

CHAPTER 2
POVERTY AND SOCIAL GAPS

1. Introduction

The recent global economic crisis, which left its mark in Israel's economy at the end of 2008, put an end to an uninterrupted period of growth which had lasted five years. The standard of living dropped slightly in 2008 in terms of the median income per standard person and basically remained unchanged in terms of average income per standard person. However, although poverty among families and persons remained unchanged, poverty among children continued the downward trend which had begun in 2007. Income inequality, in its various forms, declined somewhat in 2008. These developments are the outcome of the positive changes in the labor market – an increase in employment and real wages – not skipping over the weaker sectors, which include large families. However, even after four consecutive years of growth, poverty and inequality in Israel are still high. Approximately one-fifth of all families in Israel are described as being poor – a fact that has not changed significantly since 2004. Indices regarding the severity of poverty and its extent show that conditions among the poor have even worsened. From an international point of view, Israel usually places low on the scale of public funds expended on welfare, and high on the scale of poverty, alongside countries where the levels of poverty and inequality are high vis-a-vis developed countries, as will be shown by the findings taken from international analyses and presented in this chapter.

The poverty indices in Israel are based on a relative approach according to which poverty is seen as a phenomenon of distress to be evaluated along with the standard of living that characterizes the society. A family is defined as being poor if its standard of living, as reflected by its income, is significantly below that of the society at large, specifically if its disposable income per standard person drops below half of the median of this income. The findings presented in reports and in this chapter of the Survey – derived from analyses carried out by the NII Research and Planning Administration – are based on annual income and expenditure reports distributed on a regular basis by the Central Bureau of Statistics.¹

Since the 2007 Survey (published in 2008), findings relating to the annual dimensions of poverty for the calendar years have been published in a newer and broader format in the publication entitled: **Report on Poverty and Social Gaps**. The first issue of the report in this new format contained data relating to 2007.² The broader report contained additional indices and new population groups which had not been included in previous reports. In addition to findings about poverty and social gaps which were measured according to the relative measurement method customary in the NII, there was also a chapter which presented additional indices, as formulated in the report

¹ For additional details of the measurement method and data sources, see appendix **Measurement of poverty and data sources** in this publication.

² See **Reports on Poverty and Social Gaps for 2007 and 2008** – in the NII website, publications section (www.btl.gov.il).

prepared by the team for the development of additional poverty indices³ – indices which, according to their recommendation, should be implemented immediately. The same chapter of the report contained an extensive analysis of the standard of living by quintiles, calculations of the poverty indices using the OECD approach and a presentation of data on Israel compared to international standards, as well as a calculation of the number of poor families and persons whose consumption falls below the poverty line of income, an indication of continuous poverty (“permanent”). A separate section of the new format report is aimed at analyzing the issue of the elements of poverty⁴ and policies for reducing it.⁵

This chapter presents findings on poverty and social gaps in 2008 as compared with 2007 and preceding years, finding a balance between two goals: on the one hand, maintaining the progression initiated in the publications of previous Annual Surveys, and on the other, expanding upon the information contained in the “Report on Poverty and Social Gaps”, including areas not contained in that report.

The chapter opens with Israel’s position on public expenditure on welfare, and then presents selected findings and analyses of poverty and inequality⁶ in Israel in comparison with the OECD countries (Section 2 below). Further on, the chapter discusses key findings with regard to poverty and the standard of living of the population as a whole, using the measurement methods normally used in Israel (Section 3) as well as a review of the goals for the various population groups (Section 4). Following that, the chapter presents poverty measurement from the aspect of 2008 expenditure, based on two methods of calculation: the first, an approach developed by the NII⁷, is founded on the 1990’s recommendations of an American committee of experts (the NRC) (Section 5 and Box 2), whose findings were consistently presented in Annual Surveys during recent years; and the second based on a combination of the approach of the NRC and the Canadian index for the market basket measure (MBM)⁸. This latter method defines a poverty index that is in keeping with an “adequate consumption basket”. The findings of this approach are described in Box 3.

The last part of the chapter presents findings which touch mainly upon the inequality in income distribution, dividing the population into deciles (compared to quintiles in the annual report) (Section 6).

³ Report of the team for the development of additional poverty indices, headed by Shlomo Yitzhaki (2008), the Central Bureau of Statistics.

⁴ Such as noncompliance to minimum wage regulations, size of family, etc.

⁵ Through benefits, active labor market plans, etc.

⁶ See OECD, *Growing unequal? Income distribution and poverty in OECD countries*, 2008.

⁷ M. Sabag-Endeweld and L. Ahdut (2004), **An experimental poverty measure from the perspective of expenditure in Israel**, Research paper no. 82, The Research and Planning Administration, NII.

⁸ The first index of this “family” was described in the article written by Gottlieb, Daniel and Manor, Roy (2005), *On the Choice of a Policy-oriented Poverty Measure: The Case of Israel 1997-2002*, <http://mpr.ub.uni-muenchen.de/3842>. See also Bank of Israel reports, Chapter 8, since 2005. It should be pointed out that MBM stands for Market Basket Measure and NRC, for National Research Council.

The chapter contains three boxes: Box one contains a summary of data on poverty for the second half of 2008 and the first half of 2009 (July 2008 – June 2009). Boxes 2 and 3 contain findings from two poverty indices which were developed or are in the process of being developed by the NII, where they mainly measure poverty according to either the “basic” or the “adequate” consumption basket –comparing it with the disposable income of the household required to consume it (see above). The appendices include a detailed description of the method used for measuring poverty and of the data sources, as well as tables – poverty and inequality tables which add to the information concerning findings on poverty and inequality.

2. The social indices in Israel compared to international indices

Three figures are presented at the beginning of the Survey showing Israel’s relative position compared to international rankings from the aspect of total monies expended for welfare (Figure 1), as well as its two sections: cash expenditure and in-kind expenditure (Figures 2 and 3). The data of countries to which Israel is compared date back to 2005, while the data related to Israel, back to 2005 and 2009.

Welfare expenditure rates considered to be part of the GDP separate the developed countries into three blocs: countries whose welfare expenditure is higher than average, countries where it is close to average and countries where it is below average. Figure 1 shows that Israel is situated firmly in the bloc of countries where the rate of welfare expenditure is relatively low and constitutes approximately 16% of the GDP (U.S.A., Canada) – compared to an approximate average of 20% in the OECD countries. Between 2005 (the year used as the basis for comparison in all of the countries) and 2009, there was no palpable change in Israel’s placement. Table 1 focuses upon the 2001-2009 data for Israel by expenditure groups.

The findings show that there was a steady decline in Israel’s total welfare expenditure as a percentage of the GDP during 2002-2005, while the rate remained essentially steady after 2006. In 2002, the rate of financial support provided to those of working age began falling off, the decline being a very sharp one during those years. All elements listed in the figure began to stabilize in 2006.⁹ There is evidence of a slight increase in GDP percentage of welfare expenditure in Israel during 2008 and 2009. The source of this increase lies in financial support and not in in-kind support; specifically, there was an increase of NII benefits in terms of GDP rate to working-age families as well as to the elderly. In comparison, in-kind support, consisting mainly of expenditure on health and long-term care services, which had peaked in 2002 at a level of 8 percent of the GDP, declined with the years to a level of 6.8-6.9 percent of the GDP during the past three years.

⁹ For the connection between welfare expenditure and poverty, see Chapter 2 of the 2008 Survey.

Table 1

Public Expenditure on Welfare, 2001-2009 (percentage of GDP)*

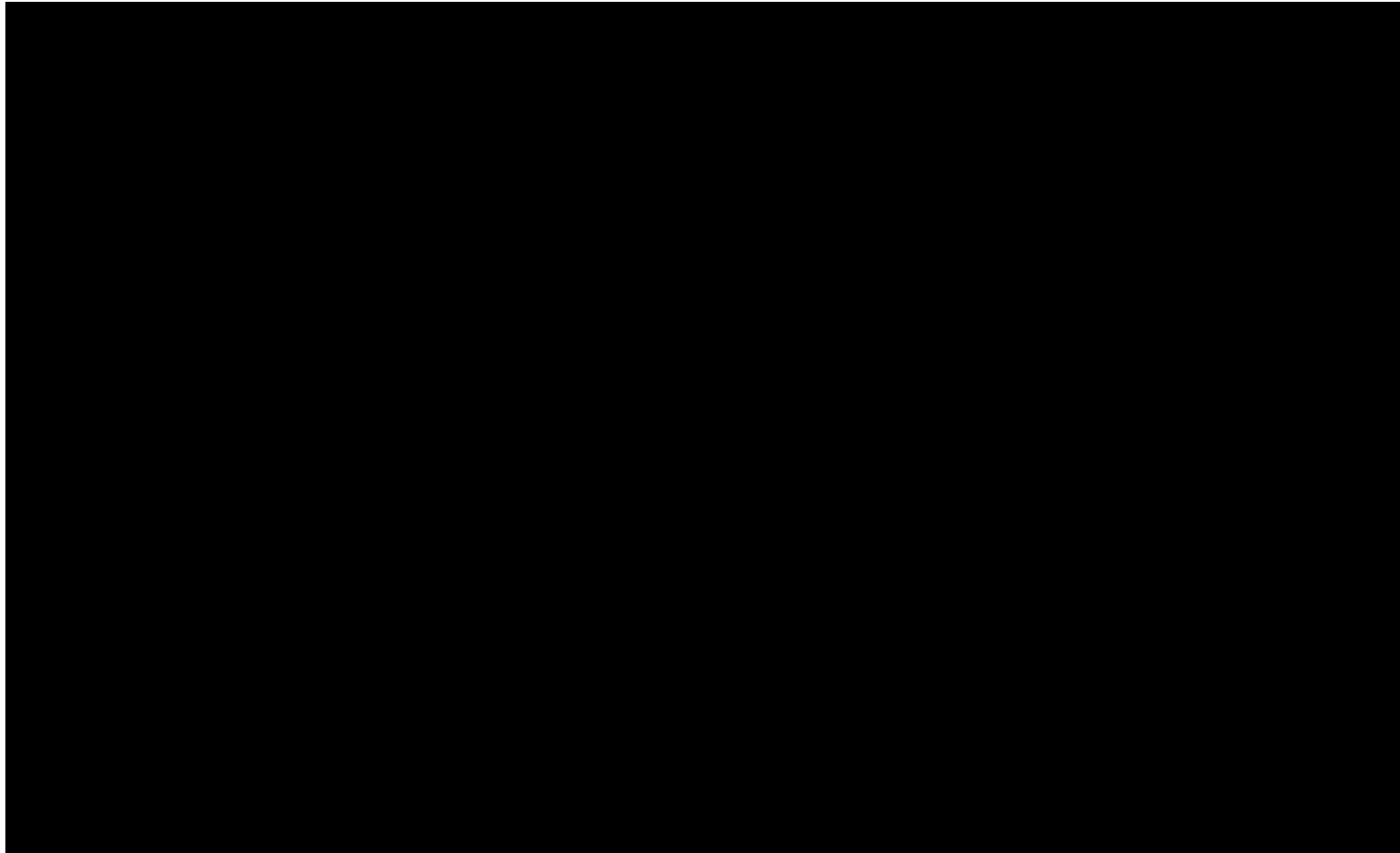
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total public expenditure for welfare	18.49	18.73	18.33	17.03	16.27	15.61	15.39	15.43	15.72
Total financial support	10.80	10.73	10.41	9.54	9.06	8.78	8.61	8.54	8.88
Support for working-age population	5.73	5.67	5.19	4.58	4.28	4.14	4.01	4.04	4.21
National insurance	4.74	4.68	4.26	3.72	3.47	3.38	3.28	3.32	3.48
War and hostilities	0.53	0.55	0.56	0.54	0.51	0.49	0.48	0.46	0.46
Other **	0.46	0.44	0.37	0.32	0.30	0.27	0.25	0.26	0.27
Support for the elderly	5.07	5.06	5.22	4.96	4.78	4.64	4.60	4.50	4.67
National insurance	2.94	2.88	2.86	2.77	2.69	2.61	2.51	2.48	2.57
Civil servants' pension	1.67	1.72	1.88	1.80	1.74	1.72	1.79	1.73	1.82
Other ***	0.46	0.46	0.48	0.40	0.35	0.31	0.30	0.29	0.27
Total in-kind support	7.69	8.00	7.92	7.49	7.21	6.83	6.78	6.89	6.84
Health and long-term care	5.48	5.59	5.44	5.24	5.13	4.89	4.87	4.98	4.93
Other ****	2.22	2.41	2.48	2.25	2.08	1.94	1.91	1.92	1.91

* Source: Data from the National Insurance Institute of Israel and the Israel Central Bureau of Statistics processed by the Research and Planning Administration according to the OECD rules of classification.

** Including support for discharged soldiers, the immigrant absorption basket and financial support with rent.

*** Including support for victims of the Nazis, and financial support with rent.

**** Including in-kind support from the NII, local authorities, national institutions, government non-profit organizations and the Ministry of Labor and Social Affairs.



