

1. Poverty and income gaps in 2006

The trends of growth in employment and wages which have characterized the economy since mid-2003 continued in 2006. The number of people in employment grew by about 4% on average in comparison to the 2005 survey period, a growth noted in the majority of employment sectors, including the traditional ones. The *average wage per employee post* increased between the two survey periods by 1.5% in real terms, though the trend was not uniform in the different branches: while in capital and technology-intensive branches real wages increased at a rate greater than the average increase, the traditional branches – such as wholesale trade and entertainment and catering – registered stability and even erosion in real wages (0.1% and 0.3%, respectively).

The increase in net income, mainly in the top deciles¹, was also a result of the income tax reform, of which an additional stage – the marginal tax rates were reduced again – was implemented in 2006. Changes were also introduced in 2006 in the rates of national and health insurance contributions and in the level of the reduced rate bracket. The reduced rate of national insurance contributions for an employee went down from 1.4% to 0.4% and the reduced rate bracket (for employees and the self-employed, and for health insurance contributions) was increased from 50% of the *average wage* to 60% thereof. The survey data accordingly indicate a reduction in the burden of direct taxation at an average rate of 0.8% – reflecting a 0.5% reduction in the average income tax per family and a 1.9% reduction in health insurance contributions.

In 2006 national insurance benefits were adjusted (for the first time since 2002) by 2.7% (according to the price rise). The real increase of 0.7% in benefits reflects, over and beyond their adjustment, an increase in child allowances and in old-age pensions together with a reduction in benefits paid to the working-age population, as described below.

According to survey data, the economic income per family increased at an average rate of about 4% during the period 2005-2006. This increase, together with the reduction in the burden of direct taxation and the moderate increase in national insurance benefits, have contributed to increasing net income by an average real rate of 4.6% between the two years.

The situation depicted by the 2006 data shows that the dimensions of poverty in Israel remain high. Developments in the labor market, taxation and national insurance benefits – that all influenced the dimensions of poverty in the same direction, but in varying degrees on the different population groups – led to a stability in poverty among families according to a measurement based on net income. In 2006, there was also a further expansion in net income gaps². On the other hand, the continuous increase in poverty among children was curbed, and poverty among families of the elderly was reduced as a result of a real increase in their pensions. The incidence of poverty,

1 **Social Aspects of the State Budget: 2001-2006**, Research and Planning Administration, National Insurance Institute.

2 Beginning in 2006 the Central Bureau of Statistics incorporated a new method in their income surveys, according to which an averaging of incomes was made in a certain number of observations of particularly high incomes ("top-coding"). This change does not affect the dimensions of poverty, but it might affect the dimensions of inequality and income distribution to an extent that we have not yet had the opportunity to evaluate. There is thus no certainty that the 2006 data are comparable to the data of 2005 in this respect.

calculated on the basis of economic income from 2003 until the most recent survey, points to a slow but persistent reduction, and economic income gaps remain stable due to the improvement in employment, which included the weaker links of the labor market as well.

Box 1 describes the foci of poverty in Israel, including the non-economic aspect of the situation of these poor populations.

This chapter presents the most updated findings on poverty and inequality for a calendar year – in this case, 2006. Findings that do not reference an entire calendar year (even if more recently updated) are presented in the Boxes of this chapter. Accordingly, the findings on poverty and inequality for 2006/7 (the period which covers the second half of 2006 and the first half of 2007) are set forth in Box 2 of this chapter.

Poverty measurement from the perspective of expenditure on the basis of an approach developed by an American committee of experts (NRC) and implemented in Israel, shows a reduction in the poverty of families in 2006 compared to 2005 (see Box 3 in this chapter).

2. Poverty measurement and data sources

Since the early 1970's poverty in Israel has been defined according to the relative approach, which is accepted by the majority of researchers and social policy makers in the Western world. Under this approach, poverty is a phenomenon of relative hardship which must be assessed with affinity to the living standard of the specific society: a family is considered poor not when it cannot afford to buy a certain basic basket of products required for its subsistence, but rather when its living conditions are significantly inferior to those of the society as a whole. The relative approach recognizes the fact that hardship is not manifested in low income alone, but also in the level of property, living conditions, education and available public services. Still, as a whole, since there is no universal index to reflect every aspect of distress and since data on current economic income were, and still are, more readily available, the poverty measurement focuses on the household's economic income.

The relative method used in the NII for measuring poverty is based on two principles: the first is to regard the family's **net income**³ as the relevant income for examining living standards and to regard the population's **median** net income as the society's representative income⁴. The second principle is to adjust living standards to family size, on the assumption that family size has advantages in consumption: the needs of a family that grows larger by one individual do not increase in a similar rate, but at a smaller rate, so that the income required for the family in order to

3 The net income is defined as the family's economic income derived from work, in addition to transfer payments (payments made other than in return for financial activity, e.g., national insurance benefits and support from institutions and individuals in Israel and abroad) from which direct taxes (income tax and national and health insurance contributions) are deducted.

4 The median income is preferable to the average income as the representative of the typical living standard, since the average income is influenced by radical values in income distribution (i.e., by very high or very low incomes).

maintain a constant living standard is reduced with the increase in the number of individuals in the family. In order to allow comparison between living standards in families of various sizes, a *weighing scale* (or *equivalence scale*) was developed, which makes it possible to measure the needs of these families as compared with the needs of a family of any basic size⁵.

Under these principles, the *poverty line per standard person* in Israel was defined as the level equal to 50% the median net income for a *standard person*. A family in Israel is ascribed to the poor population when its net income, which is distributed according to the number of *standard persons* in it, is lower than the *poverty line per standard person*. The poverty line per family can be similarly calculated – by multiplying the *poverty line per standard person* by the number of *standard persons* in the family.

The findings on poverty and income distribution are presented in this chapter. These findings, the result of data processing of the NII's Research and Planning Administration, are based on annual income surveys conducted regularly by the Central Bureau of Statistics (CBS). Occasionally, data pertaining to incomes included in family expenditure surveys, conducted regularly by the CBS since 1997, are also presented.

Following an NII initiative, the CBS made a probability test that showed that findings on poverty and income distribution can be produced twice a year. Hence, **in addition** to 2006 data, Box 1 in this chapter presents findings pertaining to the period which includes the second half of 2006 and the first half of 2007 (July 2006-June 2007). It should be emphasized that there was no special survey with an independent sample made on poverty and income distribution for this period, but rather a database made up two parts: data pertaining to the second half of 2006 were taken from the 2006 Income Survey, while data pertaining to the first half of 2007 – from the 2007 Income Survey (not yet completely edited). This period will be marked "2006/7".

In February 2004, a paper published by the Research and Planning Administration presented findings for 2001 and the fundamentals of the approach for measuring poverty from the perspective of expenditure⁶. The approach set forth in this research is based on principles formulated by a committee of experts in the United States, adapting it to the Israeli economy. The *threshold expenditure* for a *representative family* – which includes products and services in the areas of food, clothing and footwear and housing, in addition to supplementary basic products – is calculated according to this approach. The *threshold expenditure* is adjusted to other family compositions by means of the *weighing scale*. A poor family is defined as a family whose net income is not sufficient for acquiring this basic basket. Clause 5 and Box 5 in this chapter set forth the

5 Specifically, the *weighing scale* translates the number of persons in the family into the number of *standard persons* (or *standard adults*) in it (Table 2). The basis of the scale is a family with two persons, to which a value of two *standard persons* is assigned. According to this scale, a family with one person has a value of 1.25 *standard persons*, i.e., the needs of a family with one person are not assessed as being equal to half the needs of a family with two persons, but to more extensive needs. Similarly, the needs of a family with four persons (which is assigned a value of 3.2 *standard persons*) are not double the needs of a family with two persons (to which a value of 2 *standard persons* is assigned), but are less than double (they are only 1.6 times larger).

6 Sabag-Endweld, M. and Achdut, L. (2004), **An Experimental Poverty Measure from the Perspective of Expenditure in Israel**, Research and Planning Administration, National Insurance Institute.

fundamentals of the approach, including findings on poverty for 2006 according to this approach, while the tables in the Appendix to this chapter elaborate on the findings on poverty and inequality.

3. The main poverty findings

Like many Western countries, the analysis of poverty in Israel is mostly based on the two aggregative poverty indices most acceptable in empirical researches – the incidence of poverty and the *income gap of the poor* (or the *poverty gap*). The poverty incidence index specifies the **extent** of poverty in terms of the rate of poor families in the population, while the poverty gap index reflects the **depth** of poverty: the poverty gap of any poor family is defined as the difference between the poverty line (corresponding to its size) and its actual income, whereas the poverty gap of the entire population is defined as the sum of the poverty gaps of all poor families. It is possible to standardize the poverty gap index and define it as the ratio between the average income gap for a poor family and the poverty line (hereafter referred to as the *income gap ratio of the poor*). An additional aggregative index is the Sen Index, which combines these two indices with the component of inequality in income distribution among the poor.

Table 1
Average and Median Income per Standard Person After Transfer Payments and Direct Taxes, and the Poverty Line (NIS), 2004-2006

Income per standard person	2004	2005	2006	Real growth rate	
				From 2004 to 2005	From 2005 to 2006
Average	3,457	3,666	3,914	4.7	4.6
Median	2,843	2,986	3,184	3.7	4.4
Poverty line	1,421.3	1,493.1	1,592.0	3.7	4.4

Table 1 shows that the economic growth which began in mid-2003 after the recession and continued through the following years brought about a rise in living standards; between 2005 and 2006 living standards improved – in terms of net income per standard person on average per family – at a real rate of 4.6%, and beginning in 2004 the real increase amounted to about 9%. The half net median income per standard person, from which the poverty line is derived, increased between 2005 and 2006 at the similar rate of 4.4% (and at a cumulative rate of about 8% since 2004). The increase in net income is the outcome of several factors which operated in the same direction in 2006: the expansion of employment by about 4% and the simultaneous increase in real wages by about 2%. This trend was further enhanced by the income tax reform under which tax rates were reduced again in the beginning of 2006. National insurance benefits also went up (for the first time in four years) by 0.7% per household on average. This moderate increase shows that their real value was preserved as a result of the adjustment of early 2006 (according to price changes) and reflects additional developments to be reviewed below.

The survey data indicate a real increase of 1.5% in old-age pensions (on average per recipient), reflecting the policy toward the elderly population; in January 2006 pensions were adjusted in

accordance to price changes by 1.8% (after a 0.9% update in January 2005), and in mid-2006 the 1.5% reduction in old-age pensions was cancelled. The basic pension grew by 1.3% and the pension for income supplement recipients was raised by about 4%.

