	4	5
From work	100.0	3.5	8.8	16.1	24.6	47.0	100.0	3.5	8.9	16.1	24.9	46.7
From pension, prov. fund and capital	100.0	1.4	4.9	12.0	20.6	61.1	100.0	1.2	6.3	13.6	22.2	56.7
From benefits	100.0	23.4	23.7	19.1	16.7	17.0	100.0	23.4	24.0	18.7	16.8	17.2
Compulsory payments	100.0	2.2	5.0	10.0	20.3	62.5	100.0	2.1	4.9	10.1	21.0	61.9
Net family income	100.0	6.6	11.5	17.3	23.7	40.9	100.0	6.5	11.7	17.6	24.3	39.9
Gross family income	100.0	5.8	10.3	16.0	23.1	44.9	100.0	5.6	10.4	16.2	23.6	44.2
Family economic income	100.0	3.2	8.3	15.6	24.0	48.9	100.0	3.2	8.6	15.8	24.6	47.8

Table 12: Expenditure by Quintiles, Rates of Real Change and Distribution of Expenditure, 2006-2007

	Average	1	2	3	4	5
Monthly Expenditure in NIS - 2007						
Expenditure for consumption per standard person	4,570	2,470	3,180	4,150	5,280	7,770
Cash expenditure per standard person	3,530	1,860	2,450	3,180	4,110	6,050
Expenditure on family consumption	11,580	7,150	8,510	10,990	13,530	17,740
Family cash expenditure	9,030	5,480	6,650	8,550	10,610	13,860
Real change as compared to 2006						
Expenditure for consumption per standard person	4.4	2.8	2.5	6.2	5.0	4.4
Cash expenditure per standard person	4.1	2.0	1.5	5.0	5.7	4.1
Expenditure on family consumption	3.5	4.6	1.7	4.9	6.6	0.9
Family cash expenditure	3.1	3.5	0.9	3.9	7.4	0.5
The share of the expense in total expenditure - 2006						
Expenditure on family consumption	100.0	12.2	14.9	18.7	22.7	31.4
Family cash expenditure	100.0	12.1	15.0	18.8	22.6	31.5
The share of the expense in total expenditure - 2007						
Expenditure on family consumption	100.0	12.3	14.7	19.0	23.4	30.6
Family cash expenditure	100.0	12.1	14.7	18.9	23.5	30.7

Source: Household Expenditure Surveys, 2006 and 2007, CBS.

Table 13: Composition of the Quintiles, 2006 and 2007

	Total	1	2	3	4	5
2006						
Average persons per family	3.33	4.08	3.41	3.30	3.06	2.77
Average children per family	1.10	1.97	1.21	0.99	0.76	0.56
Average elderly per family	0.38	0.34	0.44	0.39	0.37	0.34
2007						
Average persons per family	3.31	3.95	3.43	3.32	3.12	2.72
Average children per family	1.09	1.87	1.24	0.99	0.81	0.54
Average elderly per family	0.38	0.35	0.44	0.38	0.35	0.36

2. Persistent poverty

The poor population is not constant from one period to another: some of the poor are extricated from poverty, while other people join the ranks of the impoverished. The larger the part of those who remain poor, the greater the continuing ("permanent") poverty. In the professional literature, it is customary to refer to expenditure as an estimate of "permanent income" since it fluctuates less than current income, therefore consumption is more similar to the income trend. The assumption is that at the time of sudden loss of current income, the families try to maintain the standard of living that characterized them beforehand, and in the short term, they will bridge the gaps by means of savings, loans, and so forth.

Israel does not yet have a database of long term follow-up surveys, which would enable follow-up on the families to measure persistent poverty among them, and therefore recommendation 2 (a) in the Team's report for developing additional poverty indices proposes, in calculating the existing index, addressing the expenditure of the poor household as representative of persistent poverty. Specifically, an examination would be conducted for every family defined as poor, according to the existing approach, to see whether it is poor not only according to its current income, but also according to its financial expenditure. If it is, this will be an indication of the persistent poverty of that family.

Table 14 presents the proportion of poor families and persons according to this definition. This leads to the conclusion that most of the families living in poverty (57%) and the persons living in poverty (61%) remain in that situation for a prolonged period of time.

The findings in the table further show that with advancement up the educational scale, persistent poverty decreases, and not just general poverty. Groups that are characterized by high rates of poverty tend to be characterized by high rates of persistent poverty as well: large families, families in which the head of the household is not working while he is of working age, etc. However, among two groups that are characterized by high rates of poverty, the rates of persistent poverty are sharply distinguished. The rate of those living in persistent poverty is particularly high among the large families. The rate of persistent poverty has also been found to be relatively high among new immigrants, even though their general poverty rates are somewhat lower than average in the population.

Table 14: Rate of Families and Persons whose Cash Expenditure per Standard Person is Under the Poverty Line (percentages) in 2006 and 2007* (indicators of persistent poverty)

Population group**	Families		Persons	
	2006	2007	2006	2007
Total population	57	57	62	61
Jews	58	61	63	65
Arabs	56	50	61	55
Elderly	58	56	61	56
New immigrants	63	67	66	69
Families with children				
Total	63	60	64	63
1-3children	57	53	56	52
4 or more children	70	71	71	72
5 or more children	73	76	73	76
Single-parent families	57	56	61	57
Work situation of head of household				
Working	54	54	59	58
Employee	56	56	62	62
Not working, of working age	62	62	66	69
One earner	56	55	62	59
Age group of head of household				
Up to 30	52	56	62	64
45-31	59	60	64	65
46 to pension age	59	57	59	58
Pension age under law	59	57	59	58
Education group of head of household				
Up to 8 years of schooling	62	61	65	64
9-12 years of schooling	57	54	63	57
13 or more years of schooling	53	55	57	63

* Source: Household Expenditure Surveys, 2006 and 2007, CBS.

** Since the sample in the expenditure survey is lower than half the sample in the income survey, it was not possible to base a reasonable estimate for all population types included in previous tables. Thus, for example, the group of families with two earners was excluded from this table.