Quantifying poverty in Israel, similar to measurements carried out in the OECD countries, is carried out on the basis of the relative approach, where a poor family is defined as a family whose disposable income per standard person is less than half of the median of this income in the total population. However, in the equivalence scale used by the OECD the number of standard persons in each family is equal to the root of the number of persons in it.¹⁰

In Chapter 2 of last year's Survey, the findings submitted of poverty in Israel were compared to international ones for 2005, taking into account several main indices. This year, the comparison is devoted to mostly changes that occurred between the 1999-2001 and between 2004-2005, focusing on the changes in poverty and inequality in Israel and in the countries being compared.

Figure 2 below presents the changes in the incidence of poverty of persons in Israel and in other countries between 1999-2001 and 2004-2005.¹¹ The figure shows that a few of the countries – Mexico, Britain, Italy and Sweden – succeeded in reducing poverty in their countries. In others poverty remained stable during those five years (Denmark, Switzerland, United States). In another a fairly large group, poverty increased between the two periods. Israel stood out in this group with an increase of about 4 percentage points, followed by Luxembourg with an increase of about 3 percentage points, and then Poland, with an increase of 2 percentage points in poverty of persons between the two comparable periods.

Figure 3 shows that compared to the beginning of the century, the Gini Index for inequality of disposable income in Israel rose by approximately 7% in the mid-2000's – the only other rates lower than that were found in Poland (which had undergone far-reaching political and economic changes during that period) and in Norway. Other countries in which inequality in income increased were Taiwan, Finland and Luxembourg. On the other hand, during that period, countries such as Switzerland, Mexico and Sweden, where the level of inequality is quite low,¹² inequality of income dropped to 5-7 percent in the Gini Index.

¹⁰ This element of the approach is different than the one in use in Israel.

¹¹ The countries for which data was available for the two periods in the Luxembourg Income Study (LIS) database.

¹² The levels of the indices in the various countries are presented in Chapter 2 of the 2008 Annual Survey.

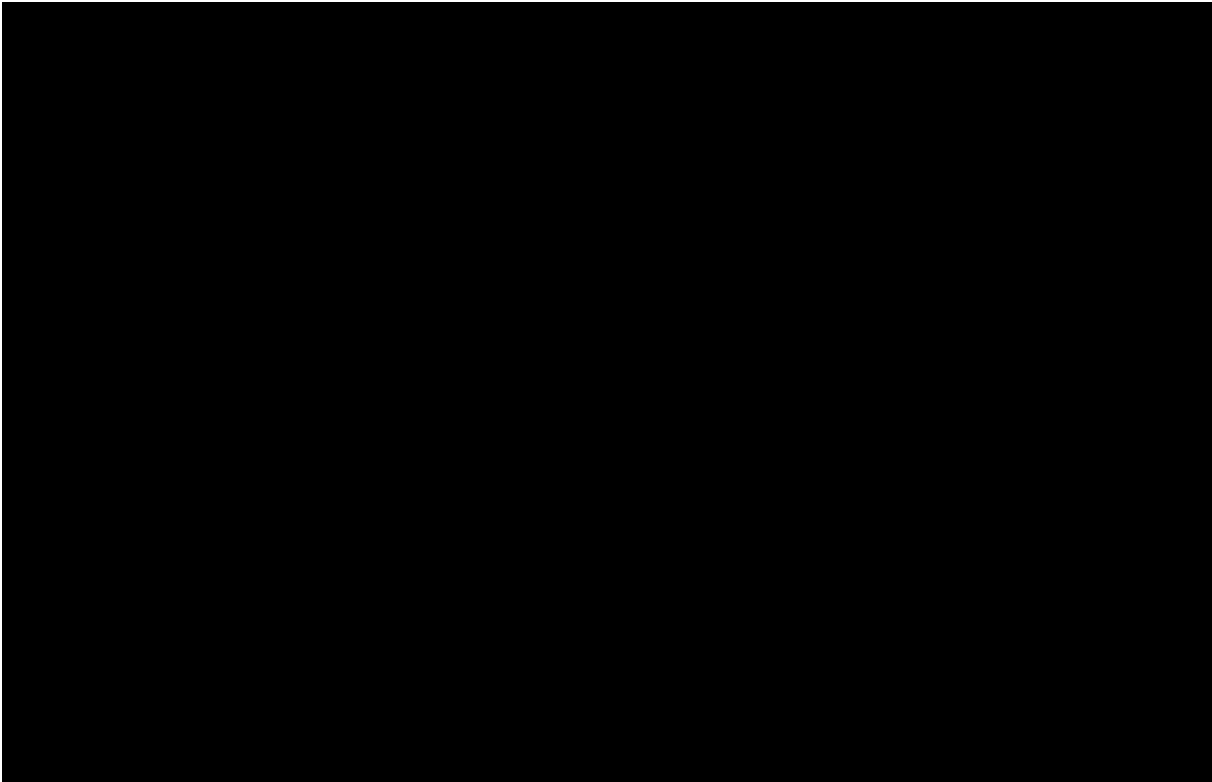
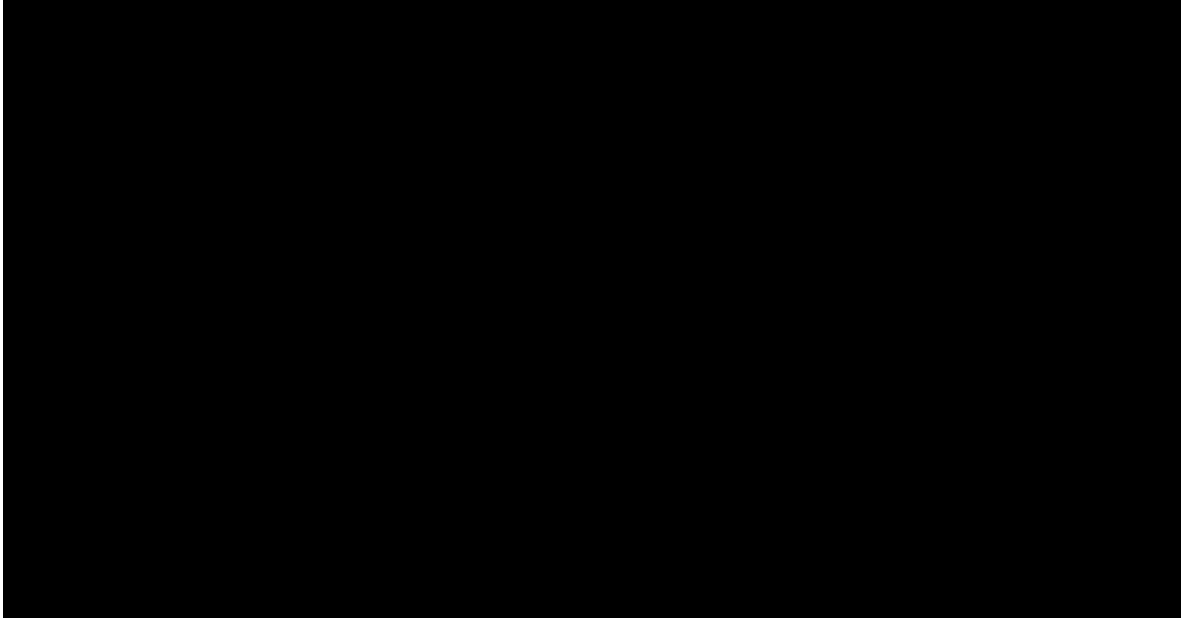


Table 2 below shows the changes in poverty among children, the elderly and working families in Israel and in the countries with which Israel is compared. The table shows that while the poverty among the elderly in Israel remained relatively stable between the two comparable periods, there was an increase in poverty among working families – from about 8% to about 10% – and poverty among children jumped upward from about 18% to 25%. A similar rather elevated increase in poverty among children occurred in Luxembourg (although the initial level was approximately half of that of Israel) and in Poland. In most countries, there are attempts to bringing about a decline in poverty among the elderly, children and working families. For example, Britain (where the result is based on poverty goals determined in advance in 1998) and Mexico succeeded in significantly lowering poverty rates among children. In addition, in those countries, even poverty among the elderly declined between the two periods (although not among working families). The only country that succeeded in significantly lowering poverty among working families is Sweden: from about 7% at the beginning of the 21st century to about 5% in the middle of the first decade. Poverty among working families remained stable in the United States and in Britain, while increases in poverty were recorded in most other countries.

Table 2

The Change in the Incidence of Poverty among Children, the Elderly and Working Families – International Comparison, mid-2000's vs. Beginning of the Century

Country	Children		Elderly		Working families	
	2000*	2005**	2000*	2005**	2000*	2005**
Canada	15.5	16.8	5.4	6.3	9.4	10.1
Denmark	2.7	3.9	12.0	8.5	5.2	5.5
Finland	3.0	3.7	8.4	10.0	4.7	5.5
Hungary	8.1	9.9	4.3	4.0	-	-
Israel	18.0	25.3	21.6	21.7	8.1	9.7
Italy	17.1	18.4	14.5	11.2	-	-
Luxembourg	9.1	13.3	3.7	4.5	-	8.5
Mexico	27.0	22.2	29.1	27.6	-	-
Norway	3.4	5.0	12.3	8.5	6.9	8.6
Poland	13.6	17.3	5.0	3.4	4.9	6.7
Sweden	4.3	4.7	8.0	6.6	7.2	4.9
Switzerland	8.9	9.2	13.2	15.2	3.1	3.2
Taiwan	7.1	7.7	25.4	28.7	4.7	4.9
Britain	19.0	14.0	18.2	16.3	4.3	4.1
U.S.	22.0	21.4	24.9	24.8	11.6	11.4

Source: Data from the Luxembourg Income Study (LIS) Processed by the Research and Planning Administration

* 1999-2001

** 2004-2005

The third column in Table 3 shows the percentage of the decline in poverty stemming from transfer payments and direct taxes in Israel and in other countries. The table shows that in

Israel, the U.S. and Taiwan, these policy resources helped approximately 40% of the poor to extract themselves out of poverty during the middle of the first decade of the 21st century, compared to 70-80% in the Scandinavian countries and in Poland, and approximately 50-60% in Switzerland, Britain and Canada. In most countries, the share of the contribution of policy resources to extract people from poverty remained stable between the two periods. In this area there was a significant decline in Israel, and a slight increase in such countries as the United States, Britain, Sweden and Switzerland.

Table 3

Incidence of Poverty per Person Before and After Transfer Payments and Taxes, and the Change between 2000 and 2005, Israel and Selected Countries, mid-2000's vs. Beginning of the Century

Country	Before transfer payments and taxes		After transfer payments and taxes		Percentage of decrease in transactions from transfer payments and taxes	
	2000*	2005**	2000*	2005**	2000*	2005**
Canada	23.7	25.0	12.4	13.0	47.8	48.2
Denmark	24.8	25.8	5.4	5.6	78.1	78.1
Finland	30.1	30.6	5.4	6.5	82.0	78.7
Israel	29.9	29.7	15.6	19.2	48.0	35.3
Norway	23.4	26.2	6.5	7.1	72.1	72.8
Poland	37.6	44.0	9.6	11.6	74.4	73.5
Sweden	29.1	29.5	6.6	5.6	77.3	81.1
Switzerland	20.6	23.4	7.7	8.0	62.7	65.9
Taiwan	13.2	16.0	8.4	9.5	35.9	40.2
Britain	31.6	30.3	13.7	11.6	56.7	61.7
U.S.	24.8	26.9	17.3	17.6	30.3	34.5

Source: Data from the Luxembourg Income Study (LIS) Processed by the Research and Planning Administration

* 1999-2001

** 2004-2005

3. Main Findings on Poverty

Since mid-2003 until 2007, Israel's economy enjoyed continuous growth and employment and families' standard of living rose, reflected in the average and median disposable income (Table 4). The increase of 4-5% in disposable income for 2007 (Table 4), which also characterized the three preceding years, halted abruptly in 2008 when the standard of living of families remained stable and even declined slightly for the first time in four years.

Table 4

Average and Median Income per Standard Person after Transfer Payments and Direct Taxes, and Poverty Line (NIS), 2006-2008

Income per				Real growth rates
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standard person	2006	2007	2008	2006 - 2007	2007-2008
Average	3,914	4,078	4,261	3.6	-0.1
Median	3,184	3,184	3,483	4.6	-0.6
Poverty line	1,592.0	1,674.5	1,741.7	4.6	-0.6

The all-economy data point to the fact that the number of employed persons rose by 3.3% between 2007 and 2008, after an increase of approximately 5% the previous year. The increase in the number of employed persons is attributed mostly to the first half of 2008. At the same time, the rate of unemployment continued to drop in 2008, reaching 6.1%, compared to 7.3% in 2007 and 8.4% in 2006.¹³ Nominal wages rose at a rate of approximately 4% while an increase in prices of 4.5% in 2008 led to a decline of approximately one half of a percent of the real wages.