The temporary order regarding the NIS 24 per month cutback in child allowances for the first three children and for all the "new" children, as well as the NIS 5 cutback for the fourth and subsequent children in families, expired in the beginning of 2006. However, there was a continued cutback in the allowance for the fourth and subsequent children in families as part of the policy aimed at paying a uniform allowance for all children. These opposing changes led to a real increase of about 7% in the average child allowance per household.

On the other hand, benefit payments to the working-age population (unemployment and income support), on average per family, continued to decline as a result of the reduction in the number of recipients, due, in turn, mostly to an improvement in employment, and to a lesser degree to the operation of the "Welfare to Work" program. The particularly high increase (about 25%) in payment of the "other" benefits in the data of the 2006 survey probably reflects the growth in payments of reservists' benefits due to the Second Lebanon War.

The minimum wage adjustment, made twice during the year – in April and in June – is also reflected (albeit partially) in the 2006 survey. In real terms, the minimum wage went up by 1.1% between the two last surveys, and as a percentage of the average wage it remained at the level of 45.9% in 2006. Table 2 presents the poverty lines for families according to their size, in terms of shekels and as a percentage of the average wage in the economy in 2005-2006.

Table 2
Number of Standard Persons and Poverty Line per Family,* by Number of Persons in Family, 2005-2006

Number of persons in family	Number of standard persons in family	Poverty line per family in 2005		Poverty line per family in 2006	
		NIS per month	Percentage of average wage	NIS per month	Percentage of average wage
1	1.25	1,866	25.6	1,990	26.4
2	2.00	2,986	40.9	3,184	42.3
3	2.65	3,957	54.2	4,219	56.0
4	3.20	4,778	65.5	5,094	67.6
5	3.75	5,599	76.7	5,970	79.2
6	4.25	6,346	86.9	6,766	89.8
7	4.75	7,092	97.2	7,562	100.4
8	5.20	7,764	106.4	8,278	109.9
9**	5.60	8,361	114.6	8,915	118.3

* The average wage calculated for 2006 is the weighted average of the *average wage per employee post* (Israeli workers) from October 2005 to November 2006.

** The weight of each additional individual is 0.40. Thus for example, in a family of 10 there are 6 standard persons.

The economic indicators of the macro-economic developments of 2002-2006 presented in Table 3 indicate that between 2005 and 2006 the level of prices went up by 0.4% and real wages by 1.6%. The trend of expansion in unemployment, which was halted in 2004 and went down in 2005, continued to go down in 2006 as well, and the rate of unemployment reached a level of 8.4% (as compared with 10.4% in 2004 and 9.0% in 2005).

Table 3 further shows that together with the positive changes in the area of employment, the relative level of national insurance benefits continued to be eroded: except for old-age pensions with income supplement, all benefits indicated in the table were reduced between 2005 and 2006 both as percentages of the average wage and as percentages of the poverty line. The income support benefit, which aims at securing minimum sustenance, continued to move away from the poverty line: the benefit for a couple with two children – together with child allowances – provides them an income equal to 48.9% of the poverty line (as compared with 50.4% in 2005 and about 71% in 2002). Conversely, there were differential changes in the old-age pensions in accordance with the type of beneficiary: the old-age pension without income supplement for a single person went down from 15.0% to 14.5% of the average wage between 2005 and 2006, while old-age pensions including income supplement remained similar to their 2005 level as a percentage of the average wage.

Table 3
Economic Developments, National Insurance Benefits and Direct Taxes: Selected Indices*, 2002-2006

	2002	2003	2004	2005	2006
Rate of price level change throughout survey period as compared with previous period (percentages)	5.6	0.7	-0.4	0.2	0.4
Rate of real change in average wages in economy (percentages)	-6.0	-3.0	2.5	1.0	1.6
Unemployment rate (percentages)	10.4	10.7	10.4	9.0	8.4
Rate of unemployment benefit recipients among unemployed	37.0	25.0	21.0	23.9	23.7
Minimum wage, as percentage of average wage	46.4	48.4	48.0	45.9	45.9
Minimum wage as percentage of e poverty line:					
For single person	189.6	191.0	188.2	179.5	173.8
For couple with two children (plus child allowance)	81.2	81.1	79.1	75.1	73.5
Old-age pension for single elderly, as percentage of average wage:					
Without income supplement	15.7	15.6	15.4	15.0	14.5
With income supplement	26.5	27.1	26.8	27.0	27.1
Old-age pension with n income supplement, as percentage of poverty line (from which health insurance contributions are deducted):					
For single elderly	103.5	102.1	100.4	101.2	101.9
For elderly couple	98.6	97.3	95.6	95.8	95.8
Regular rate of income support benefit, as percentage of poverty line (from which health insurance contributions are deducted):					
For single person	75.1	71.9	70.7	67.4	64.6
For couple with 2 children (plus child allowance)	70.8	62.3	53.1	50.4	48.9
Increased rate of income support benefit (previously entitled person), as percentage of poverty line (from which health insurance contributions are deducted):					
For single person	95.1	87.1	80.2	76.4	73.0
For couple with 2 children (plus child allowance)	82.5	72.2	61.2	58.1	56.2
For single parent with 2 children (plus child allowance)	100.0	87.8	61.2	58.1	56.2
Pension point, as a percentage of average wage	2.2	2.1	1.8	1.7	1.9
Credit point, as percentage of average wage	2.4	2.6	2.6	2.4	2.4

* The data refer to benefits adjusted to the income survey period.

Tables 4 and 5 show the dimensions of poverty in 2004-2006 both in absolute numbers and according to selected indices. The findings indicate the continuation of the trend of poverty stabilization in Israel. The rate of families with a net income short of the poverty line, 20.6% in 2005, went down to 20.0% in 2006, and the rate of persons in poor families went down from 24.7% to 24.5%. On the other hand, the rate of poor children went up from 35.2% to 35.8%⁷

The incidence of poverty measured according to net income is the result of transfer payments and direct taxes that "correct" economic income, defined as income derived from work and capital before taxes. Transfer payments, the essence of which is national insurance benefits, increase the family income, while direct taxes decrease it. The smaller the amount of direct tax paid by a poor family, the larger is its net income and the greater its prospects of escaping poverty, and vice versa.

The figures in the tables indicate that the trend of stability in poverty among families and persons according to economic income continues, as a result of two labor market developments working in opposing directions: the expansion of employment, that mostly characterized the weak links of the labor market and which contributed to the increase in economic income, and a slight pay rise for workers in these sectors, as compared with the rise in the average wage and in the advanced economic sectors.

The transfer payments and direct taxes in the 2006 survey period extricated 39% of poor families from poverty. For the first time since 2002, the decline in the influence of transfer payments and direct taxes on the reduction of poverty among families was brought to a halt. However, an examination of the influence of transfer payments alone shows that in 2006 as well their contribution to extricating families from poverty diminished, leading to the conclusion that direct taxation is the system that contributed the most to the moderate decline. For purposes of comparison, in 2002 half of the poor families were extricated from poverty by virtue of government intervention. On the other hand, the steady trend of reduction in the contribution of transfer payments and direct taxes to the extrication of children from poverty continues, though at a slower pace. These systems succeed in extricating from poverty at least one third of the poor persons and about a mere sixth of the children (as compared with more than one third of persons and one quarter of children in 2002). The contribution of benefits and direct taxes as well to reducing the income gap ratio of the poor went down: from 47.5% in 2004 to 45.3% in 2006.

7 These changes are not statistically significant and show stability.

Table 4
Dimensions of Poverty in Total Population (absolute numbers), 2004-2006

	Before transfer payments and direct taxes	After transfer payments only	After transfer payments and direct taxes
2004			
The poor population			
Families	656,800	320,600	394,200
Persons	2,184,100	1,308,500	1,534,300
Children	881,600	632,100	713,600
2005			
The poor population			
Families	668,200	340,400	410,700
Persons	2,235,800	1,411,700	1,630,500
Children	899,600	686,500	768,800
2006			
The poor population			
Families	665,800	345,400	404,400
Persons	2,254,800	1,455,500	1,649,800
Children	921,900	718,600	796,100

Table 5
Poverty in Total Population, by Selected Poverty Indices, 2004-2006

Poverty index	Before transfer payments and direct taxes	After transfer payments only	After transfer payments and direct taxes
2004			
Incidence of poverty (%)			
Families	33.7	15.8	20.3
Persons	33.6	20.2	23.6
Children	41	29.4	33.2
Income gap ratio of the poor (%)*	64.5	33.4	33.3
Sen Index*	0.283	0.094	0.111
Gini Index for inequality in income distribution of the poor*	0.5499	0.2007	0.2045
2005			
Incidence of poverty (%)			
Families	33.6	17.1	20.6
Persons	33.8	21.3	24.7
Children	41.1	31.4	35.2
Income gap ratio of the poor (%)*	62.5	32.8	33.1
Sen Index*	0.278	0.098	0.114
Gini Index for inequality in income distribution of the poor*	0.5246	0.1923	0.1953
2006			
Incidence of poverty (%)			
Families	32.9	17.1	20.0
Persons	33.5	21.6	24.5
Children	41.5	32.3	35.8
Income gap ratio of the poor (%)*	61.8	33.5	33.8
Sen Index*	0.272	0.100	0.115
Gini Index for inequality in income distribution of the poor*	0.5106	0.1895	0.1952

* The weight assigned to each family in calculating the index is equal to the number of persons in it.

The income gap ratio of the poor (which expresses the depth of poverty) registered a slight increase – from 33.1% in 2005 to 33.8% in 2006. This fact means that the revised net income of a poor family is one third away from the poverty line, on average. The index more or less stabilized at its level since 2004, after a gradual increase since 1999 – the year in which the income gap ratio of the poor was 25.8%.

The Gini Index for inequality in net income distribution of the poor (Table 5) indicates stability between 2005 and 2006. On the other hand, the Gini Index for inequality in the distribution of economic income continues the downward trend which began in 2004. The index reduction totaled

about 6% between 2004 and 2006, due to the introduction of additional poor workers to the labor market.

Table 6
Influence of Transfer Payments and Direct Taxes on Poverty in the Entire Population. by Selected Poverty Indices, 2004-2006

Poverty index	Percent of reduction attributed to transfer payments only			Percent of reduction attributed to transfer payments and direct taxes		
	2004	2005	2006	2004	2005	2006
Incidence of poverty (%)						
Families	53.1	49.1	48.0	39.8	38.7	39.2
Persons	39.9	37.0	35.5	29.8	26.9	26.9
Children	28.3	23.6	22.2	19.0	14.4	13.7
Income gap ratio of the poor (%)*	48.2	47.5	45.8	47.5	47.0	45.3

* The weight assigned to each family in calculating the index is equal to the number of persons included in it.