3. Poverty indices according to the OECD definition

The Organization for Economic Cooperation and Development (OECD), like Israel, calculates poverty according to the relative approach. Below are details of the various calculation components:

Source of the data

The source of the data for calculating poverty in each country is the surveys that are conducted in the households (income / expenditure surveys), which contain information on the income of the households and their demographic and economic characteristics.

Standard of living indicator

The OECD uses disposable monetary income per standard person as an indicator of the standard of living.

The poverty line

The poverty line is calculated as a rate of the median income defined above. It is calculated in 3 alternatives: 40%, 50% and 60% of the relevant median income¹⁹. The calculation is based on a distribution of income per person and not on a distribution of income per family.

Equivalence scale

In recent years, the OECD has been using its reports on the equivalence scale which is also utilized by the European Union, whereby the number of standard persons in a family equals the square root of the number of persons it contains²⁰.

Table 15 presents the incidence of the poverty of families, adults and children and the poverty line is calculated according to 50% of the median income by the parameters specified above, for various population groups, in 2006 and 2007 (in the tables appendix, data is also presented for earlier years and for rates of 40% and 60% of the median).

Because the calculation approach of the OECD is similar in most of its components to the approach used in Israel, the findings are generally similar. The incidence of the poverty of families, which was 19% in 2006, decreased in 2007 to 18.4%, and is not far from the level measured according to the Israeli equivalence scale. Additionally, the trends of change in poverty between the two years (and over the course of time) are similar, and the general trends in the analysis by population groups remain unchanged: the poorest population groups are the Arab families and the large families (which, to a large extent, overlap), families in which the head of the household has a particularly low level of education (up to 8 years of schooling) and families in which the head of the household, who is of working age, is unemployed; the incidence of poverty among new immigrants is similar to the incidence of general poverty; the incidence of poverty among working families is about half the rate of poverty in the general population; and the lowest incidence of poverty was recorded among families with two breadwinners – less than 2% of the families in 2007.

However, there are also differences in the findings. The difference between the measurement of poverty in Israel and the measurement of poverty according to the OECD's definition centers primarily on one component – the use of a different equivalence scale. This means that there is a different approach to the connection between the welfare of the family and the size of the family and, according to the OECD's equivalence scale, large families are perceived as less poor (and, in contrast, relatively small families, such as elderly families, are perceived as poorer). The findings in Table 15 show that the incidence of poverty among adults and children and among large families is lower under the approach of the OECD. In the opposite case of small families (such as the elderly) – the rates of poverty yielded by the OECD's calculation are higher.

¹⁹ However, after consultation with a senior entity in the organization, it appears that, for the purpose of comparisons and analyses, they generally utilize 50% of the disposable median monetary income per standard person.

²⁰ Until a few years ago, the OECD used an equivalence scale which assumed that the weight of the first adult in the household was 1; the weight of each additional adult was 0.5 and the weight of each child 0.3.

Diagram 4 presents the incidence of poverty among adults according to 40%, 50% and 60% of the disposable median monetary income per standard person in the middle of the first decade of the 21st century in OECD countries. The data from Israel for the relevant period (2005) and for 2007 were added to the diagram while utilizing a calculation identical to the OECD approach, with all its components.

Table 15: Poverty Incidence of Families, Persons and Children in Selected Population Groups by OECD Definition, 2006 and 2007

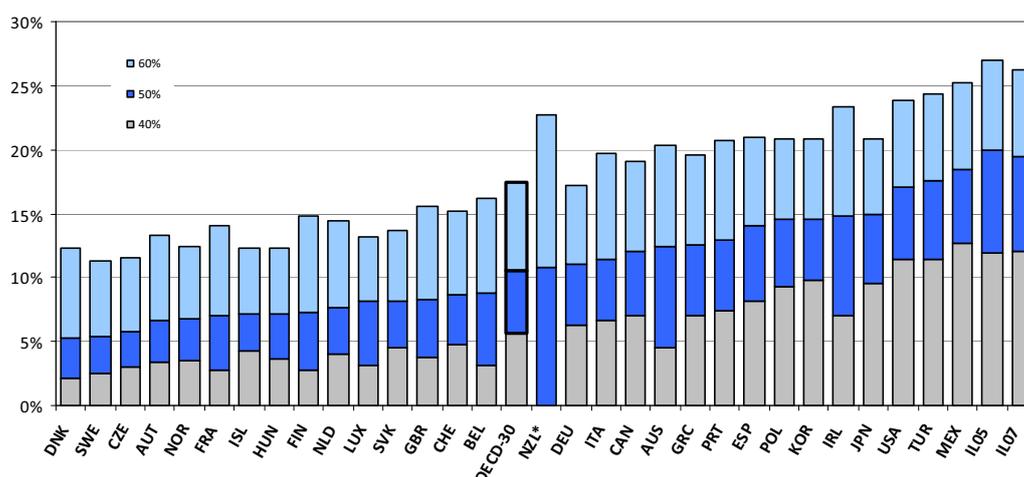
	2006			2007		
	Families	Persons	Children	Families	Persons	Children
Total population	19.0	20.3	27.8	18.4	19.5	26.4
Jews	14.8	13.8	18.1	14.6	13.6	17.9
Arabs	46.0	46.6	53.7	43.4	43.9	49.4
*Elderly	26.9	25.5	39.7	25.6	24.6	52.2
New immigrants	19.4	16.3	20.8	19.3	16.2	20.1
Families with children						
total	20.4	23.4	27.8	19.9	22.4	26.4
3-1children	15.2	15.5	17.0	15.2	15.1	16.6
4 or more children	45.4	45.6	46.9	42.7	43.2	44.2
5 or more children	51.4	50.8	52.1	49.6	48.9	49.8
Single-parent families	27.4	28.9	34.4	27.1	28.4	33.4
Work situation of head of household						
Working	9.7	12.1	18.0	9.5	12.0	17.9
Employee	9.6	12.0	18.1	9.6	12.3	18.7
Self-employed	11.0	13.4	18.7	9.8	11.0	14.5
Not working, of						
working age	66.6	75.0	84.1	68.9	76.0	83.7
One earner	18.9	26.7	36.2	18.9	27.0	36.8
Two or more earners	1.7	2.1	2.7	1.7	2.0	2.6
Age group of head of household						
up to 30	21.5	23.1	34.2	22.3	25.0	37.1
45-31	18.0	22.7	28.2	16.8	21.0	25.8
46 to pension age	13.6	14.0	21.3	13.5	12.7	19.8
Pension age						
under law	27.7	26.3	38.4	26.7	25.8	59.2
Education group of head of household						
Up to 8 years of schooling	42.4	46.6	61.6	43.2	47.5	61.8
12-9years of schooling	19.7	22.0	31.7	18.5	20.9	30.0
13 or more years of schooling	12.3	12.6	17.0	12.4	12.2	16.3