The data contained in the 2008 income survey reflect a similar picture: the number of salaried employees rose by 2.9% between the two surveys. Income brought by the head of the household and by a couple stemming from salaried employment decreased by approximately one half of a percent. Nevertheless, the introduction of new providers in households led to an increase of approximately 2% in income from their work as salaried employees and reduced the decline in the income of working couples. The total income derived from work decreased by approximately one percent, after a sharp decline (approximately 6%) in income derived from self-employed work.

Based on Survey data, total NII benefit payments rose by 0.8% in real terms; however, when the demographic growth in the population is taken into account, it turns out that in 2008, the average income per family from NII benefits dropped in real terms by approximately one percent.

As seen by data from the Survey, the total payment of old-age and survivors' pensions rose in real terms by 0.8%; however, if one deducts the demographic growth of pension recipients (by a rate of 1.6%), payments dropped by an average of 0.8% per family. This decline follows a preceding three consecutive years during which the policy of raising the level of the various old-age and survivors pensions was implemented. There was an average decline of 3-4% per family in child allowances and income support benefits: the decline in child allowances stemmed from the previously-mentioned gap between the delay in updating allowances and price changes, as well as from the addition of “new” children whose allowance level was lower than that of the “veteran” children.¹⁴ In addition to the gap in price updates, the decline in income support benefits reflects also the decrease in the number of recipients of this benefit due to the increase in the number of persons employed, a situation which continued in 2008 as well. These decreases were, in part, offset by the stability of the

¹³ In accordance with average calculations based upon the weights of the income survey.

¹⁴ Within the context of legislative amendments instituted during 2003-2004, a uniform allowance was introduced for each child at the level of the first two children, but the change was applied on new children born after June 2003. In time, the number of these children increased.

average disability pension and the increase in the average unemployment benefit per household.

According to the data in the Survey, it can be seen that direct taxes declined sharply by approximately 8%. This decrease is composed of an average decline of 12% in income tax payments per household, and from an even more moderate decrease of 1%-2% in national and health insurance payments. This drop in the collection of direct taxes, explained by the continued implementation of the reform to reduce income tax and the decline in real wages, contributed to the reduction in the decline of net income relative to the gross income of households.

Table 5 presents the poverty line in 2007 and 2008, as well as the poverty line as a percentage of the average wage for the relevant period of the Survey. For example, the poverty line for a family of four comes to approximately 70% of the average wage. A family of up to six persons, where there is only one provider earning a salary equal to the average wage, will be above the poverty line.¹⁵

Table 5

Number of Standard Persons and Poverty Line per Family*, by Number of Persons in Family, 2007-2008

Number of persons in family	Number of persons in standard family	Poverty line per family in 2007		Poverty line per family in 2008	
		NIS per month	Percent of average wage	NIS per month	Percent of average wage
1	1.25	2,093	27.1	2,177	27.0
2	2	3,349	43.4	3,483	43.2
3	2.65	4,437	57.5	4,616	57.3
4	3.2	5,358	69.4	5,573	69.2
5	3.75	6,279	81.3	6,531	81.1
6	4.25	7,117	92.1	7,402	91.9
7	4.75	7,954	103.0	8,273	102.7
8	5.2	8,707	112.7	9,057	112.4
9**	5.6	9,377	121.4	9,754	121.1

* The average wage that was calculated for 2007 and 2008 is the weighted average of the average wage for a salaried position (Israeli employees) during the period adjusted to the period of each survey.

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

¹⁵ This calculation, of course, does not take into account pensions and direct taxes. The former increase disposable income and the latter, reduce it.

Tables 6 and 7 present poverty during 2006-2008 in absolute numbers and by selected indices, showing a trend of continuous stability in poverty in Israel. The rate of families whose disposable income falls below the poverty line remains the same – 19.9% in 2008, and the same is true with regard to persons living in poor families – that too has remained unchanged. Poverty among children which, for the first time in recent years was recorded as declining – from 35.8% in 2006 to 34.3% in 2007 – remained static in 2008 as well, and reached 34.2%.

Poverty measured against disposable income stems from transfer payments and direct taxes, which “correct” the economic income, which is defined as income from work and from capital before taxes. Transfer payments, which for the most part consist of NII benefits, increase the family’s income, while direct taxes reduce it. The smaller the amount of direct taxes paid by a family, the larger its disposable income grows and its chances of liberating itself from poverty increase.

Table 6

Poverty in the Total Population (absolute numbers), 2006-2008

	Before transfer payments and direct taxes	After transfer payments only	After transfer payments and direct taxes
2006			
Poor population			
Families	665,800	345,700	404,400
Persons	2,254,800	1,455,700	1,649,800
Children	921,900	718,600	796,100
2007			
Poor population			
Families	669,100	353,800	412,900
Persons	2,225,700	1,434,600	1,630,400
Children	901,000	697,000	773,900
2008			
Poor population			
Families	680,900	363,000	420,100
Persons	2,283,300	1,486,900	1,651,300
Children	931,300	723,700	783,600

Table 7

Poverty in Total Population by Selected Poverty Indices, 2006-2008

Poverty index	Before transfer payments and direct taxes	After transfer payments only	After transfer payments and direct taxes
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
FGT Index	0.1682	0.0354	0.0412
SEC Index	0.272	0.100	0.115
Gini Index of inequality in the distribution of income to the poor*	0.5106	0.1895	0.1952
2007			
Incidence of poverty (%)			
Families	32.3	17.1	19.9
Persons	32.5	20.9	23.8
Children	39.9	30.8	34.2
Income gap ratio of the poor (%)*	60.7	34.1	34.3
FGT Index	0.1591	0.0363	0.0418
SEC Index	0.261	0.099	0.113
Gini Index of inequality in the distribution of income to the poor*	0.5000	0.2021	0.2045
2008			
Incidence of poverty (%)			
Families	32.3	17.2	19.9
Persons	32.7	21.3	23.7
Children	40.4	31.4	34.0
Income gap ratio of the poor (%)*	59.6	33.5	34.2
FGT Index	0.1561	0.0365	0.0417
SEC Index	0.260	0.100	0.113
Gini Index of inequality in the distribution of income to the poor*	0.4882	0.2027	0.2051

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

The gradual downward trend in poverty among families and persons, based upon economic income and which is the main result of developments in the labor market, came to a halt in 2008, and the rate of poor families measured according to economic income remained the same as in 2007 – 32.3%

The income gap ratio which expresses the depth of poverty among families (that is, the average distance between the income of the poor from the poverty line), which was 34.3% in

2007, remained at exactly the same level in 2008. The FGT index, which reflects the severity of poverty and incorporates the impact of poverty with the depth of poverty, giving greater weight to those who are poorer, stabilized for the first time in recent years and remained unchanged during the two years. The same could be said for the SEN index. All of the indices reviewed above – incidence of poverty, its depth and severity – point to a high level of stability between 2007 and 2008.

The Gini Index for unequal distribution of disposable income among the poor (Table 7) rose slightly (by 0.3%), between 2007 and 2008. Cumulatively, between 2002 and 2008, the index rose by approximately 5%. On the other hand, the Gini Index for economic income continued to decline in 2008 as well (by 0.3%), and since 2002, has dropped by a total of 5%.

Table 8

Impact of the Transfer Payments and Direct Taxes on Dimensions of Poverty in the Total Population, by Selected Poverty Indices, 2006-2008

Poverty indices	Percentage of decline deriving from transfer payments only			Percentage of decline deriving from transfer payments and direct taxes		
	2006	2007	2008	2006	2007	2008
Incidence of poverty (%)						
Families	48.1	47.1	46.7	39.3	38.3	38.3
Persons	35.4	35.5	34.9	26.8	26.7	27.7
Children	22.1	22.6	22.3	13.6	14.1	15.9
Income gap ratio of the poor (%)*	45.7	43.8	43.7	45.2	43.6	42.6
FGT Index*	78.9	77.2	76.6	75.5	73.8	73.3

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

The SEN index reflects the combined effect of the poverty index, the poverty gap index and the position of the poor individual on the scale of poverty; that is, the unequal distribution of income among the poor. The SEN index for disposable income, which declined by about 2% between 2006 and 2007, remained unchanged in 2008.

Table 8 shows that transfer payments and direct taxes during the period of the 2008 Survey extracted 38% of the poor families from the cycle of poverty,¹⁶ just as had occurred the previous year. For comparison's sake, approximately half the poor families were extracted from poverty in 2002 due to governmental intervention. The contribution of the direct tax and payment transfer systems to the extraction of persons from poverty was smaller: only about 28%. This contribution rose slightly between 2007 and 2008 with regard to children: in 2008, approximately 16% of the poor children were extracted from poverty through government intervention compared to 14% in 2007. In 2002, the rate of children extracted from poverty due to government intervention came to approximately 25%. It should be pointed out that calculating the impact of transfer payments only, without direct taxes, results in much higher rates of extraction from poverty, since direct taxation at low income levels raises poverty and does not lower it. Nevertheless, the contribution of the distribution as a whole, not only among the poor, acts, of course, to reduce income inequality.

4. The dimensions of poverty by population groups, and the composition of the poor population

The various population sectors can be distinguished by the trends and the differences in the dimensions of their poverty in the years under review. Tables 9-13 itemize poverty according to various population groups. Tables 9 and 10 show poverty in 2007 and in 2008 respectively, by economic income and disposable income in the various population groups, and Table 11 shows the share of these groups in the population as a whole as well as in the poor population. Table 12 shows relative values of income gaps by population group, and Table 13, the rates of reduction of poverty as a result of transfer payments and direct taxes.

The stabilizing trend in poverty was not shared by all population sectors – certain sectors reduced poverty in their midst while in others, poverty increased (Table 9). Poverty in Arab families continued to decline – 54.0% in 2006, 51.4% in 2007 and 49.4% in 2008. Statistically, the decline from 2006 to 2008 stands out prominently, and it is explained mainly by increased integration into the labor market. Between 2007 and 2008, the number of providers rose by approximately 4% (on the average per family), after a similar increase had occurred between 2006 and 2007 (for comparison's sake, the rate of providers in the Jewish sector rose by approximately 2% between 2006 and 2008.) At the same time, the Arabs share of the poor population dropped from 34.6% in 2007 to 33.8% in 2008.

The decline in poverty among Arab families is linked also to changes in the composition of Arab families: the rate of families without children where the head of the family is of working

¹⁶ It would be reasonable to assume that if the financial support and direct taxation system did not exist, the details would be different. Therefore, the contribution of these systems to rescuing people from poverty could be angled upwards.

age is slowly but steadily rising, from about 18% in 2005 to about 21% in 2008. These families are characterized by the relatively small number of persons in the family relative to this population (an average of three persons per household). In 2008, the contribution of the policy measures to reduce poverty in the Arab population rose from 11.8% in 2007 to 13.5% in 2008, but it is still very small in comparison with the parallel rate among Jews – approximately 46%. The explanation for the large gaps between Arabs and Jews in this domain can be found mainly in the composition of the Arab population vs. the structure of the benefits: old-age and survivors' pensions are the largest benefits, while the Arab population is relatively young and characterized by large numbers of children.

Poverty among the elderly remained stable in 2008 at 22.7% (compared to 22.6% in 2007). Pensions were updated by 2.5% at the beginning of 2008, increased (in April 2008) by an average of approximately 2% vs. an actual price rise of 4.5% during 2008 and resulted in the stabilization of poverty among the elderly.

Poverty among families with children decreased slightly, from 24.8% in 2007 to 24.5% in 2008. This drop reflects a decline in poverty among families with 1-3 children (from 18.4% to 17.8%) which, was reduced in part by the rise in the rate of poverty among larger families (from 56.5% to 57.8%) between 2007 and 2008.

The increase in poverty among large families probably reflects an increase in poverty among the ultra-Orthodox, which are characterized by large families. Surveys used to prepare this report do not refer directly to ultra-Orthodox families. Using a variety of definitions, the rates of poverty of this sector were found to be significantly higher than those of other groups (with the exception of the Arabs) and reach rates of 60 to 70% (in families). However, due to the paucity of data, we feel that it is not possible to arrive at concrete conclusions regarding short-term changes in this population without additional research, and therefore, the ultra-Orthodox – despite the fact that the reference is to a sector which stands out because of its particularly high rates of poverty – are not included in the tables in the report at this stage.

The poverty rate among poor single-parent families dropped from 29.8% in 2007 to 28.8% in 2008, while poor families became even poorer: the relative income gap (which expresses the average distance of the income of the poor from the poverty line) rose sharply – from 32.8% to 36.9 – and the FGT index of more severe poverty recorded a new increase of 22%. These increases were found to be statistically significant.

The deterioration in the condition of poor single-parent families is explained by a deterioration of their condition in the labor market, apparently because the single provider in the household was fired from his/her work: the income from work decreased by a real rate of 4% and the number of average providers per family dropped by 1.7%. At the same time, the element of “support from private individuals” for these families increased significantly (at a real rate of 18%).

Poverty among working families remained stable at 12.2%. This stability is also reflected in the other poverty indices which show the depth and severity of poverty. On the other hand, the goal of the past two decades, according to which more of the

working population originated from among the poorer sectors, continued to rise: from 45.7% in 2007 to 46.3% in 2008.