The Sen Index reflects the combined influence of the poverty incidence index, the poverty gap index and the position of the individual in the rating of the poor, i.e., the inequality in the income distribution of the poor. The Sen Index of net income went up at the moderate rate of 0.8% in 2006 as compared with 2005, but in a cumulative manner it went up by 3.6% since 2004. This increase expresses the expansion of poverty among persons. Like the trends evident in the Gini Index for the incomes of the poor, the increase in the Sen Index by net income stands in contrast to the decrease by economic income.

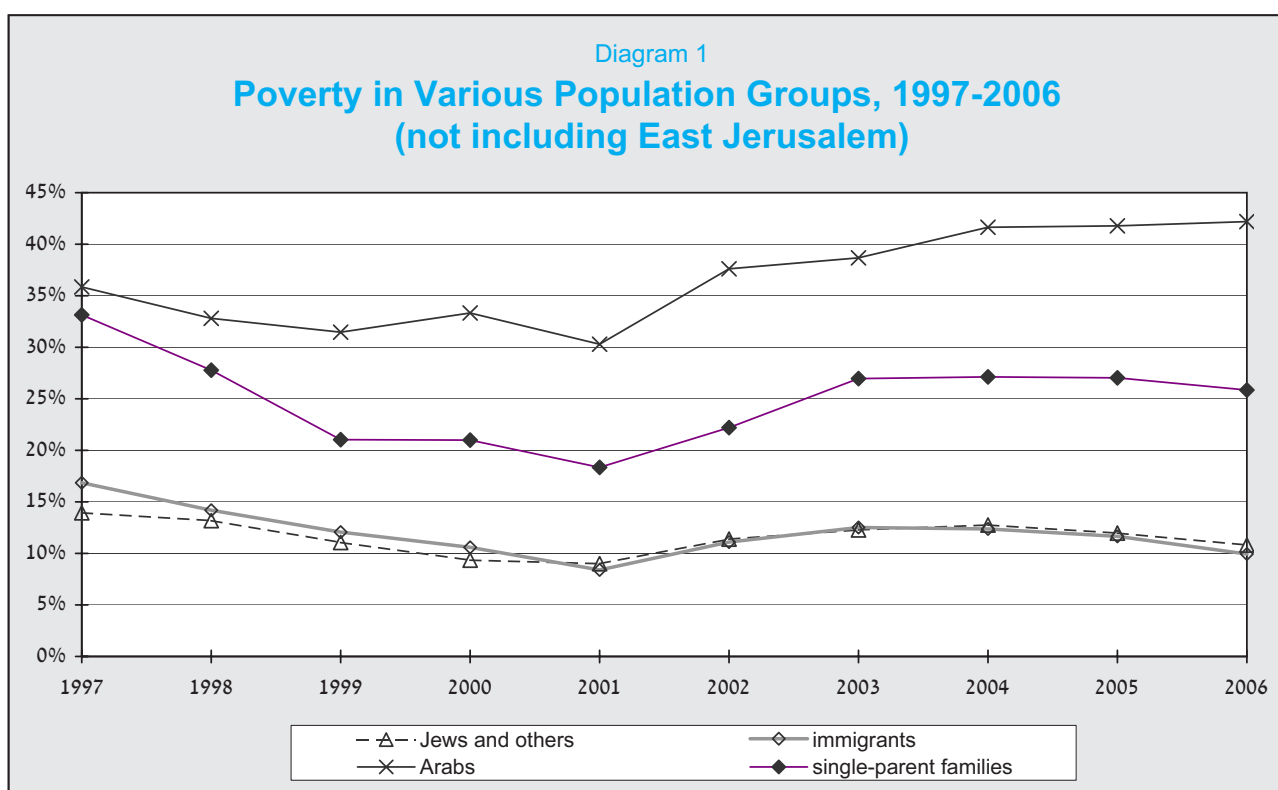
4. Poverty by population groups and composition of poor population

Tables 7-10 show poverty by the various population groups. Table 7 indicates poverty by economic income and net income in the various population groups in 2005 and 2006, and Table 8 indicates the share of these groups both in the entire population and in the poor population. Table 9 features the values of the poverty gap ratio by population group, and Table 10 features the rates of reduction in poverty as a result of transfer payments and direct taxes.

The trend of stabilization in poverty was not common to all population groups. Poverty among the elderly went down from 25.1% in 2004 to 24.5% in 2005 and to 21.5% in 2006, reflecting the influence of increasing the pensions for the elderly, including those with a low income, in 2005 and in 2006. At the same time, the share of elderly families in the poor population went down by two percent points between 2005 and 2006, and the contribution of transfer payments and direct taxes to the reduction of poverty among the elderly increased from 57% in 2005 to 62% in 2006. On the other hand, the income gap ratio of the poor **went up** by two percent points – reflecting the fact that the elderly who remained poor were poorer when the families with income closer to the poverty line were extricated from poverty.

Poverty was reduced in families of new immigrants and in single-parent families as well. In the latter, the poverty rate went down from 32.5% to 29.5% between 2005 and 2006, and in the former, it went down from 20.0% to 18.1%. In both populations this reduction is attributed to the improvement in economic income and not to the growth stemming from transfer payments or the reduction of taxes. At the same time, the income gap ratio of the poor also went down slightly among the new immigrants, but among the single-parent families there was an increase of 3 percent points in this index. Like in the case of the elderly, here too those extracted from poverty are those whose income was closer to the poverty line, and when included in the poor population, they contributed to reducing the gap between the incomes of the poor and the poverty line. Upon their lift from poverty, the families that remained poor become therefore poorer and this fact is reflected in the distance of their income from the poverty line.

Diagram 1 presents the development of poverty in selected population groups through the last decade, illustrating the turning point after 2001 in all population groups. After registering a downward trend between 1997 and 2001, poverty changed its direction in 2002. However, while with groups with a relatively low incidence of poverty – such as Jews and new immigrants – it more or less returned to its 2001 level, other groups, characterized by a higher level of poverty rates – such as Arabs and single-parent families – did not manage to return to their relative situation of 2001.



Between 2005 and 2006, the trend of increase in poverty among families with children was brought to a halt for the first time in seven years. This stabilization reflects two opposing developments in two sub-groups that compose this population: an improvement in the situation of the families with 1-3 children and a further deterioration in the situation of large families (with 4 or more children).

The 2 percent-point drop in poverty among families with 1-3 children was set off by a parallel increase in that of large families. The contribution of transfer payments to reducing poverty in families of 1-3 children increased from 23.6% to 25.9%, while it decreased from 9.5% to 8% in large families between the two years under review. On the other hand, the index of the income gap ratio of the poor indicates stabilization of the poverty situation among the two groups of families with children.

The population of Arab families, many of whom number large families, is included among the foci of poverty in Israel. The indices indicate a further deterioration in the poverty of this population. The high poverty incidence of Arab families registered a further increase in 2006, from 52.1% in 2005 to 54.0%. While the rate of Arabs in the population as a whole is approximately 20%, about 44% of poor persons in 2005 were Arabs, and this rate continued to climb in 2006, reaching about 47%. The income gap ratio of the poor Arab population went up as well: from 35.3% in 2005 to 36.7% in 2006.

In the families leading the poverty scale in Israel – families in which the working-age head of the family does not work – a further deterioration was registered in 2006: the incidence of poverty of these families went up from 65.8% in 2005 to 66.6% in 2006. The depth of poverty remained more or less stable between the two years; the income of the poor families in this group reaches half the poverty line income on average. The rate of the reduction in the incidence of poverty which stems from government intervention decreased further, from 27% in 2005 to 25% in 2006.

Table 7
The Incidence of Poverty in Specific Population Groups, 2005-2006

Population group (families)	2005			2006		
	Economic income	Net income	Gini Index*	Economic income	Net income	Gini Index*
Total population	33.6	20.6	1.00	32.9	20.0	1.00
Head of family:						
Elderly person	57.0	24.4	1.18	56.2	21.5	1.08
Unemployed person (at working age)	90.4	65.8	3.19	88.9	66.6	3.33
Working:	18.4	12.2	0.59	18.6	12.4	0.62
Employee	18.8	12.1	0.59	18.9	12.2	0.61
Self-employed	15.3	13.0	0.63	16.3	13.9	0.70
Families with one provider	34.8	23.1	1.12	35.0	23.4	1.17
Families with two providers	4.7	3.1	0.15	5.1	3.4	0.17
Jews**	29.8	15.9	0.77	28.8	14.7	0.74
Arabs	58.6	52.1	2.53	59.5	54.0	2.70
New immigrants (from 1990)	42.4	20.0	0.97	39.9	18.1	0.91
Single-parent	53.3	32.5	1.58	51.1	29.5	1.48
Families with children	32.4	26.2	1.27	31.7	25.5	1.28
1-3 children	26.3	20.1	0.98	24.7	18.3	0.92
4 or more children	64.2	58.1	2.82	65.2	60.0	3.00

* The Gini Index refers to net income.

** The Jewish population also includes non-Jews who are not Arabs.

The situation of the working families indicates a certain upward trend in the incidence of poverty between 2004 and 2005 and stability between 2005 and 2006. On the other hand, poverty in working families has grown deeper between the two years, as will be elaborated below.