As the diagram shows, Israel is located at the top of the scale in terms of poor persons in the calculation according to 50% of the median, quite far from the countries at the top of the scale (aside from Israel) as well: Mexico, Turkey and the United States. The rate of poverty of persons in Israel reached 19.9% in 2005, compared with a rate of 18.4% in Mexico, 17.5% in Turkey and 17.1% in the United States. In comparison with the average rate in the OECD countries (10.6%), the

poverty rates in Israel are twice as high. The diagram also shows the moderate change, albeit in a positive direction, that occurred between 2005 and 2007 in Israel's poverty data. Israel's location at the top of the scale is unchanged in the calculation according to 60% of the median, and in a calculation of 40% of the median it is preceded only by Mexico. The data for 2007 show a certain improvement, although it is not sufficient to change the picture of Israel's status.

There are various reasons for Israel's positioning in such a high place in the hierarchy. One reason is connected to the demographic structure of Israeli society, which is characterized by a relatively high rate of large families. For example, the rate of families with at least three children in Israel is one third, compared with a rate of one fifth and below in most of the development countries²¹. Another reason lies in the size of the government's financial support for the working age population, which is lower than that of most of the Western countries²². Another possible reason may be connected with the high level of cultural heterogeneity in Israel (relative to the comparison countries). In a comparative study²³, it was found that this heterogeneity is usually reflected in lower access to the government's budget of populations differing in their culture from the homogeneous majority.

Diagram 4: Poverty Rates for Various Poverty Lines (40, 50 and 60 of Income Mean), Middle 2000s, OECD Countries and Israel



* Data regarding the rate of poor according to 40% of the mean are not available for New Zealand.

Key for countries:

DNK – Denmark, SWE – Sweden, CZE – Czech Republic, AUT – Austria, NOR – Norway, FRA – France, ISL – Iceland, HUN – Hungary, FIN – Finland, NLD – Netherlands, LUX – Luxembourg, SVK- Slovakia, GBR – Great Britain, CHE – Switzerland, BEL – Belgium, NZL – New Zealand, DEU – Germany, ITA – Italy, CAN – Canada, AUS – Australia, GRC – Greece, PRT – Portugal, ESP – Spain, POL – Poland, KOR – Korea, IRL – Ireland, JPN – Japan, USA – United States, TUR – Turkey, MEX – Mexico, IL05 – Israel 2005, IL07 – Israel 2007.

²¹ See the Annual Survey of the National Insurance Institute for 2007, Box 1, Diagram 2.

²² See the Annual Survey of the National Insurance Institute for 2006, Chapter 1, Box 1.

²³ Alesina A. and E. L. Glaeser, 2004, Fighting Poverty in the US and Europe, A World of Difference, Oxford University Press.

D. ANALYSIS OF THE FACTORS AFFECTING POVERTY AND THE POLICY FOR REDUCING IT

1. The labor market

2007, like the three years that preceded it, was characterized by economic growth, which was reflected in significantly expanded employment, a further reduction in the unemployment rate and a rise in real wages. The overall data for the entire economy showed that between 2006 and 2007, the number of salaried employee jobs rose on average by about 5%, after a rise of 4% in the preceding year. The increase in the number of jobs was common to all sectors, progressive and traditional, except for the public administration sector (-0.3%), and electricity and water (-1.8%). In the wholesale and retail commercial sector, hospitality and food services, transportation and communications, and banking and insurance – a 6% increase in salaried employee jobs was recorded in 2007 compared with 2006. In the industrial and educational sectors, the number of jobs rose by about 5%, and in the other sectors – agriculture, health services and other social services – the number of jobs rose by an average of about 3% between the two years. Concomitantly, the rate of unemployment continued to drop from 9.2% in 2005 to 8.6% in 2006 and 7.3% in 2007.

The wages for salaried employee jobs rose between the two surveyed periods by 2.3% in nominal terms and by 1.8% in real terms. A prominent real increase was recorded in the business services sector (3.6%), but real increases of 2% were also reported in industry, construction, public administration and social services. The increases were more moderate in the other sectors and in the industrial and banking sectors there were even slight decreases in real wages. The moderate rise in wages relative to the significant rise in the number of jobs that were added to the economy is explained, *inter alia*, by the composition of new workers in the labor market: the majority are unskilled laborers whose wage level is lower than that of the established workers.

The data in the 2007 income survey also reflect the boom in the labor market and attest to a picture similar to the one described by the employment data in the general economy: the income from salaried employment per household rose at a real rate of 8.5%. This sharp rise is explained by a combination of the rise in the real wages of salaried employees and the expansion of employment which was also reflected in the survey data: the number of salaried employees rose by about 5% between the two surveys.

The findings show significant gaps in the level of wages of the poor salaried employees compared with all salaried employees (Table 16): about 76% of the salaried employees in the economy and about 61% of the poor salaried employees are working full time. However, while among all salaried employees about 13% of those who are employed full time earn less than the minimum wage, this rate rises to more than one third among the poor workers who are employed full time. The wage level of almost all the poor salaried employees (even those who are working full time) is lower than the average wage in the economy. In contrast, about 40% of all salaried employees who are working full time earn above the average wage.