Poverty among new immigrants dropped slightly from 18.8% in 2007 to 18% in 2008. On the other hand, the relative income gap index (depth of poverty) rose from 27.6% to 29.4% during those two years.

Table 9

Incidence of Poverty in Specific Population Groups, 2007 and 2008

Population group (families)	2007			2008		
	Economic income	Disposable income	Incidence ratio*	Economic income	Disposable income	Incidence ratio*
Total population	32.3	19.9	1.00	32.3	19.9	1.00
Jews**	28.3	15.0	0.75	28.4	15.3	0.77
Arabs	58.3	51.4	2.58	57.1	49.4	2.48
Elderly	55.9	22.6	1.14	55.9	22.7	1.14
New immigrants	40.2	18.8	0.94	40.7	18.0	0.91
Families with children – total	30.5	24.8	1.25	30.9	24.5	1.23
1-3 children	23.8	18.4	0.92	24.0	17.8	0.89
4 or more children	63.2	56.5	2.84	65.1	57.8	2.90
5 or more children	74.9	66.7	3.35	77.4	68.6	3.44
Single-parent families	46.9	29.8	1.50	46.9	28.8	1.45
Employment status of head of household						
Employed	18.2	12.2	0.61	18.8	12.2	0.61
Salaried	18.8	12.2	0.61	19.3	12.2	0.61
Self-employed	15.4	12.4	0.62	15.3	12.7	0.64
Unemployed (of working age)	91.2	69.8	3.50	89.5	71.4	3.59
Single provider	35.2	23.5	1.18	35.3	23.0	1.16
Two or more providers	4.1	2.8	0.14	4.7	3.0	0.15
Age group of head of household						
Up to 30	35.7	25.7	1.29	36.4	24.4	1.23
31 to 45 years old	26.6	20.5	1.03	26.7	20.7	1.04
46 to retirement age	22.0	14.1	0.71	21.3	14.5	0.73
Legal retirement age	59.3	23.5	1.18	58.2	23.1	1.16
Years of schooling – head of household						
Up to 8 years	69.4	44.3	2.22	68.7	44.6	2.24
9-12 years	32.6	20.9	1.05	33.5	22.1	1.11
13 or more years	23.2	13.4	0.67	23.2	12.8	0.64

* The rate of concentration is the relationship between the poverty of the group and the incidence of poverty of the whole population (based upon disposable income), and reflects the extent of affinity the incidence of poverty of a particular group out of the overall population.

** Tables that present data on Jews: Non-Jews who are not Arabs are also included in the Jewish population.

Out of the population as a whole, the number of families with working-age heads of household who do not work has been declining steadily during recent years (Table 8). Therefore, for example, while in 2002 they amounted to approximately 12% out of all families, their share decreased to 9% in 2008. This finding reflects the success of the policy to integrate many of these families into the labor market. Nevertheless, the very high poverty rate of those who remain in this sector have augmented the costs: in 2006, 66% of these families were considered poor on the basis of their disposable income, while in 2007, this rate rose to 69.8% and in 2008, to 71.4%. Transfer payments only extracted approximately 20% of these families from poverty (compared to approximately 38% of all families).

Poverty in households where the heads of households have only median education rose from 20.9% to 22.1% in 2008. In comparison, poverty of those with higher education decreased (from 13.4% to 12.8%). On the other hand, the depth and severity of poverty testify to the stability of the condition of these two groups of poor populations. In addition, poverty in households where the head of the household has a low level of education, which stood at 44.6% in 2008, remained steady.

The degree of concentration of families near the poverty line is linked to their source of income. Table 14 shows the spread of the various population sectors around the poverty line. The great concentration at the poverty line of families where the head of the household is elderly stems from the minimum income required for existence, ensured by the Income Support Law for the elderly and survivors who have almost no other source of income, which is more or less on par with the poverty line. Therefore, even the slightest supplement at the level of minimum income will significantly reduce the number of poor elderly families whose income will remain close to the poverty line, but will still be above it. On the other hand, any erosion – however slight – at the minimum wage level will significantly augment the number of the elderly poor. Lowering the poverty line by 95% would reduce the number of poor families by 20%, compared to a corresponding reduction of one-tenth in the whole of the population.

Table 10

**Share of Specific Groups in the Total Population and the Poor Population (percentages),
2007**

Population group (families)	Total population		Poor population			
			Before transfer payments and direct taxes		After transfer payments and direct taxes	
	Families	Persons	Families	Persons	Families	Persons
Total population	86.6	80.3	75.8	63.6	65.4	54.8
Jews	13.4	19.7	24.2	36.4	34.6	45.2
Arabs	19.6	9.8	34.0	16.4	22.3	9.5
Elderly	19.0	16.2	23.6	16.9	17.9	12.3
New immigrants	86.6	80.3	75.8	63.6	65.4	54.8
Families with children – total	46.1	66.9	43.5	70.6	57.5	81.2
1-3 children	38.3	49.6	28.2	36.2	35.3	39.1
4 or more children	7.8	17.3	15.3	34.4	22.2	42.1
5 or more children	3.9	9.8	9.0	22.5	12.9	27.4
Single-parent families	5.4	5.9	7.8	9.0	8.0	8.2
Employment status of head of household						
Employed	74.7	82.9	42.1	57.7	45.7	58.9
Salaried	65.2	71.9	37.5	51.3	39.7	51.5
Self-employed	9.5	10.9	4.5	6.2	5.9	7.2
Unemployed (of working age)	9.3	9.5	26.3	27.5	32.6	31.9
Single provider	33.9	33.2	37.0	49.4	39.9	50.9
Two or more providers	40.8	49.7	5.1	8.3	5.8	8.0
Age group of head of household						
Up to 30	18.1	18.0	20.0	23.0	23.3	23.9
31 to 45 years old	34.3	42.9	28.2	43.1	35.3	48.6
46 to retirement age	29.9	30.5	19.8	18.8	21.0	19.0
Legal retirement age	17.7	8.6	32.0	15.1	20.5	8.5
Years of schooling – head of household						
Up to 8 years	11.9	10.6	25.6	23.0	26.5	24.1
9-12 years	38.4	41.1	38.7	43.0	40.2	44.7
13 or more years	49.7	48.3	35.7	34.0	33.3	31.2

Table 11

**Share of Specific Groups in the Total Population and the Poor Population (percentages),
2008**

Population group (families)	Total population		Poor population			
			Before transfer payments and direct taxes		After transfer payments and direct taxes	
	Families	Persons	Families	Persons	Families	Persons
Jews	86.4	80.2	75.9	63.6	66.2	55.5
Arabs	13.6	19.8	24.1	36.4	33.8	44.5
Elderly	19.6	9.8	33.9	15.8	22.3	9.1
New immigrants	19.0	15.9	24.0	16.9	17.2	11.6
Families with children – total	46.0	66.5	44.1	71.6	56.7	81.1
1-3 children	38.3	49.5	28.4	36.5	34.2	38.3
4 or more children	7.8	17.0	15.6	35.0	22.5	42.8
5 or more children	3.7	9.4	8.9	22.3	12.8	27.2
Single-parent families	5.3	5.8	7.7	8.9	7.7	8.0
Employment status of head of household						
Employed	75.4	83.3	43.8	59.2	46.3	59.3
Salaried	66.0	72.9	39.4	52.8	40.3	51.8
Self-employed	9.3	10.4	4.4	6.4	6.0	7.5
Unemployed (of working age)	9.0	9.4	25.0	26.6	32.3	32.2
Single provider	34.6	33.3	37.8	48.8	40.1	50.1
Two or more providers	40.8	50.0	6.0	10.4	6.2	9.2
Age group of head of household						
Up to 30	17.9	17.7	20.2	22.4	21.9	21.4
31 to 45 years old	34.6	43.1	28.6	43.8	35.9	50.4
46 to retirement age	30.2	30.8	19.9	19.6	22.0	20.2
Legal retirement age	17.4	8.5	31.3	14.3	20.2	8.0
Years of schooling – head of household						
Up to 8 years	11.4	10.1	24.2	20.8	25.5	21.9
9-12 years	37.9	41.0	39.3	44.4	41.9	46.5
13 or more years	50.8	48.9	36.5	34.8	32.6	31.5

Table 12

Income Gap Ratio of the Poor* in Specific Population Groups, 2007 and 2008

Population groups (families)	2007			2008		
	General income	Disposable income	Concentration Index	General income	Disposable income	Concentration Index
Total population	60.7	34.2	1.00	59.6	34.2	1.00
Jews	63.6	32.0	0.93	63.0	32.8	0.96
Arabs	55.6	37.0	1.08	53.6	36.0	1.05
Elderly	80.4	23.4	0.68	80.8	23.0	0.67
New immigrants	71.4	27.6	0.81	67.8	29.4	0.86
Families with children – total	55.9	35.2	1.03	54.6	35.4	1.03
1-3 children	53.3	33.2	0.97	51.9	33.9	0.99
4 or more children	58.7	37.1	1.08	57.4	36.7	1.07
5 or more children	61.6	37.6	1.10	59.2	37.1	1.08
Single-parent families	69.1	32.8	0.96	67.4	36.9	1.08
Employment status of head of household						
Employed	38.9	26.9	0.79	38.1	26.9	0.78
Salaried	39.3	26.5	0.77	37.8	26.5	0.77
Self-employed	36.5	30.4	0.89	40.3	29.7	0.87
Unemployed (of working age)	93.9	50.9	1.49	94.2	50.9	1.48
Single provider	40.8	27.8	0.81	41.0	28.0	0.82
Two or more providers	27.8	21.3	0.62	24.4	20.6	0.60
Age group of head of household						
Up to 30	56.7	34.9	1.02	54.4	35.4	1.03
31 to 45 years old	54.3	35.1	1.02	53.0	33.9	0.99
46 to retirement age	64.1	37.0	1.08	64.3	39.0	1.14
Legal retirement age	80.7	21.6	0.63	81.3	21.4	0.62
Years of schooling – head of household						
Up to 8 years	70.2	38.6	1.13	67.4	35.9	1.05
9-12 years	54.5	33.1	0.97	55.3	33.9	0.99
13 or more years	62.0	32.5	0.95	60.3	33.5	0.98

* The weight given to each family when calculating the index is equivalent to the number of persons in the family.

** The incidence ratio relates to the disposable income, and indicates the ratio between the incidence of poverty in the group and that of the entire population.

Table 13

The Impact of Transfer Payments and Direct Taxes on Dimensions of Poverty in Specific Population Groups, 2006-2008

Population groups (families)	Percentage of decline stemming from transfer payments and direct taxes					
	Incidence of poverty			Income gap ratio of the poor		
	2006	2007	2008	2006	2007	2008
Total population	39.3	38.3	38.3	45.2	43.6	42.6
Jews	48.9	46.8	46.2	50.8	49.7	48.0
Arabs	9.2	11.8	13.5	37.4	33.4	32.8
Elderly	61.7	59.5	59.4	73.2	70.9	71.5
New immigrants	54.7	53.2	55.7	62.7	61.3	56.6
Families with children – total	19.4	18.5	20.6	39.7	37.0	35.2
1-3 children	25.7	22.9	25.8	38.3	37.6	34.7
4 or more children	8.0	10.5	11.1	41.2	36.8	36.0
5 or more children	8.5	10.9	11.4	42.1	38.9	37.4
Single parent families	42.2	36.5	38.6	48.1	52.5	45.3
Employment status of head of household						
Employed	33.1	33.1	34.8	30.5	30.8	29.5
Salaried	35.5	34.8	36.8	33.1	32.5	30.0
Self-employed	15.2	19.3	17.3	18.6	16.6	26.3
Unemployed (of working age)	25.1	23.5	20.2	48.7	45.8	46.0
Single provider	33.0	33.4	34.7	31.6	31.8	31.7
Two or more providers	33.7	30.9	35.9	24.8	23.5	15.6
Age group of head of household						
Up to 30	32.5	28.1	32.9	36.2	38.4	35.0
31 to 45 years old	20.5	23.0	22.5	39.6	35.4	36.1
46 to retirement age	36.3	34.5	31.9	45.4	42.3	39.4
Legal retirement age	62.2	60.5	60.3	74.7	73.3	73.7
Years of schooling – head of household						
Up to 8 years	39.3	36.2	35.1	50.4	45.1	46.8
9-12 years	34.6	35.9	34.2	39.2	39.2	38.7
13 or more years	44.7	42.4	44.9	49.1	47.6	44.5

Table 14

Percentage of Families Whose Disposable Income Does Not Exceed Given Income (in terms of poverty line), 2008