Table 8
Share of Specific Groups in Total Population and in Poor Population (Percentages)*,
2005- 2006

Population group	Total population		Poor population			
			Before transfer payments and direct taxes		After transfer payments and direct taxes	
	Families	Persons	Families	Persons	Families	Persons
2005						
Head of family:						
Elderly person	19.4	9.8	32.9	16.1	23.0	10.0
Unemployed person (of working age)	10.8	11.2	29.0	31.1	34.4	35.6
Working:	73.0	81.0	39.9	53.9	43.1	54.6
Employee	63.8	70.5	35.7	48.1	37.4	47.5
Self-employed	9.2	10.4	4.2	5.8	5.8	7.1
Families with one provider	33.9	33.9	35.1	46.0	37.9	47.4
Families with two providers	31.9	36.8	4.4	7.0	4.8	6.5
Arabs	13.2	19.6	23.1	35.5	33.4	44.0
Jews	86.8	80.4	76.9	64.5	66.6	56.0
New immigrants (from 1990)	19.8	16.9	25.0	18.5	19.2	13.5
Single-parent	5.5	5.8	8.7	9.4	8.6	8.3
Families with children:	47.0	67.1	45.4	71.9	59.7	82.1
1-3 children	39.5	50.4	30.9	39.2	38.5	42.2
4 or more children	7.6	16.7	14.4	32.6	21.2	39.9
2006						
Head of family:						
Elderly person	19.5	9.7	33.5	16.0	22.2	9.4
Unemployed person (of working age)	10.5	11.1	28.3	30.8	35.2	36.2
Working:	73.4	81.2	40.2	54.3	43.2	54.7
Employee	63.8	70.1	35.8	48.1	37.1	46.9
Self-employed	9.6	11.1	4.4	6.2	6.0	7.8
Families with one provider	33.8	33.2	35.3	45.6	37.9	46.9
Families with two providers	31.9	37.0	4.6	7.9	4.9	7.1
Arabs	13.4	20.0	22.8	35.7	34.0	44.7
Jews	86.6	80.0	77.2	64.3	66.0	55.3
New immigrants (from 1990)	19.4	16.7	24.4	18.1	18.0	13.2
Single-parent	5.5	5.9	8.9	9.5	8.5	7.8
Families with children:	46.2	66.7	44.5	71.6	59.0	82.1
1-3 children	38.2	50.9	28.7	36.3	35.1	38.0
4 or more children	8.0	15.8	15.8	35.3	23.9	44.1

Table 9
Income Gap Ratio of the Poor* In Specific Population Groups, 2005-2006

Population group (families)	2005			2006		
	Economic income	Net income	Concentration Index**	Economic income	Net income	Concentration Index**
Total population	62.5	33.1	1.00	61.8	33.8	1.00
Head of family:						
Elderly person	82.7	19.6	0.59	81.2	21.8	0.64
Unemployed person (of working age)	93.7	48.0	1.45	93.1	47.7	1.41
Working:	38.2	25.8	0.78	39.2	27.3	0.81
Employee	37.8	24.8	0.75	38.6	25.8	0.76
Self-employed	41.0	32.3	0.98	43.1	35.0	1.04
Families with one provider	40.1	26.1	0.79	41.1	28.1	0.83
Families with two providers	27.3	23.5	0.71	29.6	21.9	0.65
Jews***	64.7	31.3	0.95	63.6	31.3	0.93
Arabs	58.7	35.3	1.07	58.6	36.7	1.09
New immigrants (from 1990)	70.8	26.9	0.81	70.2	26.2	0.78
Single-parent	68.4	32.3	0.98	67.8	35.2	1.04
Families with children:	58.4	34.3	1.04	57	34.9	1.03
1-3 children	56.1	33.3	1.01	55.2	34.0	1.01
4 or more children	61.2	35.4	1.07	60.6	35.6	1.05

* The weight assigned to each family in calculating the index to the number of persons in it.

** The concentration index refers to net income.

*** The Jewish population includes also non-Jews who are not Arabs.

Table 10
Influence of Transfer Payments and Direct Taxes on Poverty in Specific Population Groups, 2004-2006

Population group (families)	Rate of reduction stemming from transfer payments and direct taxes					
	Incidence of poverty			Income gap ratio of the poor		
	2004	2005	2006	2004	2005	2006
Total population	39.8	38.7	39.2	48.4	47.0	45.3
Head of family:						
Elderly person	57.6	57.2	61.7	77.2	76.3	73.2
Unemployed person (of working age)	28.9	27.2	25.1	50.6	48.8	48.8
Working:	35.2	33.7	33.3	32.3	32.5	30.4
Employee	38.3	35.6	35.4	35.6	34.4	33.2
Self-employed	12.4	15.0	14.7	19.7	21.2	18.8
Families with one provider	36.2	33.6	33.1	35.6	34.9	31.6
Families with two providers	29.8	34.0	33.3	12.6	13.9	26.0
Jews***	47.9	46.6	49.0	53.8	51.6	50.8
Arabs	12.3	11.1	9.2	37.7	39.9	37.4
New immigrants (from 1990)	56.2	52.8	54.6	62.4	62.0	62.7
Single-parent	40.6	39.0	42.3	54.9	52.8	48.1
Families with children:	22.5	19.1	19.6	42.6	41.3	39.7
1-3 children	26.9	23.6	25.9	41.9	40.6	38.4
4 or more children	12.3	9.5	8.0	43.6	42.2	41.3

The degree in which families concentrate around the poverty line is related to their sources of income. Table 11 shows the positioning of various population groups around the poverty line. The dense concentration of families headed by an elderly person around the poverty line stems from the fact that the minimum income for subsistence guaranteed under the Income Support Law (for the elderly and survivors who have no income from another source) is more or less compatible with the poverty line. Hence, an increment, even if small, to the minimum income level, substantially reduces the number of poor elderly families whose income remains very close to the poverty line, but is still above it. On the other hand, erosion – even if minor – in the minimum income level substantially increases the number of poor elderly. Lowering the poverty line to 95% thereof would reduce the rate of poor families by a quarter, as compared with a parallel reduction of one tenth in respect of the entire population.

Box 3 in this chapter elaborates on the foci of poverty in Israel while discussing additional aspects of poverty other than the economic one.

Table 11
**Percent of Families in which Available Income Does Not Exceed Given Income (In
 Terms of Poverty Line), 2006**

Population group (families)	Income as a percent of poverty line							
	75	90	95	100	105	110	125	150
Total population	10.6	15.6	17.8	20.0	22.1	23.5	28.3	36.0
Head of family:								
Elderly person	6.3	12.2	16.7	21.5	25.7	27.9	33.5	43.4
Unemployed person (of working age)	50.9	60.5	63.6	66.6	69.4	70.8	76.5	82.7
Working:	5.8	9.8	11.1	12.4	13.8	15.0	19.4	26.7
Employee	5.4	9.6	10.9	12.2	13.6	14.8	19.2	26.5
Self-employed	8.2	11.0	12.3	13.9	15.3	16.3	26.9	28.2
Families with one provider	11.3	18.8	21.1	23.4	25.8	27.8	34.3	44.0
Families with two providers	1.2	2.3	2.9	3.4	4.1	4.6	7.5	13.0
New immigrants (from 1990)	6.5	10.7	14.1	18.1	21.4	23.0	29.1	40.7
Single-parent	17.7	24.6	26.9	29.5	32.0	34.6	42.4	52.3
Families with children:	15.2	21.7	23.6	25.5	27.4	29.0	34.8	43.2
1-3 children	10.0	15.1	16.7	18.3	20.0	21.5	27.0	35.8
4 or more children	40.0	53.1	56.6	60.0	62.5	64.5	72.2	78.8

Box 3

The Foci of Poverty in Israel and Suggested Solutions¹

The foci of poverty is at the heart of government policy in Israel, as manifested in the *socio-economic agenda* document (see Chapter 1). This Box reviews the main foci of poverty in the Arab and Jewish sectors and suggests ways to have poverty reduced.

Poverty in Israel is concentrated in certain groups – families in which the head of family has little education, large families, and families with one or no providers – many of which are in the Jewish-Orthodox and Arab sectors. One of the salient foci of poverty is the Arabs of the South who live in villages not recognized by the government. 2004 is the first year in which it became possible to calculate the dimensions of poverty among the Bedouins in the non-recognized villages, because only in this year were data compiled, as part of a survey conducted by the Galilee Society¹. The incidence of poverty among the Arabs of the South is close to 80% (in 2004) and the severity of poverty is nearly seven times that of the Jewish non-Orthodox population. However, an additional, and seldom discussed, aspect of the situation of the population in the foci of poverty concerns the state of infrastructures in their settlements. The above-mentioned survey points to neglect of the education, electricity, water, sewage and transportation systems and to lack of accessibility to industrial zones as the main barriers to the population's advancement. Discrimination in public infrastructures exists particularly toward the Arabs of the South, who lack accessibility to the most basic infrastructures. Diagram 1 shows that this problem characterizes many Arab settlements, not only in the South.

Poverty among Jews is mostly concentrated in Orthodox and in single-parent families (Diagram 1). Additional reasons for poverty, aside from education and family size, are labor-market related: unemployment and low wages, due, inter alia, to discrimination in the labor market, and in the case of new immigrants, due to difficulties integrating into Israeli society and economy. The social cross-sections imply the types of problems with which many poor families cope, especially in settlements with a low socio-economic status: lack of infrastructure and poor quality of education – including the difficulty to provide children with self-funded private education services, as a result of the creeping privatization of such services². Data processed by the NII Research and Planning Administration shows that the weight of the expenditure on private education in the bottom quintile has diminished in recent years, as opposed to an increase in this weight in the population as a whole. The detriment to the quality of human capital due to a failing education system – although manifested only after several years – is critical, since it influences the prospects of future earning levels.

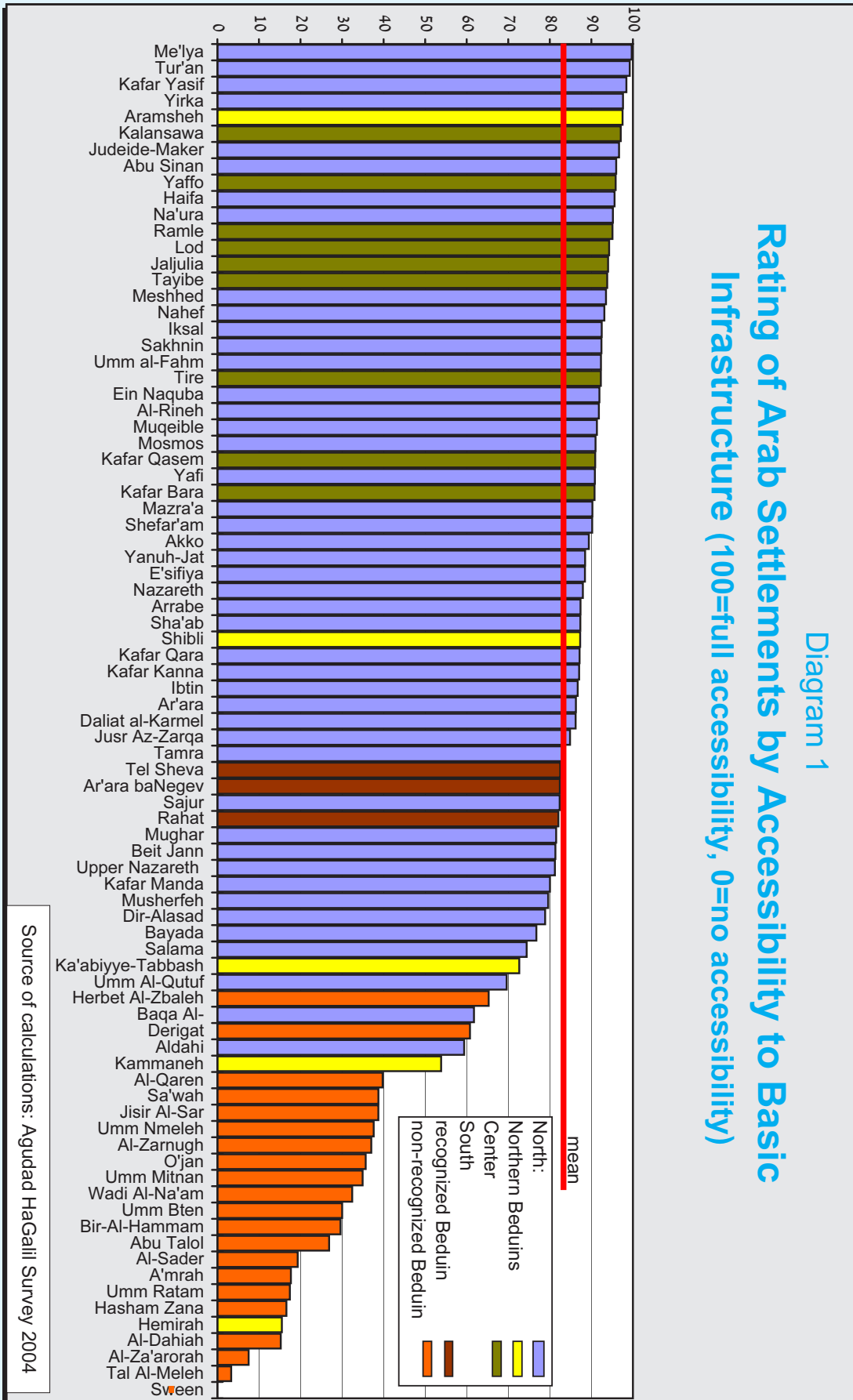
1 Written by Dr. Daniel Gottlieb.