Table 16: Distribution of Wages* of Employees and Poor Employees by Wage Level, 2007

	Total (thousands)	In percentages	Up to half the minimum wage	From half to minimum wage	From minimum wage to average wage	Above average wage
Total employees	2,335	100.0	9.5	15.8	42.9	31.8
Employees working full time*	1,765	100.0	3.2	9.9	47.8	39.1
In economically poor population						
Total employees	288	100.0	32.7	30.7	36.0	0.6
Employees working full time	156	100.0	14.0	27.9	57.2	0.9
In net poor population						
Total employees	189	100.0	29.7	26.5	42.8	0.9
Employees working full time	115	100.0	14.4	21.7	62.6	1.4

* The minimum wage and average wage were adapted to the period of the 2007 Income Survey.

** 35 weekly work hours or more.

Table 17 presents the percentage of working salaried employees and the change in their numbers in 2006 and 2007 according to employment sectors. The table data show a similar rate of growth among poor workers and non-poor workers. Except for the industrial and educational sectors, there was an increase in the rate of the poor workers in all sectors. Among the non-poor salaried employees there was a pronounced decrease of about one third of the salaried employees in the public sector. There were additional decreases in the number of the non-poor employed in the electricity and water sector and in the various services. In contrast, the number of employed persons increased, particularly in the construction, commercial retail and wholesale and educational sectors.

Table 18 shows the workers' salaries in the sector compared with the average wage for the period of the survey, and the change in real wages between 2006 and 2007 according to employment sector. The average salary of the poor workers rose at a similar rate to the average wage. The salaries of the poor workers ranged from one quarter of the salaries of non-poor workers (in the business services sector, for example) to half or more thereof (in most of the other sectors). Generally, real wages rose in the two populations presented in the table, but in most sectors, the salaries of the non-poor workers rose more significantly between 2006 and 2007 than the salaries of the poor workers. Particularly large gaps between the two groups occurred in sectors in which there is a fairly high concentration of poor workers (wholesale commerce, hospitality and food). In contrast, in the transportation and communications sector and in the community services and personal services sector, the salaries of poor workers rose at a higher rate than the salaries of non-poor workers.

Table 17: Rate of Employment and Changes in Employment by Occupation Branch (percentages), 2006-2007

Occupation branch	Rate of employed in branch in 2007			Percentage of change in workers employed between 2006 and 2007		
	Total	Poor	Non-poor	Total	Poor workers	Non-poor workers
Total	100.0	100.0	100.0	4.6	5.2	4.5
Agriculture	1.1	2.2	1.0	-2.7	--	-1.9
Industry (mining and factories)	16.6	10.2	17.2	4.1	-22.7	6.1
Electricity and water	0.7	0.5	0.8	-14.6	--	-15.6
Construction	5.3	15.3	4.4	16.9	13.7	18.0
Wholesale and retail commerce	12.8	13.5	12.7	9.9	7.8	10.1
Hospitality and food services	4.6	6.5	4.4	-0.4	37.8	-3.9
Transport, storage and communications	6.4	5.6	6.5	3.0	20.9	1.8
Business services, banking and insurance	17.5	11.3	18.1	7.9	19.2	7.3
Public administration	4.5	1.0	4.8	-35.3	--	-35.5
Education	13.9	17.9	13.5	10.9	-2.5	12.7
Health and welfare services	10.4	8.9	10.6	-2.4	0.5	-2.7
Community, social and personal services and miscellaneous	6.2	7.2	6.1	-3.4	9.5	-4.6

* The average wage is calculated according to the Income Survey data, and includes "unknown branch" that was excluded from the list; cases of few observations are indicated --.

Table 18: Rates of Wages and Changes Therein by Occupation Branch (percentages), 2006-2007

Occupation branch	Wages as percentage of average wage of workers			Rate of real change in wages of employees between 2006 and 2007		
	Total	Poor	Non-poor	Total	Poor	Non-poor
Total	100.0	42.4	105.2	6.5	5.6	6.0
Agriculture	69.1	42.3	74.5	-11.4	--	-11.1
Industry (mining and factories)	118.4	51.3	121.9	8.0	6.8	6.3
Electricity and water	161.3	56.0	167.3	-2.9	--	-2.4
Construction	86.0	57.4	95.0	13.5	14.7	12.2
Wholesale and retail commerce	86.3	45.0	90.2	12.6	0.3	12.6
Hospitality and food services	58.8	37.5	61.6	10.9	5.8	12.1
Transport, storage and communications	103.8	53.4	107.7	3.4	6.1	3.3
Business services, banking and insurance	130.5	34.4	135.9	7.0	3.5	6.9
Public administration	132.2	54.4	133.6	-1.1	--	-1.5
Education	83.5	37.5	89.0	10.7	7.5	9.2
Health and welfare services	86.1	29.1	90.4	5.9	2.6	5.6
Community, social and personal services and miscellaneous	66.3	28.0	70.3	-1.4	3.2	-1.4

Tables 19 and 20 show employment and salary data for the employment sectors, by occupation. They show that the number of salaried employees whose occupation is "managers and academic occupations," the decisive majority of whom are non-poor workers, rose by the highest rate (about 9%), but even in the occupation of clerks – the occupation of about one tenth of the poor salaried workers – there was a considerable increase in the rate of employment. Even the rate of employment of professional workers expanded, also only for the non-poor workers. From the standpoint of changes in salary by occupation, except for those in the liberal and technical professions – there were real increases in salary in all the occupations, particularly in the salaries of professionals (about 9%), in which the part of poor workers is large, and managers and academics (about 8%) in which the part of poor workers is infinitesimal.