Population groups (families)	Income as a percentage of poverty line							
	75	90	95	100	105	110	125	150
Total population	10.2	15.3	17.6	19.9	21.7	23.4	28.0	36.1
Jews	7.3	11.1	13.1	15.3	16.8	18.2	22.2	30.0
Arabs	29.0	42.0	46.0	49.4	52.4	56.3	64.3	74.7
Elderly	6.6	12.3	17.3	22.7	25.8	27.6	33.8	44.3
New immigrants	7.1	11.2	14.5	18.0	20.5	22.3	29.4	41.0
Families with children – total	14.5	20.9	22.8	24.5	26.5	28.7	33.7	42.0
1-3 children	9.8	14.7	16.4	17.8	19.5	21.5	26.2	34.8
4 or more children	37.5	51.8	54.4	57.8	61.2	64.2	70.4	77.6
5 or more children	45.3	62.6	65.5	68.6	72.5	75.8	81.1	87.2
Single parent families	18.2	24.8	26.7	28.8	31.2	33.0	40.3	50.9
Employment status of head of household								
Employed	5.6	9.6	11.0	12.2	13.6	15.2	19.5	27.2
Salaried	5.7	9.5	10.8	12.2	13.5	15.2	19.4	27.1
Self-employed	5.2	10.1	12.0	12.7	14.3	15.6	20.1	28.1
Unemployed (of working age)	53.3	63.9	67.3	71.4	73.4	75.3	78.9	84.8
Single provider	11.2	18.6	20.9	23.0	25.3	28.1	34.8	45.0
Two or more providers	0.9	2.0	2.5	3.0	3.6	4.3	6.4	12.0
Age group of head of household								
Up to 30	14.2	20.3	22.1	24.4	26.2	28.5	33.7	43.8
31 to 45 years old	12.0	17.6	19.4	20.7	22.3	23.9	28.4	36.1
46 to retirement age	8.2	11.5	13.0	14.5	15.6	17.1	20.2	26.2
Legal retirement age	6.3	12.1	17.3	23.1	26.4	28.2	34.5	45.4
Years of schooling – head of household								
Up to 8 years	21.8	33.5	38.3	44.6	47.9	50.3	56.6	66.7
9-12 years	11.8	17.6	20.1	22.1	24.0	25.8	31.6	41.3
13 or more years	6.5	9.4	11.1	12.8	14.0	15.6	18.9	25.4

Box 1

Survey: Poverty and Income Gaps in 2008/9

The global economic crisis that left its mark on employment and wages began during the second half of 2008 and continued through to the second half of 2009. The period covered by the Survey –July 2008 to June 2009 (hereinafter: 2008/9) – corresponds, to a great extent, to the period of the last economic crisis, which was characterized by an increase in unemployment and a decline in employment and real wages from the second half of 2008 until the end of 2009. The findings of the Survey will be compared with all of 2008 and to the corresponding period in 2007 (July 2007 to June 2008, hereinafter: 2007/8).

Following are the main findings in the 2008/9 Survey compared to the 2008 Survey:

The standard of living, as reflected in the amended median disposable income, from which the poverty line is derived, remained more or less at its 2008 level (a real decline of 0.1%). Compared to the previous year, the period of the 2007/8 Survey, the poverty line dropped by 1.2% in real terms.

The incidence of poverty of a family rose from 19.9% to 20.2% compared to 2008. The poverty depth measure (relative income gap) remained the same: 34.2% in 2008 and 34.3% in 2008/9.

The incidence of poverty of persons also increased, from 23.7% in 2008 to 24.3% in 2008/9, and the incidence of poverty among children rose from 34.0% in 2008 to 35.0% in 2008/9, following the gradual decline recorded during the two previous years. The FGT index for severity of poverty, which places greater weight on those who are poorer, points to stability in comparison with 2008 and the previous year.

During the 2008/9 period of the Survey, there were 427,000 poor families in Israel, comprising 1,708,100 persons, 813,000 of whom were children.

When measured according to economic income, data on poverty show that despite the fact that the recent Surveys have shown a consistent decline, overall poverty rose from 32.3% to 32.8% between 2008 and 2008/9; in families from 32.7% to 33.5%; and among children, from 40.4% to 41.4%. In comparison to the corresponding Survey period of the previous year, 2007/8, the increases were even greater and constitute an indication that the particular increase in poverty for that period stems mostly from the labor market situation.

The incidence of poverty among the elderly decreased by one percentage point, from 22.7% in 2008 to 21.6% in 2008/9; this decline is explained by an improvement in the condition of the families of the elderly. The findings show that

the increase in old-age and survivors pensions and an improvement in the situation of families of elderly persons with regard to the labor market (despite the economic crisis) led to an improvement in their relative condition compared to the whole of the population.

The incidence of poverty among families with children rose by one percentage point, from 24.5% in 2008 to 25.5% in 2008/9. The same is true in comparison with 2007/8. The rise stems from increased poverty among families with 1-3 children, where the incidence of poverty rose from 17.8% in 2008 to 19.0% in 2008/9. Stability between the two periods was recorded in larger families.

The incidence of poverty among working families rose from 12.2% in 2008 to 12.6% in 2008/9 during the period of the Survey. At the same time, the rising trend in some of the working families within the whole of the poor population continued, from 46.3% in 2008 to 47.0% in 2008/9. Almost all of the growth stems from the families with two or more providers, while the number of working families with one provider remained unchanged between the two periods.

Transfer payments and direct taxes contributed to the reduction of poverty among families of the elderly, where their numbers increased from 58.1% in 2007/8 to 59.4% in 2008 and to 60.3% in 2008/9.

27.6% of the persons and 15.5% of the children were moved out of poverty status as a result of government intervention through transfer payments and direct taxes.

Families Among Incidence of Poverty by Various Characteristics (percentages) 2007/8, 2008 and 2008/9									
	Income before transfer payments and direct taxes			Income after transfer payments and direct taxes			Rate of decline in incidence of poverty after transfer payments and taxes (percentages)		
	2007/8	2008	2008/9	2007/8	2008	2008/9	2007/8	2008	2008/9
Total population	31.8	32.3	32.8	20.0	19.9	20.2	37.2	38.3	38.4
Jews	27.9	28.4	28.7	15.2	15.3	15.5	45.5	46.2	46.1
Arabs	56.5	57.1	58.4	50.1	49.4	49.9	11.3	13.5	14.6
Elderly	53.1	55.9	54.3	22.2	22.7	21.6	58.1	59.4	60.3
New immigrants	39.5	40.7	40.5	19.0	18.0	17.3	52.0	55.7	57.4
Families with children – total	30.6	30.9	31.9	24.7	24.5	25.5	19.2	20.6	20.2
1-3 children	23.7	24.0	25.2	18.0	17.8	19.0	24.2	25.8	24.9
4 or more children	64.5	65.1	65.2	58.1	57.8	57.8	10.0	11.1	11.3
5 or more children	76.1	77.4	77.5	67.9	68.6	70.4	10.8	11.4	9.2
Single parent families	48.4	46.9	47.6	30.3	28.8	30.0	37.3	38.6	36.9
Single parent families	27.1	27.6	28.7	23.4	23.5	24.3	13.6	15.0	15.3
Employment status of head of household									
Employed	18.4	18.8	19.2	12.3	12.2	12.6	33.2	34.8	34.2
Salaried	19.1	19.3	19.7	12.3	12.2	12.5	35.3	36.8	36.4
Self-employed	15.6	15.3	15.6	13.0	12.7	13.3	16.9	17.3	15.0
Unemployed (of working age)	90.6	89.5	90.6	71.4	71.4	71.7	21.1	20.2	20.9
Single provider	35.1	35.3	35.6	23.6	23.0	23.5	32.8	34.7	34.0
Two or more providers	4.6	4.7	5.2	2.9	3.0	3.4	35.8	35.9	35.2
Age group of head of household									
Up to 30	37.4	36.4	36.9	26.1	24.4	25.1	30.2	32.9	32.0
31 to 45 years old	26.5	26.7	27.2	20.5	20.7	21.1	22.4	22.5	22.3
46 to retirement age	20.4	21.3	22.7	14.0	14.5	15.5	31.4	31.9	31.8
Legal retirement age	55.9	58.2	57.1	23.0	23.1	21.8	58.8	60.3	61.9
Years of schooling – head of household									
Up to 8 years	66.9	68.7	71.0	44.1	44.6	45.1	34.1	35.1	36.5
9-12 years	32.8	33.5	35.1	21.3	22.1	23.1	35.1	34.2	34.1
13 or more years	22.8	23.2	22.8	13.3	12.8	12.6	41.7	44.9	44.7

5. Measuring poverty from the perspective of expenditure, 2008

A study published by the NII¹⁷ in 2004 attempted to measure poverty according to the approach developed by an American committee of experts established in the 1990's (the National Research Council – NRC). This committee proposed an approach for creating an index which would be an alternative to the official poverty index in the U.S. The approach is based mainly upon calculating the “threshold expenditure” for “a typical family” (comprised of two adults and two children), on the basis of the consumption data of the population itself, as reflected in expenditure surveys carried out by the Central Bureau of Statistics. The basket, which is the basis for calculating threshold expenditures, includes products and services associated to food, clothing, shoes and housing, along with related essential products. The threshold expenditure level is adapted to the composition of other families, using an equivalence scale which takes into account the composition of the family from the aspect of the number of adults and the number of children within it. The income taken into consideration for the expenditure threshold is the disposable income that is at the disposal of the household (gross income from all sources, minus deductions for direct taxes). The element labeled “in-kind income” is combined with the income if the family benefits from public housing and pays reduced rent in comparison with the market prices. In addition to direct taxes, travel expenses for going to and from work and expenses paid by working families for keeping children in child-care, pre-school or with nannies are also deducted from the income, in accordance with the recommendations of the American committee. A family is considered poor if there is no disposable income available for financing the expenditures of this basket.

The study presented two alternatives for calculating threshold expenditures and the income compared to it for all kinds of families, where the difference between the two alternatives originates from the definition of housing expense: the first alternative considers housing expense based upon the total payments required for residing in an apartment (loans and mortgages, rent, etc.); in the second alternative, the housing expenditures are calculated on the basis of the amount of rent paid by whoever lives in a rented apartment, and upon the equivalent value of the rent when a person owns an apartment. In the second alternative, a family living in an apartment which it owns is compensated by the income. The element added to the income constitutes the difference between the value of the rent for the apartment and the total current expenses on the apartment (“net rent”), and in most families owning an apartment, this difference is perceived on the plus side. In both alternatives, the calculation of the compared income for threshold expenditures also takes into account the bonus incorporated in the public housing services: a family residing in public housing (belonging to the Amidar and Amigur Housing Companies, etc.) is compensated in its income with an amount for up to the difference between rent in the free market (which is valued for an apartment according to its characteristics¹⁸) and the rent actually paid by the family.

¹⁷ M. Sabag-Endeweld and L. Ahdut, (2004), **An experimental poverty index from the perspective of expenditure in Israel**, Research paper no. 82, The Research and Planning Administration, NII.

¹⁸ Researchers estimate the “free” rent value for public apartments on the basis of information regarding characteristics of apartments (size and geographic location) as the data is received from the housing companies.

As stated above, the basket used to calculate “threshold expenditures” per family basically consists of products and services in the domains of food, clothing and shoes and housing. The median expense of a typical family for the basic basket is multiplied by two coefficients: (1) a coefficient for multiplying the median, whose value ranges between 0 and 1 and represents the concept that the standard of living of a poor family is lower than that of a median family; (2) another multiplication coefficient, which represents the value of the accompanying basket of products and essential services in the domains of education, health and transportation (not including travel for work purposes, which is already deducted from the incomes). The multiplication coefficients, which, according to the committee, should be updated once every decade, have remained at the level which was determined in the study. The multiplication coefficient of the median is 80% and 85% for Alternatives A and B respectively, and the multiplication coefficient which represents the added element for the accompanying basket of products and services, is 1.35 and 1.25 for Alternatives A and B respectively.

There is no doubt that the findings were affected by macro-economic developments and changes in social policy during the three years of the Survey, which were basically the moving average for each of the years for which the dimensions of poverty were calculated. It should be pointed out that the indices of poverty and inequality calculated relative to household income (such as the Gini and the SEN indices), were calculated on the basis of income which was defined by this approach for the purposes of the calculation, that is, income minus direct taxes and minus work-related expenses, with the addition of the in-kind transfer element which is included as part of the public housing. In addition, the element of the calculated rent is also added to the income.

In Box 2 below, the 2007-2008 findings of the dimensions of poverty are shown, based upon the two alternatives mentioned above. It should be emphasized that in accordance with the recommendations of the American committee, the poverty indices are not based upon consumption data and income of only a single year but upon a three year moving average. The findings for 2007 refer to data in household expenditure surveys for 2005-2007 (at 2007 prices), while the 2008 data refer to household expenditure surveys for 2006-2008 (at 2008 prices).¹⁹ In order to simplify matters, the data of the three years at 2007 prices shall be referred to below as “2007” and in a similar manner, as “2008”.

¹⁹ Income data from the surveys used for the analyses re 2008 were prioritized by a rise in the general index. However, the relevant expenses (as well as the income ascribed to owners of apartments) were prioritized differentially according to the relevant price index. A corresponding analysis was carried out for 2006 and 2007.

Box 2

Dimensions of Poverty According to the Expenditure Approach: Findings Updated to 2008

Based upon two calculation alternatives, the findings related to the incidence of poverty point to stability with regard to the scope of poverty among families in 2008 when compared to 2007 (Table 1). Nevertheless, based upon the two alternatives, the scope of poverty among persons and children rose (see explanation of the difference between the two approaches in Section 5 of this chapter).