1 For data pertaining to the Arab population see Abu-Bader and Gottlieb, 2008, **Poverty, Education, and Employment in the Arab-Bedouin Society: A Comparative View**, the Van Leer Institute, Jerusalem, based on data derived from income surveys for 2004 and data derived from the Galilee Society Survey, 2004.

2 An example of this are the substantial private expenses involved in providing private tutoring to children and psychometric courses for adolescences in order to enhance their chances of integrating into universities in Israel. Another example is the distribution of the education level of teachers in the periphery: their level is probably lower than that in the Center, even though it difficult to obtain respective data in a geographic distribution.

Rating of Arab Settlements by Accessibility to Basic Infrastructure (100=full accessibility, 0=no accessibility)

Diagram 1



Source of calculations: Agudat HaGalili Survey 2004

There is a certain overlap between the single-parent and new immigrants' family groups, and several other groups. It is noted that the data in the diagram do not include the Bedouins who live in non-recognized villages because the Central Bureau of Statistics, the source of the data, does not compile social information on this population group.

Poverty among **children** is a central problem in Israel: poverty in the family hurts a child more deeply than it does the rest of the family, since the period of adolescence is meant to serve him to accumulate human capital for his future. When this does not occur, he is continuously lacking, his chances of escaping poverty when he grows up are substantially reduced and the risks of his remaining in poverty for an extended time are greater. An additional problem is that dealing with poverty among children yields results only after a long time, something that makes it politically unattractive.

The recent years' cutback in benefits substantially increased not only the incidence of poverty, but also the depth of poverty of families: whereas prior to the cutback the average income gap was about one quarter from the poverty line, it grew to one third and more after the cutback.

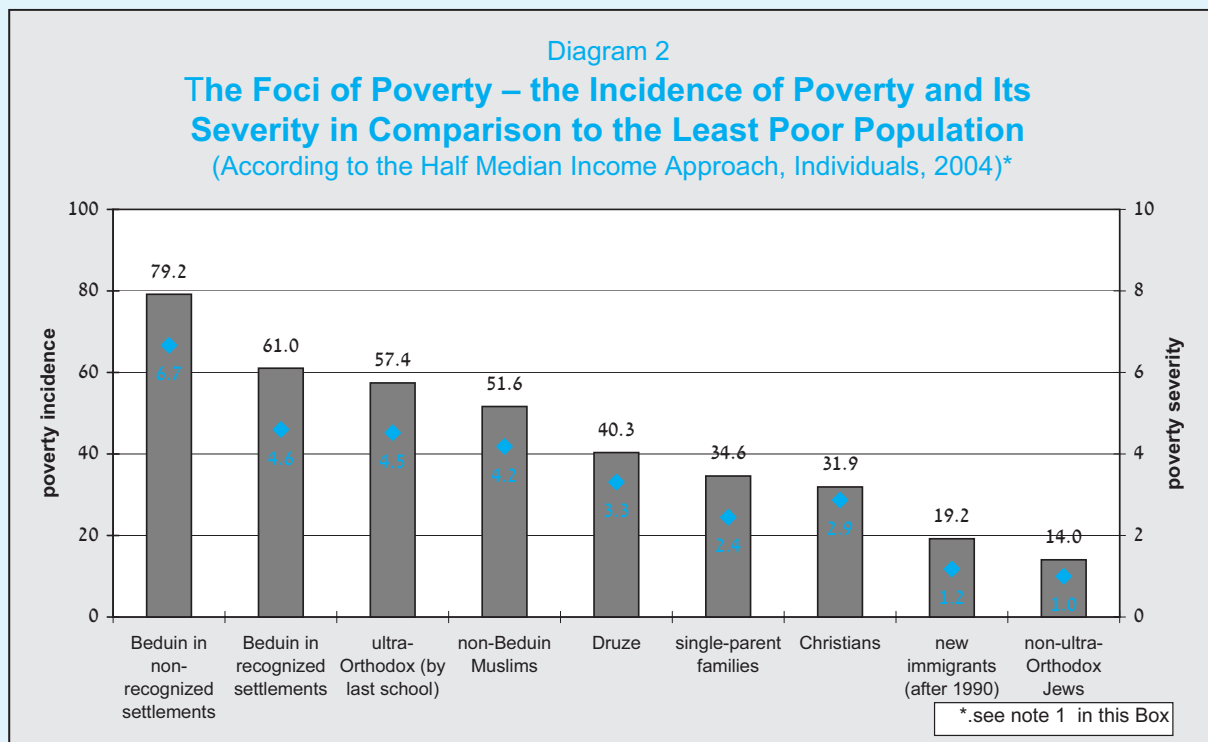
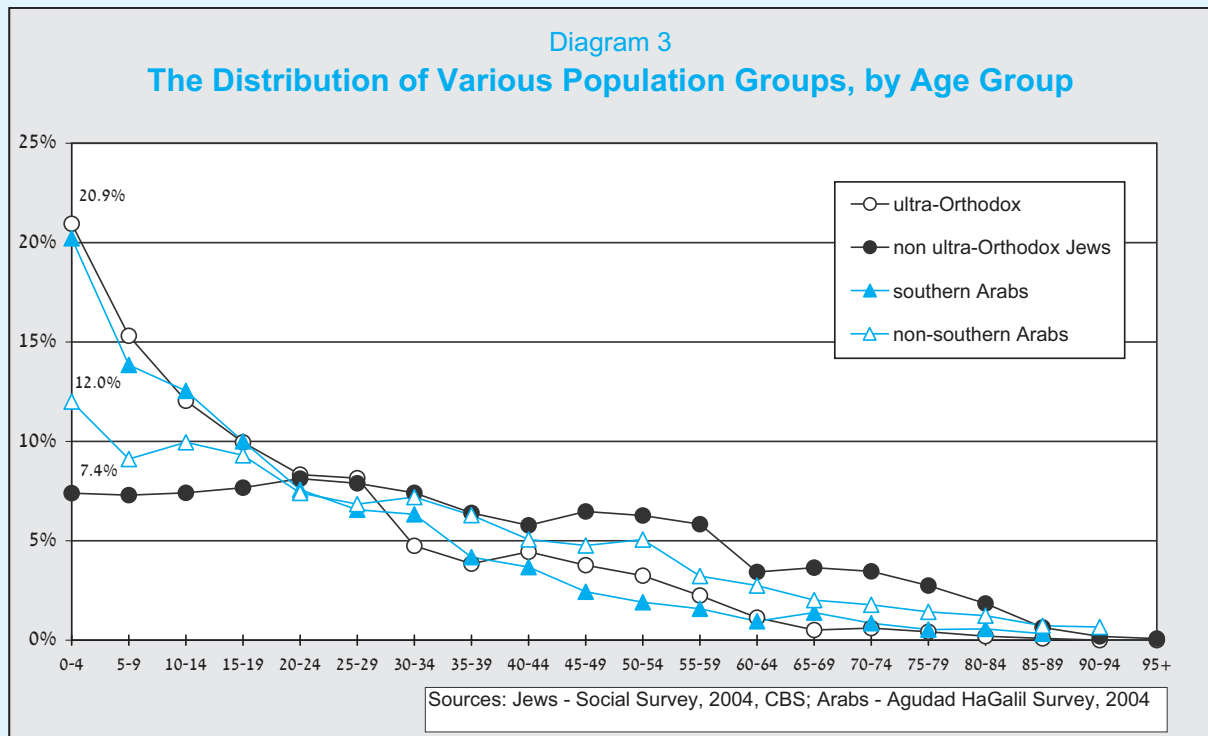


Diagram 3 points to a difficulty that Israeli society will face in a few years should the governments continue to ignore the situation. The weight of the population of the youngest children (aged 0-4) among the Jewish Orthodox and among Arabs of the South is very similar – about three times their weight in the Jewish non-Orthodox society and about twice that of the non-Southern Arab population, respectively. If we add to this fact the education difficulties in the two populations we can envisage the harsh implications it will have on the future poverty situation. The difficulties in education differ between the two groups: whereas the Bedouins of the South lack basic education infrastructure that the government is meant to provide, among the Orthodox the difficulty stems

from their unwillingness to invest in an existing education infrastructure that will improve their children's future earning capacities. In any event, the result is the same, and in 20 years youths from both these population groups will find it difficult to cope in the labor market even if they wish to. It is therefore crucially important to invest in education among the Arabs of the South. Dealing with the Jewish Orthodox group in Israel is more complicated and calls for cooperation from their leaders. Programs founded mostly on active government intervention in the labor market do not deal with the root of the problem.



Cutbacks made in the benefits in recent years have also left their mark on the poverty trend. A rational policy must therefore employ combined instruments that handle all the aforesaid aspects. A program to reduce poverty among the poor population groups has to include an investment in the infrastructures of education and transportation, because the better the state of education and transportation, the greater will the rate of employment become and even a reduction in birth rates will become possible. In light of the slow maturation of the influence of the proposed instruments on poverty it is imperative to simultaneously restore some of the child allowances to large families, even if for a few years only, until the government manages to improve the earning capacity of the poor through the above-mentioned instruments. In other words, the possibility of temporarily expanding child allowances while simultaneously executing a wise labor market policy calls for serious consideration. Unlike the existing policy as reflected in the *Agenda* document, transfer payments to work-age population as well may be an effective instrument when executed jointly with other instruments.