Table 19: Rates of Employment in Changes in Employment by Occupation (percentages), 2006-2007

Occupation	Rate of employed in occupation			Percentage of change of persons employed in occupation between 2006 and 2007		
	Total	Poor	Non-poor	Total	Poor	Non-poor
Total*	100.0	100.0	100.0	4.6	5.2	4.5
Academic occupation and managers	18.8	5.0	20.0	8.3	-13.7	8.9
Free and technical occupations	16.0	15.2	16.1	-3.5	18.9	-5.0
Clerical work	18.7	10.5	19.4	6.6	14.2	6.2
Sales and services	19.5	21.3	19.3	-0.6	9.3	-1.4
Professionals	18.5	30.7	17.4	4.5	-0.6	5.4
Non-professionals	8.5	17.4	7.7	2.6	-0.1	3.2

* Total includes also "not known."

Table 20: Rates of Wages and Changes Therein by Occupation (percentages), 2006-2007

Occupation	Wages as percentage of average wage of workers*			Rate of real change in workers' wages between 2006 and 2007		
	Total	Poor	Non-poor	Total	Poor	Non-poor
Total*	100.0	42.5	105.2	6.5	5.6	6.0
Academic occupation and managers	183.0	41.4	186.1	8.2	13.7	7.1
Free and technical occupations	102.2	35.0	107.9	-0.5	-0.3	0.0
Clerical work	85.8	41.4	88.0	2.8	9.5	2.3
Sales and services	66.2	33.2	69.5	5.1	4.9	5.0
Professionals	86.8	56.9	91.6	8.7	7.3	7.9
Non-professionals	49.6	35.9	52.4	3.4	5.0	2.3

* Total includes also "not known."

2. Transfer payments and taxes

The survey data indicate a real increase of 9% in the total payments made to the National Insurance (compared with an increase of 2.4% according to the Institute's administrative data). When the demographic growth in the population is taken into account, the average income per family from National Insurance benefits decreased somewhat in 2007. The survey data show that on average per household, National Insurance pensions decreased at a rate of 1.2% in 2007 compared with 2006. This decrease was the combined result of the real 1.2% decrease in the child allowances and the sharp 11% drop in the income support paid to families of working age, against the rise in payments of the old age and survivors' pensions and the disability pensions. Similar to the trends indicated by the administrative data, the total payments for old age and survivors pensions rose at a real rate of 2%, and the number of recipients remained almost unchanged, i.e., the average pension for an elderly person also rose at a real rate of about 2% (a lower rate than the rise in the general standard of living). The total payments of the disability pensions rose by about 3% as a result of an increase of about 7% in the number of recipients of this pension.

According to the survey data, the direct taxes increased, on average per family, by a rate of about 8% between 2006 and 2007 (the data of the state income administration indicate an increase of about 7% between the two years). Payments to the income tax authorities rose by a rate of about 9%, and National Insurance and health insurance contributions rose at an average rate of about 7%. This increase in collection from direct taxes, which is explained by the expansion of employment and the increase in salaries, moderated the rate of growth in gross income with regard to the gross income of households.

3. The government's objective for reducing poverty

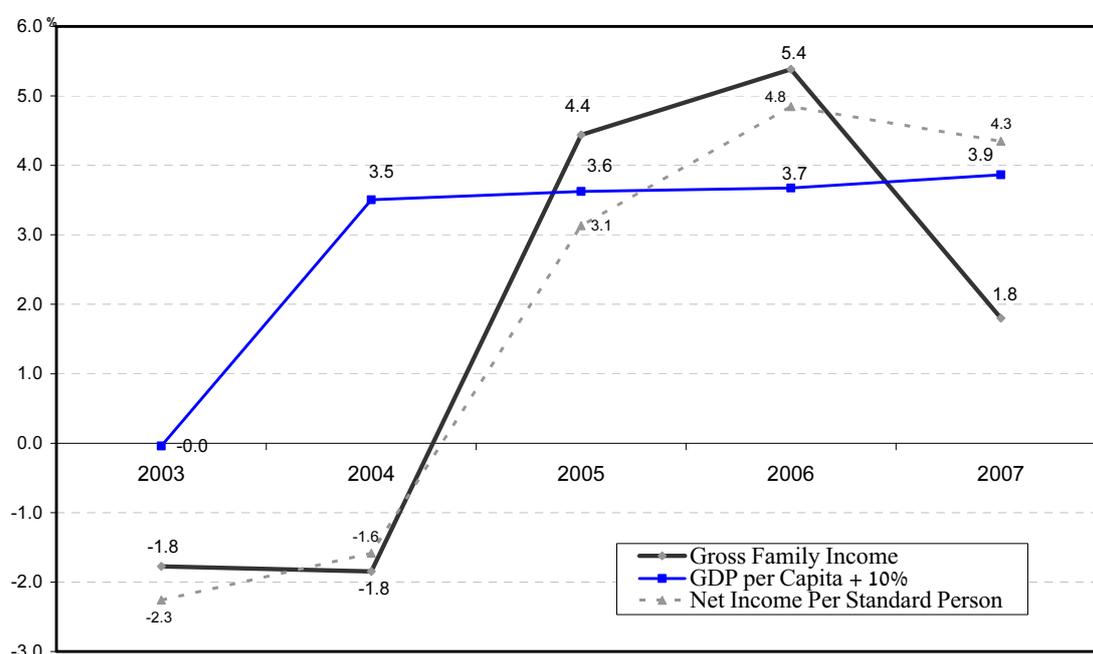
The government has set itself a cumulative poverty objective whereby the income of the families in the bottom quintile will increase on average between 2008 and 2010 at a rate at least 10% faster than the product per capita. If, for example, the product per capita grows by 10% during this period, the objective will be attained if the gross family income of the families in the bottom quintile undergoes a real increase of 11%.

In 2007, the GDP per capita rose by 3.5%, so that if the objective had been directed at 2007, it would have required that the relevant income grow by 3.8%. The last line in Table 3 omits the rate of change in the GDP per capita with the addition of 10% from the rate of change in income defined as above. In other words, if the value obtained is positive – the objective was attained, and vice versa. As we can see, the income of the bottom quintile rose by 1.8% – a lower rate than the objective – and, therefore, if the government's objective had been directed at 2007, it would not have been attained.