The relative gap of income among the poor (relative poverty gap), which expresses the degree of range of threshold expenditures of the relevant income according to each of the calculation alternatives, reached 32% in 2008 when measure by the first calculation alternative, and 28% according to the second calculation alternative. These rates indicate a measure of stability when compared to the corresponding data in 2007 – in contrast to the minor upward trend in the incidence of poverty among poor families and persons. The Gini indices for income inequality dropped slightly (0.4% in both alternatives), and the SEN index rose by 0.6% with the first alternative, dropping by 0.2% with the second alternative.

Table 1

Incidence of Poverty Among Families, Persons and Children, 2004-2008

Alternative	2004	2005	2006	2007	2008
Alternative A: Housing using payments approach					
Families	22.6	22.6	21.2	21.2	21.4
Persons	26.2	26.6	25.4	25.3	25.6
Children*	35.0	35.8	35.0	35.1	35.4
Alternative B: Housing using credited rent approach					
Families	19.6	19.7	18.4	18.7	18.7
Persons	24.6	24.9	23.7	23.7	23.8
Children	34.0	34.8	33.9	34.2	34.3

The poverty lines stemming from the two alternatives are, in fact, the “threshold expenditures” of the families when based upon the elements of basic necessities, that is, expenditures of a family which is considered poor when there is no disposable income available to cover them. The threshold expenditures and the indices of poverty for the various family compositions, calculated according to Alternatives A and B of the calculation, are presented in Table 2.

Poverty lines calculated according to Alternative B are higher than those of Alternative A, since they include an additional element which does not exist in Alternative A, that of expenditure ascribed to housing that is owned by the residents. Therefore, in 2008, the threshold expenditure for a single person, for example, was approximately NIS 2,400 according to Alternative A – almost NIS 500 less than the threshold expenditure according to alternative B.

Table 2
Threshold Expenditure and Families Among Incidence of Poverty by Selected Family Composition – Alternatives A and B – 2007-2008

Composition of family*	2007		2008	
	Threshold expenditure, in NIS	Incidence of poverty (%)	Threshold expenditure, in NIS	Incidence of poverty (%)
Alternative A				
Single adult	2,291	21.8	2,489	22.7
Two adults	3,722	16.2	4,043	16.8
Two adults + one child	4,592	15.5	4,988	14.7
Two adults + two children	5,397	18.6	5,862	18.3
Two adults + three children	6,152	25.8	6,682	25.3
Two adults + four children	6,870	49.4	7,461	45.9
Two adults + five children	7,557	65.8	8,207	65.7
Single adult + two children	4,229	30.6	4,593	30.7
Alternative B				
Single adult	2,674	13.8	2,900	14.7
Two adults	4,344	13.2	4,711	13.5
Two adults + one child	5,359	15.5	5,813	15.2
Two adults + two children	6,297	19.1	6,831	18.2
Two adults + three children	7,179	25.5	7,787	24.7
Two adults + four children	8,017	45.4	8,696	42.9
Two adults + five children	8,818	63.7	9,565	63.3
Single adult + two children	4,935	31.1	5,353	30.9

* Despite the fact that the calculation is based upon three years of study, due to a small number of observations was not possible to calculate the data for single parent families with the exception of a single person with children, and even data for this kind of family suffers from too much fluctuation.

Just as in 2007, the 2008 income relevant for calculations carried out according to the two alternatives rose by approximately 3% in real terms, and the threshold expenditures exceeded that slightly. This is the reason that the poverty indices only rose slightly. According to the two calculation alternatives, the incidences of poverty between the two years dropped among most families. The decline in the incidence of poverty among couples with four children was conspicuous in the first calculation alternative, while in the case of the second calculation alternative, this occurred among couples with five children. The decline stemmed from an increase in work-related income among these families, rather than from an unusual increase in their expenditures.

As of this year, in addition to the poverty index from the perspective of expenditure described above, we shall publish the MBM/NRC index as well, as calculated for Israel's economy and which also finds itself situated between the two furthest points of a decisive ("absolute") and relative index. It belongs to the family of poverty indices that is based upon adequate consumption and which is used to calculate a basket that is a reasonable estimate of the acceptable minimum required for sustenance. Thus, this can help determine the sums of the benefits provided for sustenance, that is – the definitive safety net for benefits. These types of indices could also be more acceptable than other indices for following up on the extent of the success of the Government's policy implemented in its battle against poverty, since some of the policy measures consist of bonuses given to the weaker sectors as non-financial income, such as hot meals in schools, housing in subsidized apartments and discounts for medications. Benefits such as these, in addition to such benefits as private in-kind incomes, for example, residing in a self-owned apartment, are not expressed in terms of financial income and therefore, also do not affect the official poverty index, despite the fact that they improve the household's welfare. However, they do affect the indices of adequate consumption.²⁰ It should be pointed out that information regarding Government bonuses is not collected properly and it is important that the CBS designate appropriate resources to do so. A key difference between the two types of indices is the manner in which the index is updated every year. Every year, both indices receive information from current surveys – the income survey (the official index) and the expenditures survey (the adequate consumption index). Nevertheless, it is clear that in a growing economy, (external) income develops faster than consumption habits, which are the elements that impact the appropriate consumption basket.²¹ As a result of all this, differences in the level of the poverty line and the incomes relevant for each index have been created over the years. Thus, poverty indices might provide different results over the years, regarding both the level of poverty and the composition of the poverty sector (Figure 1 and Table 3).

The motivation for defining an alternative poverty index for Israel stems from a desire to create a multi-dimensional poverty index which will take into account as many factors as possible which might affect the welfare condition of a household. Firstly, this index does not only receive information about incomes but also incorporates information regarding consumption habits. Secondly, this index makes it possible to take into account the unique conditions which affect the family's welfare, such as going out to work, where it is common knowledge that this places a higher burden on a single mother or on parents of small children who go out to work than on a couple where one of the parents stays home and only one parent joins the labor market. It is therefore not surprising that the rate of the poor among families

²⁰ It is clear that in this case, it is important to take into account interest payments on mortgages, since if a young couple bought an apartment by taking out a large mortgage, the payment of the capital can be compared to a savings fund, while the interest payment can be compared to paying rent. The MBM/NRC approach takes this issue into account. See Daniel Gottlieb and Roy Manor (hereinafter GM). The article, Gottlieb, D. and Manor, R. (2005). *On the Choice of a Policy-oriented Poverty Measure: The Case of Israel 1997-2002* can be downloaded from <http://mpra.ub.uni-muenchen.de/3842>.

²¹ It should be noted that in contrast with the completely absolute index which is only updated according to price changes, the MBM/NRC index is updated every year on the basis of variable consumption habits, and this emphasizes its relative character. MBM is short of Market Basket Measure and NRC is short of National Research Council.

with two or more providers is higher when using the consumption approach than when using the official approach.

The Poverty Line

The team of American experts who formulated the principles of the NRC index in the 1995 report, as well as a team of Canadian experts who formulated the MBM index, came to fairly similar conclusions – the Americans focused upon households situated between the 30 to 35 percentile, while the Canadians determined the space between the 21 to 40 percentile as being relevant when determining the poverty line.²²

A major difference between the NRC index and the MBM index can be found in their views on food: while the NRC relates to the spending on food in a manner similar to how the rest of the basket of adequate expenses, which includes clothing, housing and various other things, is treated, that is, by using an expenses multiplication coefficient, the MBM index treats the food basket, determined according to nutrition principles, on the basis of the composition of the household based upon gender and age. The MBM team attempted to expand the method for determining the acceptable minimum for other areas of necessity as well, but it was in vain. An example of failure with regard to other products and services is the attempt to determine a clothing basket in the Winnipeg District. A public council was established in that district whose job it was to determine an adequate level of expenditure on clothing for a typical family, with the objective of adopting the conclusions of the Winnipeg Social Planning Council (Acceptable Level of Living, 1997). To the committee's surprise, the result received had, in the past, been found to be very high in comparison to clothing expenses in the expenditure survey: with the publication of the survey, it turned out that this method resulted in a normative recommendation that was even higher than the average basket of the seventh decile (!), whose standard of living was much higher than that of the poverty line.²³ The conclusion was that the determination of a basket had proved itself as far as food went, while the process for absolute determination was problematic with regard to the rest of the basket. Therefore, the present index used with regard to Israel combines the NRC and the MBM indices.²⁴ Thus, the food basket was assembled using an absolute method of essential basic needs which was based upon the MBM approach, while the rest of the items were formed in a more relative manner, based upon the NRC approach. The non-food elements of the poverty line were therefore determined to be the average of the expenditures (in the expenditures survey) of the 30-35 percentiles with regard to the housing, clothing and shoe section. In addition, various personal expenses and travel expenditure were added using a small multiplication coefficient. In the present poverty line, the average personal expenditure was

²² The NRC committee selected the 30 to 35 percentile based upon studies of the family budget (Renwick and Bergmann, 1993). Examination of the American economy proved that these expenses reflect a range of 78%-83% of the external expense. Calculations for Israel's economy for 1997-2002 yielded similar results, as described in the article of GM 2005. See also: Citro C.F and Robert T. Michael (1995). *Measuring Poverty: A New Approach*, National Research Council, National Academy Press, Washington D.C.

²³ See Hartfield M., page 4.

²⁴ The index described in the article by Gottlieb and Manor - Gottlieb, D. and Manor, R. (2005). *On the Choice of a Policy-oriented Poverty Measure: The Case of Israel 1997-2002* can be downloaded from <http://mpira.ub.uni-muenchen.de/3842>. See also Israel Central Bank Reports, Chapter 8, since 2005. See also Box 3 in this Chapter where another alternative calculation is proposed.

included for health, which, at least in part, is not covered by the health insurance. The equivalence factor (the consideration of advantages of the size of the family expenditures) is based upon the NRC approach. It should be pointed out that calculating the multiplication coefficient in the Israeli model is based on annual computations, contrary to the NRC recommendation, according to which it would be preferable for the multiplication coefficient to be based upon three-year periods.²⁵

The original idea behind the Canadian MBM index was to create an absolute index in the sense that the composition of the basket and the amounts required for consumption of “the minimum acceptable for existence” should be determined by experts. Therefore, a food basket was created that is cheap, accessible, healthy, consistent and broken down according to gender and age, based upon recommendations from nutrition experts. The results of the study, carried out by Dr. Nitzan Kloski and her team in the Ministry of Health, in cooperation with the CBS and which was based upon 2002/3 data, was used to determine the food element in the Israeli study. The results were updated and adjusted to the prices of food during the period researched. Basing the consumption basket upon the work of an expert or a researcher can, be simultaneously an advantage and a disadvantage for poverty indices of this type, since this creates a bias based upon the social concepts of those involved. Nevertheless, this also leads to uncertainty with regard to the relative half-median index relative to the determination of a level that is 50% of the median income (rather than 60 or 40%).

Sources of Income

Using the acceptable consumption approach, sources of income (used to examine “who is poor”) include financial incomes as well as in-kind incomes; that is, all known incomes. Therefore, a simplistic comparison of poverty lines is not satisfactory because although the acceptable standard of living presented through a poverty line differs from approach to approach, if the reference to sources of income is different, it is not possible to come to conclusions simply by examining the poverty line. Using the approach based upon adequate consumption, not only are the required payments deducted from the income in order to arrive at the disposable income, but more expenditures are also deducted to be able to reach the conclusion as to whether or not the income at the family’s disposal is sufficient to finance the expenditures in an adequate basket of products. These additional deductions relate to two domains – expenses for going to work and health expenses.

Expenses for going to work: according to the NRC approach, which, as stated above, is incorporated into GM’s research as well as in the present version, the cost involved when a couple goes out to work is deducted from the income when both members of the couple are working (or the reference is to working single mothers) and they have small children, in order to avoid underestimating the poverty condition of such families in comparison with families who have a financial income at a similar level and where at least one parent stays home. The reason for this is that in a family with

²⁵ This decision stems from the considerations involved in creating an index for policy purposes, since the authors feel that it is important that the index reflects the efforts of the policy in an updated manner, so that the adopters of the policy can be constantly up-to-date.

two working parents or a working single mother, travel expenses to and from work, and expenses involved in looking after small children reduce the income available for consumption.

Exceptional health expenditures: if they are higher than the average personal health expenses (which are, as stated above, included in the poverty line, some of the personal medical expenses which are considered to be essential will also reduce the income in an adequate basket that is available for consumption. It is clear that it is preferable to deduct exceptional health expenses from sources of income rather than include them in the poverty line: if such an issue is included in the poverty line because it is essential, this would increase the poverty line for the whole of the population, despite the fact that the expenditure is exceptional and only applies to a few families. The acceptable expenditures for those families, are, of course, higher, but in order to ensure that such special cases do not affect all of the families whose essential expenses should be deducted, exceptional expenditures should only be deducted for the specific families involved, thereby avoiding a downward bias of the dimensions of poverty when taking into consideration an expenditure which, in fact, is essential but rare. This was the solution initiated by the NRC Council with regard to essential medical expenditures paid by an individual. On the other hand, the American Council ignored basic health insurance, which is certainly an essential expenditure for the whole of the population.²⁶

Refinements and Improvements in the Present Study²⁷

In comparison with the previous article by Gottlieb and Manor on the subject, a number of refinements and improvements were included, made possible because of the greater amount of details present in expenditure surveys since the previous study was carried out. As a result, all of the poverty index sections were re-examined in order to remove from it some of the sections defined as non-essential. Thus, a number of sections were added which could not be identified at the time the study was prepared at the beginning of the 21st century:

Food: the main change involves calculating normative food expenditures which have been adjusted for a family in accordance to the composition of age and gender, as well as integrating this expenditure into the poverty line in accordance with the NRC approach regarding products that are not food. The change creates as many poverty lines as there are types of families from the aspect of age and gender.