At a time of accelerated and prolonged growth the government is afforded a certain degree of liberty in aiding particularly poor families by paying a temporary benefit. There can be justification for such a pro-cycle approach especially at a time when the government operates a program to

reduce poverty through integrating populations into the labor market. Such programs usually require time to mature due to planning and initial difficulties. Payment of such a temporary benefit can help through this period of maturation, when the government can create in advance indicators of success and reduce the temporary payments according to the program's progression by these indicators. Moreover, a temporary transfer payment is not expected to affect the behavior of individuals³. The State will thus allow a fairer distribution of the fruits of economic growth at a time when the economy as a whole is growing stronger and thereby signal that it is assuming responsibility over its function of formulating socio-economic policy. Once its obligation to enhance employment is fulfilled the government will have moral justification to cutback the bridging benefit again. With regard to the Arabs of the South, even though in recognized settlements as well the dimensions of poverty are very high, they are lower by nearly one quarter than the dimensions of poverty in the non-recognized villages – a fact which shows that the policy of recognizing the settlements helps reduce poverty. It is therefore recommended to continue to strive toward recognizing additional settlements as a first step in order to increase the direction of resources to the Bedouin population. In previous researches it was found that the lack of infrastructures increases poverty directly, but indirectly as well, through increasing dropout from school and its implications on fertility.

In conclusion, reducing poverty through continuous economic growth is possible, but requires the use of additional and supplementary instruments.

3 Even if the argument that child allowances affect birth rates or perhaps amount to a negative incentive to enter the labor market is true, the connection prevents such a negative effect and, on the other hand, enables the alleviation of particularly hard cases of poverty.

Poverty among working families

The continued expansion in the poverty of working families is an issue of great public interest. The rate of working families in the poor population, 28% in the early 1990's, went up to about 46% in 2006 – a 65% increase. More than half the poor **persons** live in working households, usually with one provider. The incidence of poverty of working families has gradually and consistently increased, from about 6% in the end of the 1980's to a rate double than that in 2006 (12.4%). The findings indicate that active participation of the household head (and occasionally of both spouses) in the labor force in Israel does not guarantee protection against poverty. The fact that even a measurement based on economic income yields a similar result shows that the problem's origins are rooted in factors related to the labor market.

The diagram below shows the share of the various types of families in the poor population in 2006 as compared with 1999. While there was no real change in the (high) share of working-age non-workers between the two years, a significant increase is evident in the share of families with one provider in the poor population, and there is a relatively significant increase in the share of families with two providers. In total, the weight of the working population in the poor population increased between the two periods by 3 percent points – from 38.4% in 1999 to 41.4% in 2004/5.

Table 12 shows the distribution of wages of the employed population in general, and of the poor employed population in particular, according to data of the 2006 survey. The findings indicate that the rate of poor employees who earn above the average wage is virtually zero (as compared with about one third of all employees in the economy), while the rate of those who earn low wages (up to minimum wage) reaches about two thirds when poverty is measured according to economic income, and a rate not so far from that – 58% – when measurement is made according to net income. About 35% of employees who work full time earn low wages in comparison to 12% of all employees.

Diagram 2 illustrates the development of poverty of families by the number of providers through 1997-2006. Alongside the extensive gaps in the poverty level of the various families, the upward trend common to all three of them is notable: poverty of families without a provider, initially very high, increased further by 16% during this period. On the other hand poverty of families with one provider soared by about 80%, and that of families with two providers doubled during this period.

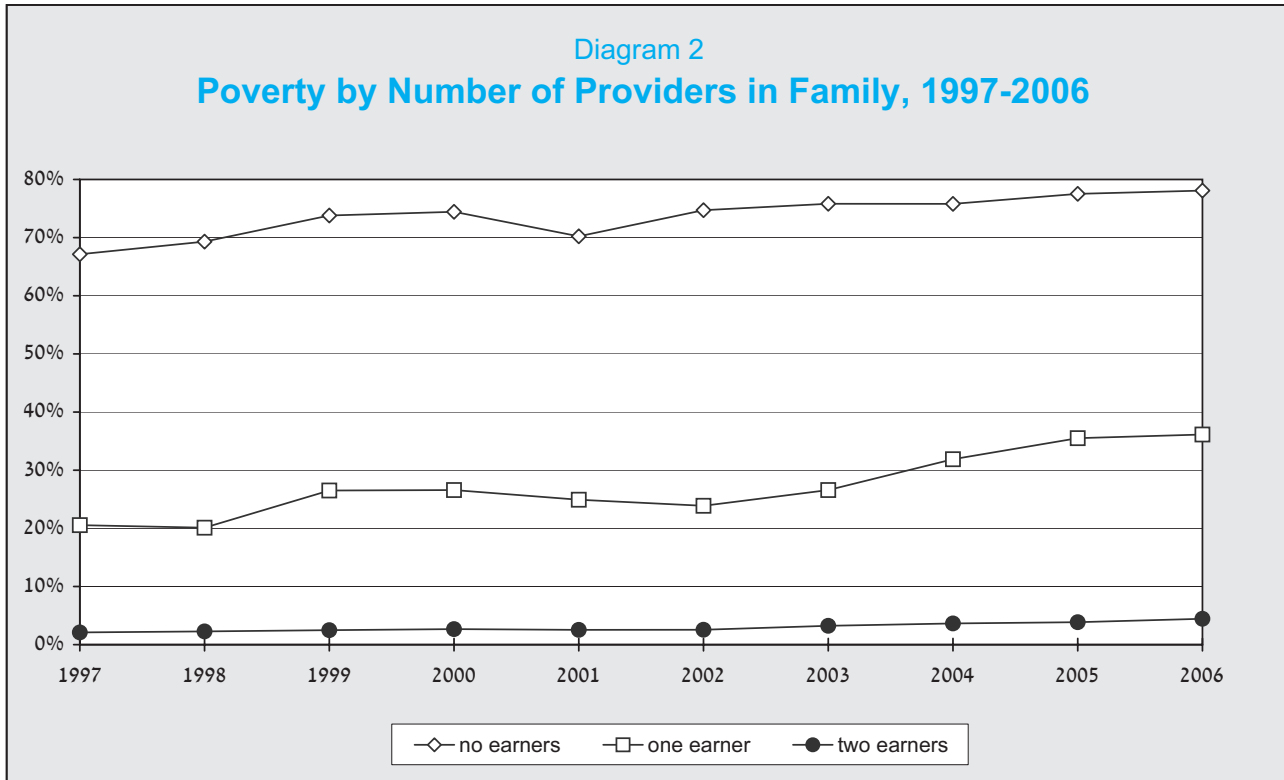


Table 12
Wages of Working Population and of Poor Working Population, by Wage Level (percentages), 2006

	Total (thousands)	Up to half minimum wage	One half to full minimum wage	Minimum wage to average wage	Above average wage
Total number of employees	2,233	9.9	15.1	44.3	30.7
Employees who work full time	1,657	3.0	8.9	50.0	38.1
Poor population by economic income					
Total number of employees	278	32.6	30.6	34.6	0.4
Employees who work full time	179	12.9	25.8	60.7	0.6
Poor population by net income					
Total number of employees	179	29.9	28.0	41.8	0.2
Employees who work full time	106	13.1	22.4	64.1	0.4

An analysis of poverty among working families by nationality and family composition (Table 13) points to the over-representation of Arabs and large families in the poor working population. While among Jewish families with one provider the incidence of poverty was 15% in 2006, two or more providers are required in an Arab family in order to reach similar poverty dimensions (about 13%). The incidence of poverty of Arab families with one provider is similar to that of all Arab families, i.e., it being a "working" family does not contribute to reducing its chances of escaping poverty, despite

the fact that the share of poor working families (at working age) in total poor families is higher among the Arabs than among Jews: 57% of poor Arab families work as compared with 45% of poor Jewish families. The over-representation of large families in poverty has also been observed when the working population is in issue, in the two sectors – Jewish and Arab. However, over and beyond family size, the explanations regarding these differences relate to the status of workers from the various labor market sectors, such as their chances of being employed and wage levels.

Table 13
**Poverty among Working Families, by Number of Providers and Nationality,
2003-2006**

	According to economic income				According to net income			
	2003	2004	2005	2006	2003	2004	2005	2006
Jewish population								
Working head of family	13.9	14.0	14.7	14.5	6.9	7.8	8.3	8.0
Family with one provider	27.1	27.3	29.9	28.8	12.8	14.5	16.3	15.4
Family with two providers	3.3	3.8	3.8	4.2	2.1	2.5	2.5	2.6
Arab population								
Working head of family	40.1	42.5	43.0	45.4	33.6	36.8	38.7	42.2
Family with one provider	53.6	57.1	55.5	61.6	45.0	50.1	51.5	58.0
Family with two providers	15.3	15.2	16.7	15.6	12.7	12.3	11.0	12.9

Box 4

Poverty and Incomes Gaps in 2006/7

This Box presents poverty findings of the period that includes the second half of 2006 and the first half of 2007 (2006/7)¹.

Economic growth continued through the first half of 2007 and manifested itself in the expansion of employment and the increase of real wages. Macro-economic data indicate that between 2006 and 2006/7 the number of employed persons went up by about an additional 2%, real wages by 1.6%, and the minimum wage by a real cumulative rate of 3.6%. NII benefits were not adjusted in 2007 since the Consumer Price Index declined during the determining period (November 2005 to November 2006). The survey data point to an increase in payments of disability pensions and of child allowances, to stability in payments of old-age and survivors' pensions², and to a further reduction in payments of benefits for the working-age population (unemployment and income support). The total amount of benefits increased by 1.4%. If the natural growth of the population is not taken into account, the benefits increased by half a percent.

The main findings of the survey are as follows:

- The improvement in the standard of living, as reflected in the median of the revised net income – from which the poverty line is also derived – was at a rate of 2.3%. On the other hand, the average net income per standard person registered a real increase at the moderate rate of 0.3%.
- Poverty among families went up slightly – from 20.0% in 2006 to 20.5% in 2006/7. The *income ratio of the poor*³ per family, which expresses the distance of the poor families' income from the poverty line, remained similar to its 2006 level – 34.0% (as compared with 33.8% in 2006).
- The incidence of poverty per capita remained stable between the two periods: the rate of poor persons went up from 24.5% in 2006 to 24.7% in 2006/7. Poverty among children too remained at its high level – 35.9% (as compared with 35.8% in 2006).
- There were 420,000 poor families in 2006/7, including 1,674,800 persons and 805,000 children.

1 The survey period is from July 2006 to June 2007. The database is made up of two parts: data of the second half of 2006 were taken from the Income Survey of 2006, while data of the first half of 2007 were taken from the Income Survey of 2007, which has not yet been completely edited. The second half of 2006 is therefore common to the databases of 2006/7 and of 2006.