Diagram 5 presents a simulation of the meeting of the government's objective in 2003 – 2007. As we can see, in 2004, which was characterized by positive growth and the recovery of the economy from a recession, the government would not have met the objective (if it had been set for that year) because of the deep reductions in the National Insurance pensions which significantly reduced the income of the bottom quintile. In 2005 and 2006, the government would have met the objective with a considerable positive gap, since the increase in employment manifested itself in the increase in economic income of the bottom quintile and, in any case, in the gross income as well, without parallel reductions in other components. In contrast, the rise

in real income which occurred in 2007, at a rate of 1.8% in the relevant income, would not have been sufficient to meet the government's poverty objective. The dotted line in the diagram shows the change in net income per standard person, which neutralizes the effect of the change in the composition of population in that quintile. If the objective had been set according to that income definition, it would have been attained from 2005 to 2007, each year separately, and cumulatively in those three years. Appendix 7 contains a table presenting the changes in income defined in the poverty objective and in the net income per standard person between 2006 and 2007, for different population groups.

Diagram 5: The Real Change in Gross Family Income and in Net Income Per Standard Person (Equivalence Scale in Israel) Opposite Change in GDP per Capita + 10%, 2003-2007



Cumulatively for all 4 years of growth, from 2004 to 2007, the GDP per capita with the addition of 10% rose by about 15%; in contrast, the gross family income of the bottom quintile rose at a rate of about 12% and the net income per standard person at a rate of about 13%, i.e., in both cases the change in income was close to – but lower than – the target.

4. Forecast and policy recommendations

Positive changes in employment also continued in 2008, although real wages are not expected to rise this year. According to updated forecasts, prices in 2008 rose by a rate of 5%. With regard to National Insurance pensions, the pensions were updated at the beginning of 2008 at the rate of the rise in the consumer price index in 2007, but there were no changes in most of the pensions beyond that. The main change pertains to the old age pensions: the universal pension increased in April 2008 at the rate of 1.8% and from that date, an increment has also been paid to the basic old age pension, to those aged 80 or older, at a rate of 1% of the basic amount. A simulation that was conducted regarding the effect of the benefits on the elderly in 2008 shows that the incidence of poverty among the elderly would decrease by about one percentage point this year and would also have a small effect (two tenths of a

percent) on the standard of living of the general population. Programs for intervention in the labor market, such as Lights for Industry and Negative Income Tax began or continued to operate this year, although on such a small scale that it could not change the social situation for now. This means that the poverty and social gaps are not expected to change significantly in the general population, although the data are liable to indicate a relative improvement in the situation of the elderly.

The findings that emerge from this report, in view of world economic developments, show the need for new thinking with regard to the social insurance programs, particularly the unemployment insurance whose conditions for entitlement have been made far more stringent in recent years while the insurance coverage has been significantly reduced.

The large extent of poverty among children, by any form of calculation and by any criterion, calls for fresh thinking about the variety of ways to significantly reduce the scope of poverty in this group: in the area of government intervention in the labor market which began in 2008 in the framework of the Negative Income Tax program designed primarily for families with children, we recommend increasing the scope of the program's generosity and accelerating its national deployment. We must recognize the importance of financial support for families for the purpose of increasing the children's welfare and, of course, strengthening the systems that support the future earning capacity of the child, chiefly the education system.

The large gaps between the poor and the non-poor in both salary and the level of employer compliance with the minimum wage indicate the fact that government intervention for the purpose of increasing the salaries of the weaker workers, including action to increase enforcement of the labor laws, is vital.

Despite the optimal policy that has been implemented vis-à-vis the elderly in recent years, which contributed to raising their standard of living and decreasing the poverty among them compared with 2005, their relative situation in 2007 has not improved compared with 2006, primarily due to components that are not connected directly to government policy (income from pensions, provident funds and capital remained unchanged in 2007 among the elderly). Adopting a suitable pension updating mechanism for this population, which is outside the realm of employment, will contribute to preserving its real standard of living, compared with the general population.

TABLE APPENDIX

Table 1:**Number of Poor Families by Income After Transfer Payments and Taxes, 2006-2007**

	2006	2007
Total population	404,400	412,900
Jews	258,000	269,900
Arabs	146,300	143,000
Elderly*	84,500	92,100
New immigrants	69,600	73,900
Families with children - total	238,600	237,300
One - three children	141,900	145,800
Four or more children	96,700	91,500
Five or more children	53,400	53,400
Single-parent families	33,600	33,100
Work situation of household head		
Working	185,600	188,700
Employee	156,800	162,600
Self-employed	28,100	24,400
Not working, of working age	135,800	134,700
One earner	162,200	164,900
Two or more earners	23,400	23,800
Age group of household head		
Up to 30	91,400	96,100
Aged 31 - 41	149,500	145,600
Aged 46 until pension age	88,100	89,900
Pension age	75,400	81,400
Education group of household head		
Up to 8 years of schooling	104,600	109,400
Between 9 and 12 years of schooling	174,300	165,900
13 or more years of schooling	125,400	137,600

nen aged 60 or over and men aged 65 or over.

Table 2:
Income Gap Ratio Among Families by Type of Family (percentages), 2006-2007