Housing: only variables related to rent (including in-kind expenses) were used. If a specific household had both kind of expenditures (financial and in-kind), only the lower expenditure of the two was taken into account. In addition, the issue of an expenditure relating to “miscellaneous household needs” was added.

²⁶ It should be pointed out that this method of deducting essential medical expenditures from sources of income very much aggravates the condition of the poor, who are unable to finance necessary medical expenditures, which, in the end, is expressed in their shorter life spans.

²⁷ The calculations are based upon an in-progress study by the Research and Planning Administration of the NII. When it is finalized, it may contain additional changes as to the manner of calculation and if so, the findings for the years presented in this Chapter will be changed.

Health: the expenditure for maintaining relatives in private old-age homes was eliminated.

Public transport: region or cities were itemized geographically: the Dan Bloc, Jerusalem, Haifa, Beersheba and Ashdod, while the rest of the regions were defined as periphery. The costs were determined according to the average expenditure for public transport in households where there is no vehicle. Thus, for example, in Jerusalem, the amount received was equivalent to the cost of the monthly use of busses, based upon the cost of a monthly bus card. The expenditure item for households in Beersheba is larger, apparently because of the need to use the train for inter-city travel. This item ranges from NIS 117 in the periphery to NIS 235 in Beersheba.

Education: this section includes all education services. Previously, the section had included only some of the items. Nevertheless, it was found that there is no noticeable gap between the averages of these two versions.

Expenses for maintaining and improving the residence: this section was removed from the calculations of the poverty line, since among owners, this section included renovations while among renters, it can be assumed that the expenditure is refunded to the renter or covered by the owner.

Sources of income: in order to estimate the section on alimony more precisely, the section of “gifts and others” was removed from “transfers from other households”.

The multiplication coefficient: the variable of expenditure for a vehicle was eliminated since it was found that the section contained, for example, the purchase price of a motorcycle in the same section containing “car insurance expenditures”.²⁸

²⁸ The result was that these changes reduced dimensions of poverty in comparison with the calculation in GM’s original study (Bank of Israel Annual Report). Another dissimilarity with the Bank of Israel index stems from the fact that in the past, the Bank of Israel had decided to present the MBM/NRC index without relating to GM’s recommendation with regard to health expenditures.

Box 3

**Measuring poverty according to an adequate consumption basket:
the MNM/NRC approach**

According to the MBM/NRC, whose principles are outlined in Section 5 of this chapter, the poverty line for an consumption index is linked to the concept of the minimum required for adequate living expenditures and can be used to determine the level of the living allowances for different family compositions. Table 1 presents a comparison between the support provided by the welfare system and the minimum required for acceptable living as represented in the income support index. The support includes income support benefits and income supplements, as well as child allowances in relevant cases. Table 1 points to a clear formula: benefits to the older age cover at least approximately 85% of the minimum required for acceptable living and the highest value of coverage is to single elderly persons who are 80 years of age or older. The standard represented in the benefits to elderly couples who are 80 years of age and older is higher as well.

The situation is also quite satisfactory in households where the head of the household is 55 years of age or older. For a single person, the coverage rate is approximately 74%; it decreases for a couple and for a couple with a child, but remains over half. In families where the head of the household is younger than 55, the more children there are in the household, the more difficult the situation becomes. The level of coverage drops sharply, and in the case of a couple with five children, it reaches 35% of the minimally acceptable standard of living. The upper section of the table points out that in families with many children, the living benefits, including child allowances, have indeed increased, but at a slower rate in comparison with the minimum, as understood by the acceptable minimum. The problem increases exponentially as the number of children in the family rises.

Table 1

Indicator for Minimum Required for Decent Living in Different Household

**Compositions and the Comparison to Pensions from the Welfare System
(2008 prices)**

Age of household head	Groups of income support and child allowance (income supplement in case of pension age on)			
Composition of family	Until 55	From 55 to pension age	From tension age to 80	80 years old*
Adult	1,595	1,994	2,586	2,739
Adult + child	2,837	3,389	4,097	4,324
Adult + 2 children	3,440	4,352	4,960	5,185
Two adults	2,193	2,991	3,836	4,062
Two adults + one child	2,558	3,634	4,698	4,924
Two adults + two children	3,002	4,278	5,560	5,785
Two adults + three children	3,337	4,613	5,560	5,785
Two adults + four children	3,705	4,981	5,560	5,785
Two adults + five children	3,870	5,146	5,560	5,785
Average of parts of pensions at the poverty line (percentages)*				
Adult	57.5	74.0	96.7	102.3
Adult + child	67.1	**_	-	-
Adult + 2 children	60.9	-	-	-
Two adults	46.3	64.7	83.2	88.1
Two adults + one child	43.7	59.1	-	-
Two adults + two children	41.8	-	-	-
Two adults + three children	39.3	-	-	-
Two adults + four children	38.2	-	-	-
Two adults + five children	35.2	-	-	-

* In all case, the size of the authoritative profit at the significant level of 95% does not exceed 1.5 percentage points.

** Not presented due to lack of observance in the sample.

At the end of the 1990's, the official poverty line consisted of half of the adequate consumption, while during the

under review, the poverty lines drew closer so that in 2008, it consisted of approximately 55% of the adequate consumption (Figure 3). The significance of this is that the starting point for the poverty line in 1997 was significantly higher than the official line, but its development was slower. One cannot talk about the gap between the poverty lines without considering the sources of income that are the subject of the following section, but the fact that the development of the poverty line based upon adequate consumption is slower through time than the official line is very significant.

This stems from the fact that consumption develops slower than income, so that a family tends not to change its consumption habits (that is, its current standard of living) whenever there is a change in income. Moreover, according to economic theory, we would expect that a family would be inclined to increase its savings whenever there is a real increase in its income.

In Table 2, the results of a comparison between net financial incomes and net incomes from all sources shows that the financial income particularly impacts the weaker sectors, that is, it raises the level of the financial disposable income of the lower deciles of the income distribution by more than half. The income of the lower decile is doubled and that of the second decile is increased by approximately $\frac{3}{4}$. The effect keeps dropping and after the median, the income grows by less than half. The significance of this is that this income is critical for evaluating the welfare condition of households.

A comparison between Table 2 and Figure 3 points to the fact that most households situated in the first two deciles are below the poverty line. This can also be seen in Figure 2 below.

Table 2

**Sources of Financial Income Including Income In-kind, Less Essential Expenditures*
(working outside of the house and health)**

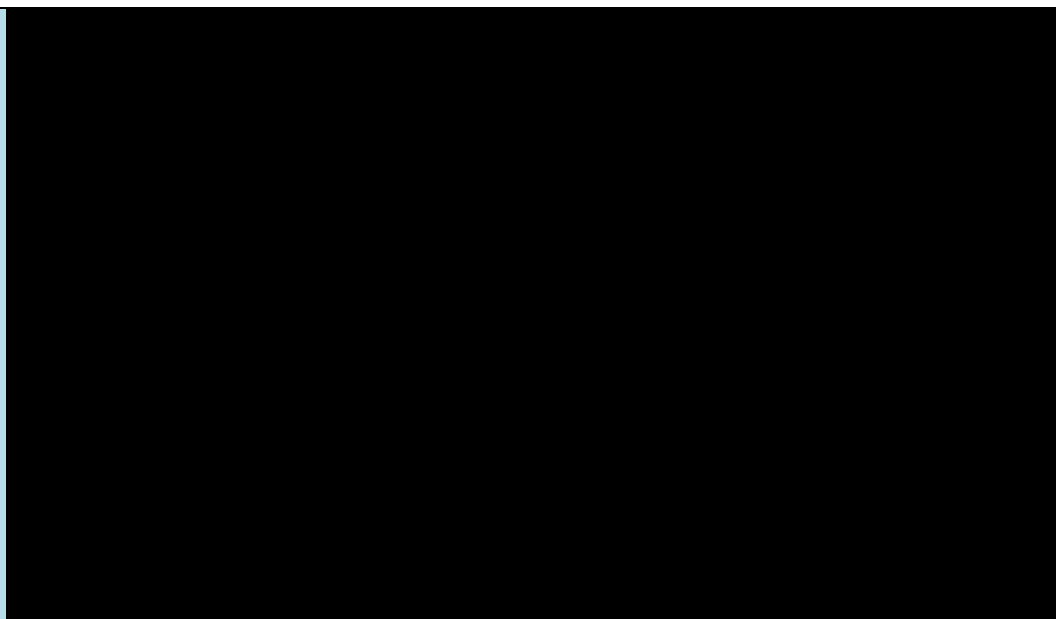
Deciles**	Disposable financial income per standard person	Disposable income from all sources MBM/NRC per standard person	The difference in percentages
Total	4,608	6,805	48
Bottom	975	2,038	109
2	1,637	2,856	74
3	2,152	3,465	61
35 th percentile	2,560	4,029	57
4	2,720	4,212	55
5	3,378	5,106	51
6	4,067	6,018	48
7	4,824	7,089	47
8	5,759	8,310	44
9	7,294	10,526	44
Top	12,573	17,484	39

*

The essential expenditures are expenses of working couples with small children for working out of the house, expenses for travel back, as well as higher than usual medical expenses.

**

The families in each column were classed according to disposable financial income per person in each decile.



It is interesting to point out that according to the MBM index, the incidence of poverty peaked in 2003, an outcome which was consistent with policy actions in the domain of welfare during 2002 and 2003, and which was very detrimental to the weaker sectors at the time. The peak of damage caused with regard to the severity of poverty occurred one year later. From 2005 to 2007, a sharp improvement took place. Compared to these, the official approach points to a later peak in incidence. In this case as well, there was an acute change in severity – it stops at a high level and does not improve thereafter. In 2008, it is possible to see that according to the MBM index, there was a slight rise in the incidence of poverty among persons compared to the stability apparent in the official index. Moreover, there is also an increase in the severity of poverty according to the adequate consumption index, but according to the half median approach, there has been no change in trend in recent years. This apparently stems from the fact that the reaction of the official index makes itself felt. This can be seen from the findings of the expenditures survey of 2008/09 (see Box 1).

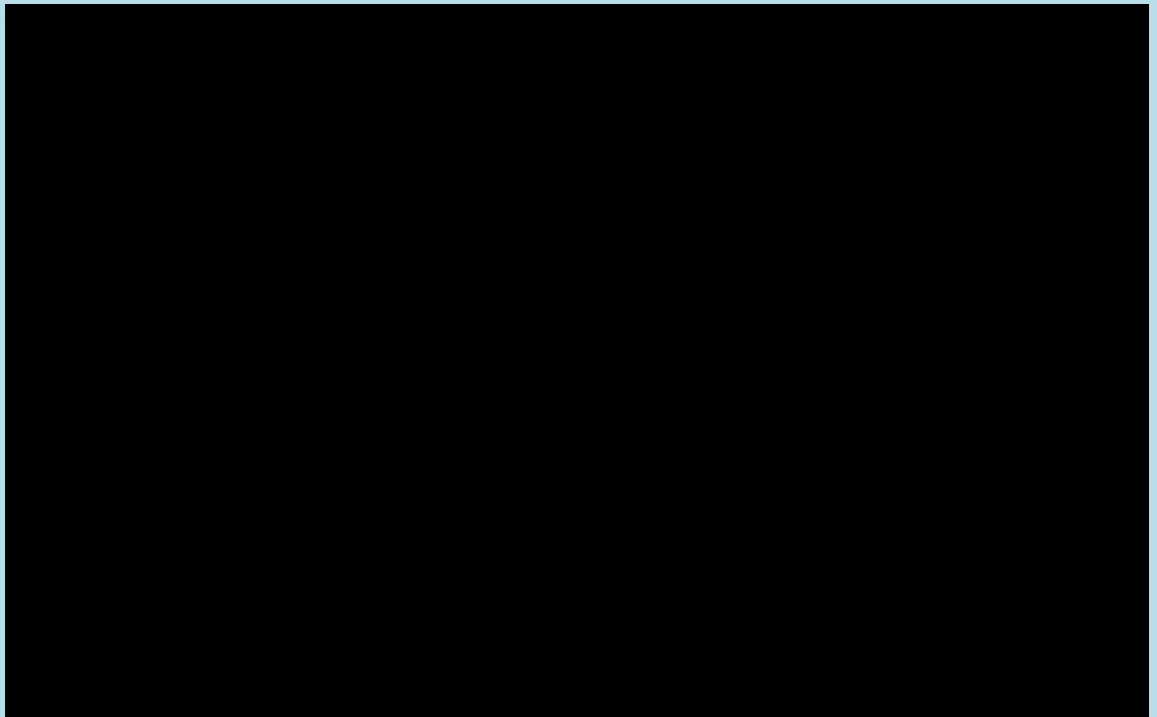
2. Composition of the poor population

There is no conflict between the approaches with regard to 1.4 million out of 1.6 million poor persons (87%), this being based upon NII data. Based upon the criteria as the consumption index, then approximately 207,000 of the poor are not included. However, there are more persons (approximately 388,000) who are considered poor according to the consumption index but not according to the NII index. Therefore, there are differences of opinion with regard to approximately 281,000 persons, constituting approximately 8.5% of the whole population. This is an indication that it is necessary to find better means of identifying the poor in order to better utilize the resources allocated for the battle against poverty.