2 Data of the current survey indicate a reduction in payments of old-age pensions and stability in the level of these pensions. These findings stand in contrast to the administrative data, which point to an increase of 1.3% in payments of old-age and survivors' pensions between the two periods. The reduction in payments of old-age pensions in the survey is attributed to both an increase that is more moderate than the one actually affected in the average old-age pension and to an unexplained reduction in the number of old-age pensions recipients in the survey. It is noted that in an inquiry to the Central Bureau of Statistics it was found that the data are within the range of statistical error.

3 Formerly referred to as the *poverty gap ratio*.

- The trend of stability in poverty according to economic income continued for the fifth consecutive year and the rate of poverty was 33%.
- There was an unexpected increase in the rate of poverty among the elderly in 2006/7; it went up from 21.5% in 2006 to 23.5% in 2006/7. An examination found that the source of the reduction in the relative income of the elderly, according to survey data, is in the component of income derived from pensions (since the other income components increased at a rate similar to the rise in the living standard). This finding stands in opposition to trends observed according to NII administrative data. This gap between data sources creates an upward deviation in measured poverty of the elderly according to the survey. A simulation shows that if survey data would have shown the actual increase in old-age pensions (as reflected in NII data), there would have emerged a picture of stability in poverty among the elderly and among families. This finding will probably be corrected downward in the next annual survey⁴.
- Poverty among families with children continued to increase slightly: from 25.5% in 2006 to 25.9% in 2006/7. On the other hand, poverty among large families remained at its high 2006 level – 60% of families in which there are four or more children are poor.
- The consistent increase in the rate of poor working families in general and of families with a sole provider in particular continues. The rate of poverty of families with one provider went up from 22.6% in 2005/6 to 23.4% in 2006 and to 23.9% at present. In 2002 the incidence of poverty of these families was 17.6%.
- In 2006/7 the contribution of transfer payments to the reduction of poverty continued to be reduced: only 37% of families escaped poverty as a result of transfer payments – as compared with 39.2% in 2006. This finding is explained, inter alia, by the erosion in benefit levels relative to other income components.

4 See also footnote 2 above.

Poverty among Families, by Type of Family (percentages), 2005/6-2006/7

	Before transfer payments and taxes		After transfer payments and taxes		Rate of reduction in poverty after transfer payments and taxes	
	2005/6	2006/7	2005/6	2006/7	2005/6	2006/7
Total population	33.1	33.0	20.2	20.5	39.0	37.9
Elderly head of family	56.9	56.4	22.9	23.5	59.8	58.3
Family with children	31.9	31.6	25.6	25.9	19.7	18.0
1-3 children	25.2	24.7	19.0	18.8	24.6	23.9
4 or more children	65.0	65.0	58.8	60.0	9.5	7.7
Working head of family	18.2	18.8	11.9	12.6	34.6	33.0
Employee	18.6	19.1	11.7	12.4	37.1	35.1
Self-employed	15.2	17.1	12.6	14.3	17.1	16.4
Unemployed person (of working age)	89.7	90.6	67.9	68.9	24.3	24.0
Families with a sole provider	34.6	35.6	22.6	23.9	34.7	32.9
Families with two providers	4.8	4.9	3.1	3.5	35.4	28.6
Jews	29.5	28.7	15.4	15.2	47.8	47.0
Non-Jews	56.6	61.3	51.2	54.8	9.5	10.6
Single-parent families	53.4	47.6	30.9	28.9	42.1	39.3

5. Measurement of poverty from perspective of expenditure, 2005-2006

In a research paper published by the National Insurance Institute⁸ in 2004, an attempt was made to measure poverty on the basis of an approach developed by a US committee of experts established in the 1990's (National Research Council – NRC). This committee suggested an approach for the creation of an alternative index to the official poverty index in the United States. The approach is primarily based on calculating the *threshold expenditure* for a *representative family* (in which there are two adults and two children), calculated on the basis of consumption data of the population as reflected in expenditure surveys of the Central Bureau of Statistics. The basket that serves as a basis for calculating the *threshold expenditure* includes products and services in the areas of food, clothing and footwear and accommodation, in addition to supplementary basic products. The *threshold expenditure* is adapted to other family compositions through a weighing scale that accounts for family composition – the number of adults and children in the family.

The research presented two alternatives for calculating the *threshold expenditure* and the income to which it is compared per family type, when the difference between the two alternatives is the definition of the expenditure for accommodation: in the first alternative (A), the expenditure for accommodation is ascertained according to regular payments made for the purpose of accommodation in an apartment (loans and mortgages, rent, etc); and in the second alternative (B), the expenditure for accommodation is calculated according to the rent for a person who lives in a rented apartment and according to the rent credited in favor of one who owns an apartment. In the second alternative a family who lives in an apartment it owns is compensated in the aspect of income. The component added to the aspect of income is the difference between the rent credited to the apartment and the total current expenditure on the apartment (the *net rent*); in most families who own an apartment this difference is a plus. In the two alternatives the calculation of the income compared to the *threshold expenditure* also accounts for the benefit latent in public accommodation services: a family living in public accommodation (of the housing companies Amidar, Amigur, and so forth) is compensated, in the aspect of its income, to the level of the difference between the rent on the open market (credited to the apartment according to its characteristics⁹) and the rent it actually pays.

As stated, the basket used for calculating the *threshold expenditure* per family basically includes products and services from the areas of food, clothing and footwear and accommodation. The median expense of the *representative family* on the basic basket is multiplied by two multiplication coefficients: (a) a coefficient for multiplication of the median, with a value ranging between 0 and 1 and representing the conception that the living standard of a poor family is lower than that of the median family; (b) an additional multiplier that represents the value of a supplementary basket of products and basic services from the areas of education, health and transportation (not including work-related transportation, which is deducted from the income side). The multiplication coefficients, which the committee recommends adjusting once a decade, remained at their level determined prior to the research. The median's

8 Endweld, M. and L. Achdut (2004), **The Development of an Experimental Poverty Index in The Aspect of the Expense in Israel**, The Research and Planning Administration, the NII.

9 The estimate of the "free" rent credited to public apartments is made by the researchers on the basis of the apartments' characteristics (size and geographical district) as it was received from the housing companies.

multiplication coefficient stands at 80% and 85% for Alternatives A and B, respectively, and the multiplier representing the increment for the supplementary basket of products and services stands at 1.35 and 1.25, respectively.

Box 5 below presents the findings on the dimensions of poverty for 2005-2006, according to the two aforesaid alternatives¹⁰. It should be emphasized, that pursuant to recommendations made by the American committee, the poverty indices are not based on consumption and income data for one year, but rather on a moving average of three years. The findings for 2005 refer to data derived from household expenditure surveys for 2003-2004-2005 (in 2005 prices), while the 2006 data refer to expenditure surveys for 2004-2005-2006 (in 2006 prices)¹¹

Clearly, findings are influenced by macro-economic developments and changes in the social policy of the three survey years, which are at the basis of the moving average for each of the years in respect of which the poverty indices were calculated. It should be emphasized that the indices of poverty and inequality which are calculated relative to household income (such as the Gini Index and the Sen Index) were calculated on the basis of the income specifically defined for this purpose, i.e. the income from which direct taxes and work-related expenses are deducted, and supplemented by in-kind transfers related to public accommodation. For Alternative B the income is also supplemented by the credited rent fee.

For purposes of simplifying the presentation we will hereafter refer to the data of the three years which are in 2005 prices as "year 2005", and similarly regarding "year 2006".

10 For detailed findings pertaining to years 2002-2003 see publication 87 in the "Current Researches and Surveys" series of the NII's Research Administration. In the following years, the updated findings appear in the Box respectively designated in this chapter of the review.

11 The surveys' incomes data that served for the processing of year 2002 were adjusted by the increase of the general index. On the other hand, the relevant expenses (as well as the credited income which is added for apartment owners) were differentially adjusted according to the price index to which they correspond. Parallel processing was executed for 2003 and 2004.

Box 5:

Poverty Measured by the Expenditure Approach: 2006 Findings

Poverty among families went down by more than one percent point in 2006 according to two calculation alternatives (Table 1), and a similar reduction was noted among persons as well. For the first time since 2002, when the cutback in child allowances began, a reduction was noted in the rate of poverty among children, after this rate had increased by 5 percent points between 2002 and 2005 in both calculation alternatives.

Table 1
Incidence of Poverty among Families, Persons and Children, 2003-2006

Alternative	2003	2004	2005	2006
A: Accommodation by payments approach				
Families	23.9	22.6	22.6	21.2
Persons	27.0	26.2	26.6	25.4
Children*	34.9	35.0	35.8	35.0
B: Accommodation by credited rent fee approach				
Families	19.9	19.6	19.7	18.4
Persons	24.1	24.6	24.9	23.7
Children*	32.5	34.0	34.8	33.9

The *income gap ratio of the poor*, which indicates the distance of the threshold expenditure from the relevant income according to each calculation alternative, reached 33% in 2006 according to the first calculation alternative, and 28% according to the second. These rates show stability in comparison to the corresponding 2005 data: though the number of poor families and persons went down between 2005 and 2006, the depth of poverty remained stable. The Gini indices of income inequality went up by less than one percent in the two alternatives, while the Gini Index of income inequality of the poor, as well as the Sen Index, point to a reduction (of about 3% and 6%, respectively) between 2005 and 2006.

The poverty lines derived from the two alternatives are in fact *threshold expenditure* of families on basic consumption components, that is, expenses that if not covered by a family's net income cause the family to be considered poor. Threshold expenditure and poverty in various family compositions according to calculation Alternatives A and B are presented in Table 3. Poverty lines according to Alternative B are higher than those according to Alternative A, since they include a factor not included in Alternative A: the expense credited for accommodation owned by the tenants.

Table 2
Threshold Expenditure and Poverty among Families, by Selected Family Compositions, Alternatives A and B, 2005-2006

Family composition*	2005		2006	
	Threshold expenditure (NIS)	Incidence of poverty (%)	Threshold expenditure (NIS)	Incidence of poverty (%)
Alternative A				
Single adult	2,176	23.2	2,214	22.0
Two adults	3,535	16.7	3,597	15.3
Two adults + one child	4,361	19.0	4,438	16.4
Two adults + two children	5,126	19.9	5,215	18.0
Two adults + three children	5,843	26.4	5,946	24.6
Two adults + four children	6,525	49.1	6,639	49.9
Two adults + five children	7,177	61.8	7,302	63.6
Adult + two children	4,016	38.9	4,086	34.1
Alternative B				
Single adult	2,539	13.1	2,580	12.6
Two adults	4,125	13.7	4,192	12.6
Two adults + one child	5,090	17.9	5,172	15.5
Two adults + two children	5,981	19.6	6,078	18.2
Two adults + three children	6,818	26.8	6,928	24.5
Two adults + four children	7,614	46.4	7,737	46.9
Two adults + five children	8,375	59.8	8,510	61.9
Adult + two children	4,687	38.0	4,762	34.4

* Though the calculation is based on three survey years, due to the small number of observations it was not possible to calculate the data for single-parent families, except for those composed of one adult with two children, and even family data of this sort suffer from quite substantial fluctuations.