	Income before transfer payments and taxes		Income after transfer payments and taxes		Rate of decrease in poverty gap ratio after transfer payments and taxes (%)	
	2006	2007	2006	2007	2006	2007
Total population	61.8	60.7	33.8	34.3	45.3	43.5
Jews	63.6	63.6	31.3	32.0	50.8	49.7
Arabs	58.6	55.6	36.7	37.0	37.4	33.5
Elderly	81.2	80.4	21.8	23.4	73.2	70.9
New immigrants	70.2	71.4	26.2	27.6	62.7	61.3
Families with children - total	57.9	55.9	34.9	35.2	39.7	37.1
One - three children	55.2	53.3	34	33.2	38.4	37.7
Four or more children	60.6	58.7	35.6	37.1	41.3	36.8
Five or more children	62.8	61.6	36.4	37.6	42.0	38.9
Single-parent families	67.8	69.1	35.2	32.8	48.1	52.5
Work situation of head of household						
Working	39.2	39.0	27.2	26.9	30.6	30.9
Employee	38.7	39.4	25.8	26.6	33.2	32.5
Self-employed	43.1	36.5	35	30.4	18.7	16.6
Not working, of working age	93.1	93.9	47.8	50.9	48.7	45.8
One earner	41.1	40.8	28.1	27.8	31.6	31.9
Two or more earners	29.5	27.8	22.2	21.3	24.7	23.5
Age group of head of household						
Up to 30	55.7	56.7	35.5	34.9	36.2	38.4
31-45	58.1	54.3	35.1	35.1	39.6	35.4
From age 46 to pension age	62.8	64.5	33.8	36.9	46.1	42.8
Pension age under law	81.8	80.9	20.4	21.0	75.1	74.0
Education group of head of household						
Up to 8 years of schooling	70.5	70.2	34.9	38.6	50.5	45.0
Nine - twelve years of schooling	56.5	54.5	34.4	33.1	39.1	39.3
Thir+A104teen or more years of	63.0	62.0	32.1	32.5	49.1	47.6

Table 3:
Influence of Transfer Payments and Direct Taxes on Inequality in Income Distribution in

Decile*	Share of each decile in total income**					
	Before transfer payments and taxes		After transfer payments		After transfer payments and taxes	
	2006	2007	2006	2007	2006	2007
bottom	0.8	0.8	1.8	1.8	2.0	2.0
2	1.6	1.6	3.1	3.1	3.6	3.6
3	2.7	2.9	4.1	4.2	4.7	4.8
4	4.2	4.3	5.3	5.4	6.0	6.0
5	6.1	6.3	6.7	6.7	7.4	7.5
6	8.1	8.1	8.2	8.3	8.9	9.0
7	10.4	10.3	10.1	10.1	10.7	10.7
8	13.1	13.3	12.5	12.7	12.8	12.9
9	18.0	17.9	16.6	16.6	16.1	16.2
top+A60	35.0	34.5	31.4	31.1	27.8	27.3
ratio of income of bottom quintile to income of top quintile	22.6	22.4	9.8	9.7	7.9	7.8

* The families in each column were graded according to the appropriate income level for standard person. Every decile includes 10% of the persons in the population.

** In terms of income per standard person.

Table 4:
Monetary Data by Quintile

Source/type of income	income (NIS per month)					change compared to 2006 (%)						
	average	1	2	3	4	5	average	1	2	3	4	5
From work	10,080	1,250	3,830	7,240	11,830	24,510	7.5	13.5	8.4	8.7	6.9	8.0
From pensions, prov. funds, capital	1,290	70	410	920	1,400	3,410	-11.3	-22.5	7.7	4.5	-1.9	-18.2
From benefits	1,560	1,830	1,880	1,490	1,320	1,320	-1.2	-1.6	-0.5	-2.4	-1.2	-1.1
Compulsory payments	2,470	210	490	1,040	2,280	7,760	8.3	3.9	5.5	11.5	9.1	8.6
Net family income	10,460	2,950	5,630	8,600	12,270	21,480	3.3	3.8	5.5	5.8	4.5	2.0
Gross family income	12,940	3,150	6,120	9,650	14,550	29,240	4.2	3.7	5.5	6.4	5.2	3.7
Family economic income	11,300	1,320	4,210	8,090	13,140	27,760	5.0	12.0	8.3	8.1	6.0	4.0
Net income per standard person	6,080	1,680	3,220	4,910	7,030	12,740	3.6	4.2	6.6	5.4	4.6	2.4
Gross income per standard person	7,490	1,800	3,480	5,470	8,280	17,260	4.4	4.0	6.6	5.9	5.4	4.0
Economic income per standard person	6,440	640	2,240	4,470	7,400	16,280	5.2	11.4	9.9	7.6	6.2	4.3
share of each quintile in total income												
Source/type of income	2006					2007						
	total	1	2	3	4	5	total	1	2	3	4	5
From work	100.0	2.2	7.2	14.3	24.1	52.2	100.0	2.3	7.5	14.2	23.7	52.2
From pension, prov. funds, capital	100.0	1.2	5.1	12.1	20.0	61.6	100.0	1.1	6.3	14.1	21.9	56.7
From benefits	100.0	22.0	23.0	19.4	17.3	18.2	100.0	22.1	23.7	18.9	17.1	18.2
Compulsory payments	100.0	1.7	3.9	8.2	18.7	67.5	100.0	1.6	3.9	8.4	18.6	67.5
Family net income	100.0	5.2	10.1	16.1	23.7	44.9	100.0	5.3	10.6	16.3	23.7	44.1
Family gross income	100.0	4.6	9.0	14.7	22.7	49.0	100.0	4.6	9.3	14.8	22.8	48.6
Family economic income	100.0	2.0	6.9	14.0	23.5	53.5	100.0	2.2	7.3	14.2	23.5	52.8

Expenditure by Quintiles, Rates of Expenditure and Rates of Real Change, 2006-2007

	average	1	2	3	4	5
Monthly expenditure (NIS, 2007)						
Expenditure on consumption per standard person	4,570	2,470	3,180	4,150	5,280	7,769
Monetary expenditure per standard person	3,530	1,860	2,450	3,180	4,110	6,049
Expenditure on family consumption	11,580	7,150	8,510	10,990	13,530	17,739
Family monetary expenditure	9,030	5,480	6,650	8,550	10,610	13,856
Real change compared to 2006						
Expenditure on consumption per standard person	2.8	1.2	0.9	4.5	3.4	2.7
Monetary expenditure per standard person	2.5	0.4	0.0	3.4	4.1	2.5
Expenditure on family consumption	1.9	3.0	0.2	3.3	4.9	-0.7
Family monetary expenditure	1.5	1.9	-0.6	2.3	5.8	-1.1
Share of expense in total expenditure						
Expenditure on family consumption	100.0	10.4	13.7	18.4	22.8	34.7
Family monetary expenditure	100.0	10.2	13.9	18.3	22.7	34.8
Share of expense in total expenditure						
Expenditure on family consumption	100.0	10.5	14.2	18.1	22.8	34.4
Family monetary expenditure	100.0	10.3	14.1	18.1	23.0	34.5