Table 3

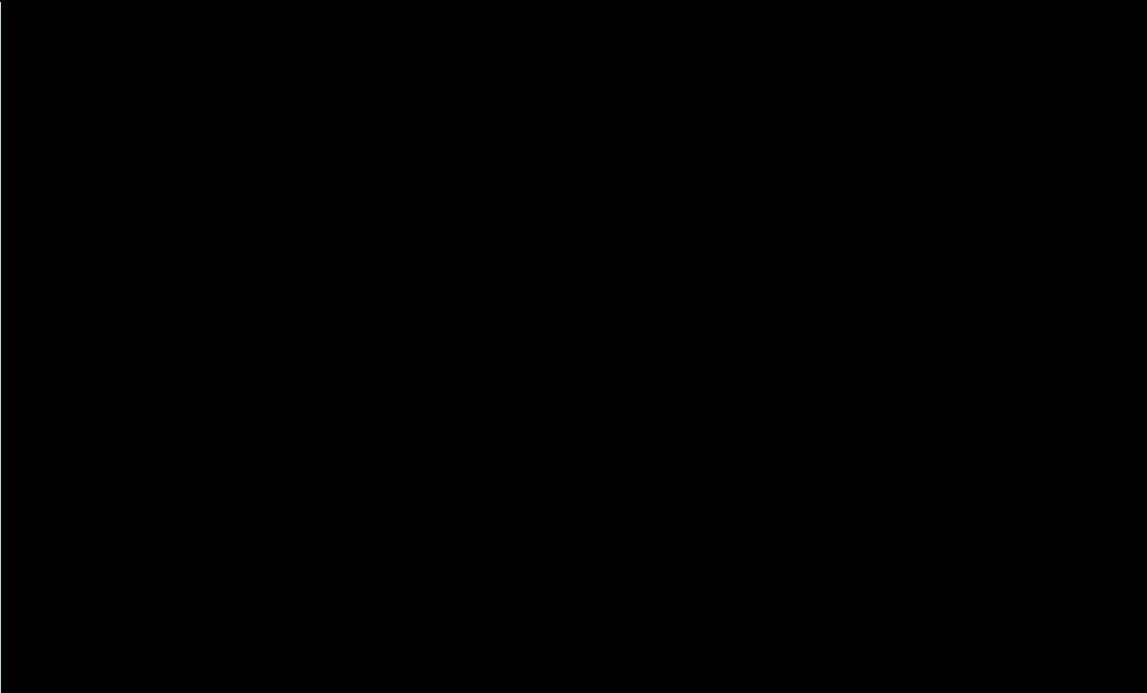
Composition of Poor Population by Various Approaches

		Not poor semi- median	Poor semi- median	Total
Not poor MBM	Number of persons	4,965,655	206,886	5,172,542
	Percentage of the total population	71.1	3.0	74.0
Poor - MBM	Number of persons	388,416	1,426,144	1,814,560
	Percentage of the total population	5.6	20.4	26.0
TOTAL	Number of persons	5,354,071	1,633,031	6,987,102
	Percentage of the total population	76.6	23.4	100.0









The development in the population sectors also differed between the two approaches: in 2008, the incidence of poverty based upon consumption in the Arab sector came to approximately 53% compared to approximately 50% incidence based upon half of the median. Among the ultra-Orthodox,³⁰ the incidence of poverty is approximately 70% according to the consumption approach and 61% according to the official measurement. The real difference in assessing poverty is among new immigrants who arrived after 1990. Based upon the consumption approach, these new immigrants are poorer than the veterans, apparently because of the lower rate of apartment ownership among them than among the veterans.

In summary, it is possible to establish that according to the consumption approach that is described, the peak of poverty in the most part, was earlier and the period that followed points to a significant and steady improvement until 2007, after which there was a slight increase was perceived.

6. Inequality in Income Distribution and the Impact of Policy Measures

The progressive structure of transfer payments and direct taxes narrows the income gaps in the population. The rate of the transfer payments relative to economic income decreases in proportion with the increase in economic income, while the rate of direct

³⁰ The identification of the ultra-Orthodox population here is based upon Gottlieb D. & Kushnir L. (2009). *Social Policy Targeting and Binary Information Transfer between Surveys*. Ben Gurion University, CONSIST Ltd., Vol. 3, 2009-29. June 11, 2009. <http://www.economics-ejournal.org/economics/journalarticles/2009-28>.

taxes increases in proportion with the increase in economic income. The higher the progressive increase in transfer payments and direct taxes, the larger the lower deciles' portion of income as income received via transfer payments and direct taxes, and the smaller the upper deciles' share of the income.

Table 13 shows the average changes in income, in benefits and in taxes per family during the period covered by the Survey. During the period between 2003 and 2008, economic income increased at a rate of 14.8% and disposable income rose by an even higher rate, 16.2%. The growth in economic income is the result of the expansion of employment and the real increase in salaries during 2003-2007, which came to a halt in 2008. The even higher growth in disposable income relative to economic income stems from two opposite influences, where one overcame the other: on the one hand, transfer payments declined at a real rate of approximately 6% and on the other, direct taxes also decreased at a rate of 5% as a result of the tax reform. Since, on the average, a reduction in taxes has a greater impact on disposable income than transfer payments, it is understandable that between 2003 and 2008, disposable income rose at a slightly higher rate than economic income.

Table 14

**Average Income, Benefits and Taxes per Family
(NIS per month, at 2007 prices) 2003-2008**

	2003	2004	2005	2006	2007	2008	2008 compared to 2003
Economic income	10,170	10,490	10,830	11,250	11,820	11,680	14.8
Total transfer payments	1,780	1,720	1,720	1,730	1,710	1,670	-6.2
NII benefits	1,360	1,290	1,250	1,260	1,250	1,230	-9.6
Direct taxes	2,500	2,460	2,410	2,390	2,580	2,370	-5.2
Disposable income	9,440	9,750	10,140	10,590	10,950	10,970	16.2

Table 14 shows the average amounts of transfer payments and direct taxes as a percentage of the average economic income of a family in each decile, and Table 15 presents the share of each decile (ranked according to economic income) for all transfer payments and direct taxes for 2006, 2007 and 2008.

The table shows that transfer payments and direct taxes continued to decrease in 2008 compared to economic income. However, compared to 2007, the changes regarding transfer payments were negligible: from 14.4% to 14.3% of the total economic income

between 2007 and 2008. Nevertheless, in comparison with 2006, they decreased significantly – approximately one percentage point less in the total population, where the four lowest deciles represent the largest decline in transfer payments out of the total economic income. At the same time, the tax load between 2007 and 2008 decreased from 21.9% to 20.3% of the economic income between the two years and at variable levels in all of the deciles. This decrease is characteristic for all of the years since 2003 (with the exception of 2007) and it stems from a reduction in tax rates as part of the multi-year income tax reform framework.

Table 15

Rates of Transfer Payments and Direct Taxes Relative to the Average Economic Income in Each Decile*, Total Population (percentages), 2006-2008

Decile	Rate relative to the average economic income					
	Transfer payments			Direct taxes		
	2006	2007	2008	2006	2007	2008
Bottom	**_	**_	**_	**_	**_	**_
2	246.2	213.0	183.3	18.8	16.1	15.2
3	52.4	49.3	47.7	9.1	9.2	8.7
4	39.4	32.1	32.5	9.9	10.0	9.2
5	23.2	21.6	20.6	10.9	10.9	10.2
6	15.7	14.2	14.2	11.8	11.9	10.9
7	11.5	9.4	9.8	13.3	14.1	12.6
8	6.7	6.4	6.1	17.0	17.6	15.7
9	4.2	3.9	4.4	21.3	22.1	20.3
Top	1.9	1.9	1.7	30.2	31.5	29.9
Total	15.3	14.4	14.3	21.2	21.9	20.3

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

** This relativity cannot be computed, since families in the lowest decile have almost no economic income, and their only sources of income are transfer payments.

Table 15 shows that when ranking deciles by economic income, the lowest until the sixth deciles received transfer payments that are higher than their total direct tax payments. The seventh decile reached an even balance and starting with the eighth decile, the ratio was reversed: the top decile paid more than half of the taxes and received approximately 5% of the transfer payments. Table 16 shows the distribution of different types of

income in the whole populations for 2006-2008.³¹ From the data presented in the table, one can see that between 2007 and 2008, the two years under comparison, there were no real changes in the distribution of disposable income between the deciles, and the ratio between the income of the lower and the upper quintiles even pointed to a slight increase, from 8.0% to 8.1%, between the two years, comparable to the Gini inequality index, which also showed a slight increase in the distribution of disposable income for those years.

Table 16

Share of Each Decile* of Total Population in Total Transfer Payments and Direct Taxes (percentages), 2006-2008

Decile	Total share (percentages)					
	Transfer payments			Direct taxes		
	2006	2007	2008	2006	2007	2008
Bottom	24.5	24.8	25.9	0.9	0.8	0.9
2	16.0	17.2	15.9	0.9	0.9	0.9
3	8.9	9.4	9.3	1.1	1.2	1.2
4	10.7	9.7	9.8	1.9	2.0	2.0
5	9.0	9.0	8.7	3.1	3.0	3.0
6	8.0	7.8	7.8	4.4	4.3	4.2
7	7.6	6.6	7.0	6.3	6.6	6.4
8	5.8	5.8	5.7	10.6	10.6	10.2
9	5.0	4.9	5.6	18.3	18.4	18.1
Top	4.6	4.8	4.2	52.5	52.3	53.1
Total	100.0	100.0	100.0	100.0	100.0	100.0

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

The contribution of transfer payments and direct taxes to reducing inequality stemming from the distribution of economic income dropped slightly, from 25.4% in 2007 to 24.7% in 2008, and it dropped by approximately 6 percentile points relative to 2002, when the rate was 31.5%.

³¹ The data on inequality in the distribution of incomes among the working population is presented in Tables 18-19 in the Appendix regarding poverty and inequality tables.

Table 17

**Impact of Transfer Payments and Direct Taxes upon Inequality in Income
Distribution in Total Population (percentages) 2006-2008**

Decile*	Share of each decile in the total income (%)**								
	Prior to transfer payments and taxes			After transfer payments			After transfer payments and taxes		
	2006	2007	2008	2006	2007	2008	2006	2007	2008
Bottom	0.0	0.0	0.0	1.7	1.7	1.7	1.9	1.9	1.9
2	1.1	1.3	1.4	2.9	3.0	3.1	3.4	3.5	3.5
3	2.9	3.0	3.1	4.0	4.1	4.1	4.5	4.7	4.6
4	4.4	4.6	4.6	5.2	5.3	5.3	5.8	6.0	6.0
5	6.2	6.3	6.3	6.6	6.7	6.7	7.3	7.4	7.4
6	8.1	8.1	8.1	8.2	8.2	8.3	8.9	9.0	9.0
7	10.3	10.4	10.4	10.1	10.1	10.1	10.8	10.8	10.8
8	13.4	13.4	13.3	12.7	12.7	12.7	13.0	13.1	13.1
9	18.2	18.2	18.1	16.8	16.8	16.8	16.3	16.3	16.5
Top	35.5	34.8	34.8	31.8	31.4	31.4	28.0	27.2	27.3
Ratio before income of top and bottom quintiles	49.2	41.5	38.9	10.5	10.3	10.2	8.3	8.0	8.1

* Families in each row were ranked according to level of income corresponding to a standard person. Each decile represents 10% of persons in the population.

** In terms of income per standard person.

Table 18

Gini Indices of Inequality in Income Distribution in the Population, 1999-2008

Year	Before transfer payments and direct taxes	After transfer payments only	After transfer payments and direct taxes	% of the decline stemming from transfer payments and taxes
2008	0.5118	0.4318	0.3853	24.7
2007	0.5134	0.4323	0.3831	25.4
2006	0.5237	0.4379	0.3923	25.1
2005	0.5225	0.4343	0.3878	25.8
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
Change in the index (%)				
2007 vs. 2008	0.3-	0.1-	0.6	
2002 vs. 2008	4.7-	0.1	4.7	
1999 vs. 2008	1.0-	2.5	7.2	