The nominal threshold expenditure for the families increased by 1.7% according to Alternative A and by 1.6% according to Alternative B. In real terms, there was a minor reduction in the threshold expenditure of the families, which, together with the increase in real income (at an average rate of about 2%) explains the reduction in poverty among families in the entire population.

The threshold expenditure for a single adult according to Alternatives A and B amounts to a total of approximately NIS 2,200 and NIS 2,600, respectively, and for a family in which there are two adults and three children to approximately NIS 6,000 and NIS 6,900, respectively. The trend of change in poverty is not uniform in the various family compositions. Among small and medium-size families the rate of poor families went down, but in families of four or more children the trend was reversed and poverty resumed the trend of increase of recent years.

6. Inequality in income distribution and influence of policy

The progressive makeup of transfer payments and direct taxes narrows income gaps in the population. The rate of transfer payments grows smaller with the increase in economic income, while the rate of direct taxes increases with economic income. As the progressiveness of transfer payments and direct taxes grows, so grows the share of the lower deciles' income in the income after transfer payments and direct taxes, while the share of the top deciles' income grows smaller.

Table 13 features the changes in income, benefits and taxes on average per family during the survey periods. In 2002-2006 economic income increased by 7.3% and net income at the higher rate of 11.3%. The increase in economic income is a result of the expansion of employment and the increase in wages between 2004 and 2006, which prevailed over the influence of the 2001-2003 recession. The higher growth in net income relative to economic income is a result of the tax reform which led to the decline of direct taxes by about 17% on the one hand, and of the reduction in NII benefits (by 14%) which contributed to the setoff of the influence of the tax reform on net income.

Table 14 features the average amounts of transfer payments and direct taxes as a percentage of the average economic income in each decile, and Table 15 features the share of each decile (rated according to economic income) in total transfer payments and in total direct taxes in 2004, 2005 and 2006.

Table 14
Income, Benefits and Taxes on Average per Family
(NIS per month, 2006 prices), 2002-2006

	2002	2003	2004	2005	2006	2006 versus 2002
Economic income	9,970	9,670	9,970	10,300	10,710	7.3
Total transfer payments	1,830	1,680	1,630	1,630	1,680	-8.2
NII benefits	1,400	1,290	1,220	1,200	1,200	-14.0
Direct taxes	2,740	2,370	2,340	2,290	2,270	-17.2
Net income	9,060	8,980	9,260	9,640	10,080	11.3

Table 14 shows that in 2006 the reduction in transfer payments in proportion to economic income continued – parallel to the resumption of the trend of reduction in direct taxes. Transfer payments as part of average economic income went down from 18.3% in 2002 to 16.4% in 2004 and to 15.3% in 2006. This reduction manifested itself in all the deciles, but more notably in the lower deciles, by virtue of both the erosion of transfer payments in proportion to the increase in wages, and the introduction of new workers from these deciles into the labor market and the resulting rise of economic income. The tax burden was concurrently reduced and continued to do down: from 23.5% of economic income in 2004 to 21.2% thereof in 2006. These reductions in benefits and direct taxes as part of economic income were expressed in most deciles.

Table 15 presents the share of the various deciles in total transfer payments and total direct taxes. The reduction in the share of the bottom deciles – first to third – in total transfer payments continued in 2006 as well, as part of a consistent downward trend since 2003. Conversely, the

share of the medial deciles (fourth to seventh) increased in the total transfer share, after a decrease between 2004 and 2005. The share of the higher deciles also went down between 2005 and 2006, though in comparison to 2004 their share remained more or less the same. The situation with regard to the deciles' share of total direct taxes remained more or less stable between the two years under review, aside from a slight increase in the top decile.

Table 15

The Rate of Transfer Payments and Direct Taxes in Proportion to Average Economic Income, Total Population, by Decile (percentages), 2004-2006

Decile	Transfer payments			Direct taxes		
	2004	2005	2006	2004	2005	2006
Bottom	**_	**_	**_	**_	**_	**_
2	550.0	392.9	283.4	33.0	25.5	19.1
3	63.7	58.0	52.3	11.1	10.5	9.1
4	37.0	38.0	39.6	11.4	10.8	9.9
5	25.3	23.5	23.1	12.5	11.7	11.0
6	16.4	15.1	15.7	13.8	12.9	11.8
7	10.7	10.0	11.5	15.7	14.7	13.3
8	6.8	7.6	6.7	18.5	17.3	17.0
9	4.5	4.8	4.2	23.3	22.4	21.3
Top	2.0	2.1	1.9	33.2	31.2	30.2
Total	16.4	15.9	15.3	23.5	22.2	21.2

* For the purpose of determining the deciles, families were rated according to **economic income** per standard person. Each decile represents 10% of all individuals in the population.

** This ratio cannot be calculated since the families found in the bottom decile have nearly no income, and their exclusive source of income is the transfer payments.

Table 16
The Share of Each Decile* in Total Population, in Total Transfer Payments and Direct Taxes, (Percentages), 2004-2006

Decile	Share of total (percentages)					
	Transfer payments			Direct taxes		
	2004	2005	2006	2004	2005	2006
Bottom	18.0	19.8	22.0	0.8	0.8	0.9
2	23.6	21.5	18.5	1.0	1.0	0.9
3	9.9	9.4	9.0	1.2	1.2	1.1
4	9.3	9.9	10.7	2.0	2.0	1.9
5	9.1	8.8	8.9	3.2	3.1	3.1
6	8.0	7.5	8.1	4.7	4.6	4.4
7	6.8	6.5	7.6	7.0	6.8	6.3
8	5.7	6.5	5.8	10.8	10.8	10.6
9	5.1	5.5	5.0	18.5	18.5	18.3
Top	4.5	4.8	4.6	50.9	51.2	52.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

* For the purpose of determining the deciles, families were rated according to **economic income** per standard person. Each decile represents 10% of all individuals in the population.

Table 16¹² presents the pattern of distribution of the various kinds of income in the total population in 2004-2006. The data in the table show that between 2004 and 2006 the share of the second, third, and top deciles increased in total economic income while the situation of the remaining deciles either deteriorated or remained stable. The main reason for the increase in the share of the second and third deciles is the expansion of employment and the introduction of new workers from these deciles to the labor market, while in the top decile growth is primarily attributed to the increase in wages. Concurrent with the growth in the economic income of the bottom deciles, the ratio between the income of the top quintile and that of the bottom quintile was reduced from 66.6% in 2004 to 59.3% in 2005, and to 48.8% in 2006.

12 The data on inequality in the income distribution among the working population is presented in Tables 18-19 in the Poverty and Inequality Tables' Appendix.

Table 17
Influence of Transfer Payments and Direct Taxes on Inequality of Income Distribution in Total Population (percentages), 2004-2006

Decile	Share of each decile in total income (%)**								
	Before transfer payments and taxes			After transfer payments			After transfer payments and taxes		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
Bottom	0.0	0.0	0.0	1.7	1.7	1.7	1.9	2.0	1.9
2	0.8	0.9	1.1	3.1	3.0	3.0	3.6	3.5	3.4
3	2.8	2.9	2.9	4.0	4.0	4.0	4.7	4.6	4.6
4	4.4	4.4	4.4	5.3	5.2	5.2	6.0	5.9	5.8
5	6.2	6.2	6.2	6.7	6.7	6.6	7.5	7.4	7.3
6	8.2	8.2	8.1	8.3	8.2	8.2	9.1	9.0	8.9
7	10.6	10.5	10.3	10.3	10.2	10.1	11.0	10.8	10.8
8	13.8	13.6	13.4	12.9	12.8	12.7	13.2	13.1	13.0
9	18.6	18.4	18.2	17.0	16.9	16.8	16.6	16.5	16.3
Top	34.7	35.0	35.5	30.8	31.3	31.8	26.6	27.4	28.0
Ratio between top and bottom quintiles	66.6	59.3	48.8	10.1	10.3	10.3	7.9	8.0	8.4

* The families in each column were rated according to the appropriate level of income per standard person. In each decile there are 10% of the individuals in the population.

** In terms of income per standard person.

Conversely, the distribution of net income continued to point to a trend of expanding inequality, and the share of the top decile in total income continued to rise¹³. The opposite situation depicted in recent years between trends of inequality in economic and net incomes is also manifested in the Gini Index for inequality in income distribution (Table 17). The index for inequality in the distribution of **economic income** went down between 2002 and 2006 at an accumulated rate of 2.5%, while the index for the distribution of **net income** went up by 6.6% during the same period. In comparison to 1999, the Gini Index for the distribution of net income went up at an accumulated rate of about 9%.

13 It is appropriate to revisit the aforesaid in footnote 2 in this chapter regarding the implementation of the topcoding method applied by the Central Bureau of Statistics to high incomes in the income surveys, as of the 2006 survey.

Table 18
**Gini Indices for Inequality in Income Distribution in Population,
 1999-2006**

Year	Before transfer payments and direct taxes	After transfer payments only	After transfer payments and direct taxes	Percent of reduction as a result of transfer payments and direct taxes
2006	0.5237	0.4379	0.3923	25.1
2005	0.5255	0.4343	0.3878	26.2
2004	0.5234	0.4300	0.3799	27.4
2003	0.5265	0.4241	0.3685	30.0
2002	0.5372	0.4312	0.3679	31.5
1999	0.5167	0.4214	0.3593	30.5
The index change (%)				
2006 vs. 2005	0.2	0.8	1.2	
2006 vs. 2002	-2.5	1.6	6.6	
2006 vs. 1999	1.4	3.9	9.2	

The table further indicates an additional decrease in the contribution of transfer payments and direct taxes to the reduction of inequality that stems from the distribution of economic income. This contribution was reduced to 25.1% in 2006, as compared with 31.5% in 2002.

The socio-economic situation of Israel in 2006 on the whole indicates a continuation of the stability that characterized the preceding year. A summary of trends of recent years shows that the ongoing erosion in NII benefits and the continued implementation of the income tax reform, which has not improved the condition of workers who do not reach the tax threshold, had a greater influence on the situation of the country than did the developments – in the area of the labor market and the increase of pensions to the elderly – that contributed to an increase in the income of the weaker links of society.