Table 5:**Poverty Incidence Calculated According to OECD and 40% of Mean Income**

	2006			2007		
	families	persons	children	families	persons	children
Total population	10.7	11.9	16.7	10.9	12.0	16.7
Jews	7.8	7.8	10.9	8.3	8.2	11.7
Arabs	28.9	28.6	32.2	27.8	27.6	30.2
Elderly*	11.6	11.6	29.8	11.7	12.6	46.8
New immigrants	7.4	7.2	11.4	8.2	8.1	12.6
Families with children - total	12.2	14.1	16.7	12.2	14.0	16.7
One - three children	9.0	9.3	10.1	9.0	9.1	9.9
Four or more children	27.5	27.3	28.4	27.6	28.2	29.0
Five or more children	30.6	30.1	31.2	33.2	32.9	33.7
Single-parent families	17.2	19.2	23.4	15.7	17.6	21.5
Work situation of household head						
Working	4.6	5.5	7.9	4.7	5.9	8.7
Employee	4.3	5.2	7.5	4.6	5.8	8.8
Self-employed	6.9	8.2	10.8	5.9	6.4	8.4
Not working, of working age	50.0	58.5	67.1	55.4	63.0	70.7
One earner	9.1	12.4	16.2	9.5	13.3	17.9
Two or more earners	0.7	0.8	1.0	0.8	0.9	1.1
Age group of household head						
Up to 30	13.9	14.2	20.8	15.3	16.1	23.8
Aged 31-41	10.8	13.7	17.0	10.1	12.8	15.8
Aged 46 until pension age	7.8	8.3	12.3	8.9	8.6	13.6
Pension age	11.7	11.5	27.9	11.5	12.1	49.8
Education group of household head						
Up to 8 years of schooling	23.7	27.6	36.9	28.5	33.1	44.1
Between 9 and 12 years of schoolin	11.8	13.4	19.3	10.4	12.1	17.7
13 or more years of schooling	6.4	6.9	10.0	7.1	7.4	10.4

* aged 60 or over and men aged 65 or over.

Table 6:
Poverty Line Calculated According to OECD and According to 60% of Income Mean, 2006 :

	2006			2007		
	families	persons	children	families	persons	children
Total population	25.4	27.1	36.4	25.0	26.2	34.8
Jews	20.4	19.4	25.2	20.3	18.9	24.3
Arabs	57.7	58.6	66.5	55.1	56.1	63.3
Elderly*	36.0	34.0	45.4	36.0	34.4	62.0
New immigrants	28.0	23.7	29.0	29.0	23.8	27.4
Families with children - total	27.6	31.1	36.4	26.7	29.8	34.8
One - three children	21.3	21.3	23.2	21.0	20.8	22.9
Four or more children	57.9	58.4	59.8	54.7	55.4	56.5
Five or more children	64.4	64.2	65.4	62.4	61.8	62.9
Single-parent families	36.7	37.3	43.6	35.8	37.1	42.7
Work situation of household head						
Working	15.0	18.5	27.1	14.7	18.2	26.6
Employee	15.1	18.7	27.6	14.8	18.4	27.2
Self-employed	15.5	19.0	26.6	14.9	17.3	23.8
Not working, of working age	75.1	82.2	89.9	76.9	83.0	89.7
One earner	28.4	39.3	52.7	28.6	39.8	53.1
Two or more earners	3.3	4.3	5.7	3.2	3.8	5.1
Age group of household head						
Up to 30	28.9	31.8	46.6	29.6	33.4	48.3
Aged 31-41	24.2	29.8	36.5	22.9	28.2	34.3
Aged 46 until pension age	18.0	18.6	28.2	17.5	16.6	25.6
Pension age	37.0	35.4	47.5	38.0	36.5	73.2
Education group of household head						
Up to 8 years of schooling	52.4	56.8	73.2	54.3	58.9	75.1
Between 9 and 12 years of schooling	27.2	30.2	42.2	25.9	28.5	39.7
13 or more years of schooling	16.9	17.4	23.3	17.2	17.1	22.6

* Women aged 60 or over and men aged 65 or over.

Table 7:
The Change in Income Defined for Poverty Objective and in Net Income per Standard Pe

Population group	total population		bottom quintile	
	real change according to family gross income	real change according to net income	real change according to family gross income	real change according to net income
Total population	4.2	3.6	1.8	4.4
Jews	4.1	3.6	1.6	3.9
Arabs	5.9	5.1	3.1	4.9
Elderly**	5.6	4.3	3.1	4.5
New immigrants	4.2	3.1	-0.1	4.6
Families with children - total	5.0	3.9	3.2	4.7
One - three children	5.2	3.8	5.3	5.8
Four or more children	3.3	3.0	2.5	2.6
Five or more children	-1.8	-1.7	1.4	3.0
Single-parent families	5.4	2.2	12.0	8.1
Work situation of household head				
Working	3.6	3.0	5.6	5.3
Employee	4.1	3.7	4.8	4.0
Self-employed	5.2	3.1	8.0	11.9
Not working, of working age	-3.6	0.1	-6.6	1.1
One earner	2.9	2.3	6.4	5.4
Two or more earners	3.1	3.0	1.4	5.1
Age group of household head				
Up to 30	1.7	2.0	8.7	5.6
Aged 31-41	5.0	4.7	5.3	4.6
Aged 46 until pension age	3.4	3.3	-9.7	0.2
Pension age	3.1	2.6	4.1	5.8
Education group of household head				
Up to 8 years of schooling	-0.8	-1.0	-1.8	1.6
Between 9 and 12 years of schooling	4.3	5.2	5.4	7.3
13 or more years of schooling	3.5	2.4	0.8	2.8

* Age groups in bottom quintile.

** Women aged 60 or over and men aged 65 or over.