

Chapter 2 | Poverty and Social Gaps

1. Introduction¹

This chapter focuses on issues relevant to poverty and inequality with the aim of deepening our understanding of the phenomena of poverty and social gaps. The current reporting on poverty and social gaps is presented below in section 3 in order to prevent redundancies between the Annual Report on Poverty and Social Gaps and the chapter on poverty in the Annual Survey.

This year, we are focusing on two topics: one is the issue of poverty among working households (section 4), which addresses, inter alia, the correlation between poverty among working families and the realization of their employment potential, with a spotlight on single mothers, while the second topic is the efficacy of raising the minimum wage as ammunition in the battle against poverty and inequality. Additional topics discussed are the issue of the dispersion of households around the poverty line, which emphasizes the distribution of the population under the poverty line according to families living in extreme poverty and that middle stratum existing at and just above the poverty line who are living at risk of sinking into poverty. We will also examine poverty according to population groups and regions, and we will discuss to what extent subsistence benefits suffice to cover the minimum that allows people to live in dignity as reflected in the official poverty line. In the last part of this chapter, we will analyze the impact of the taxation and benefit policies on the incidence of poverty and on the Gini Inequality Index.

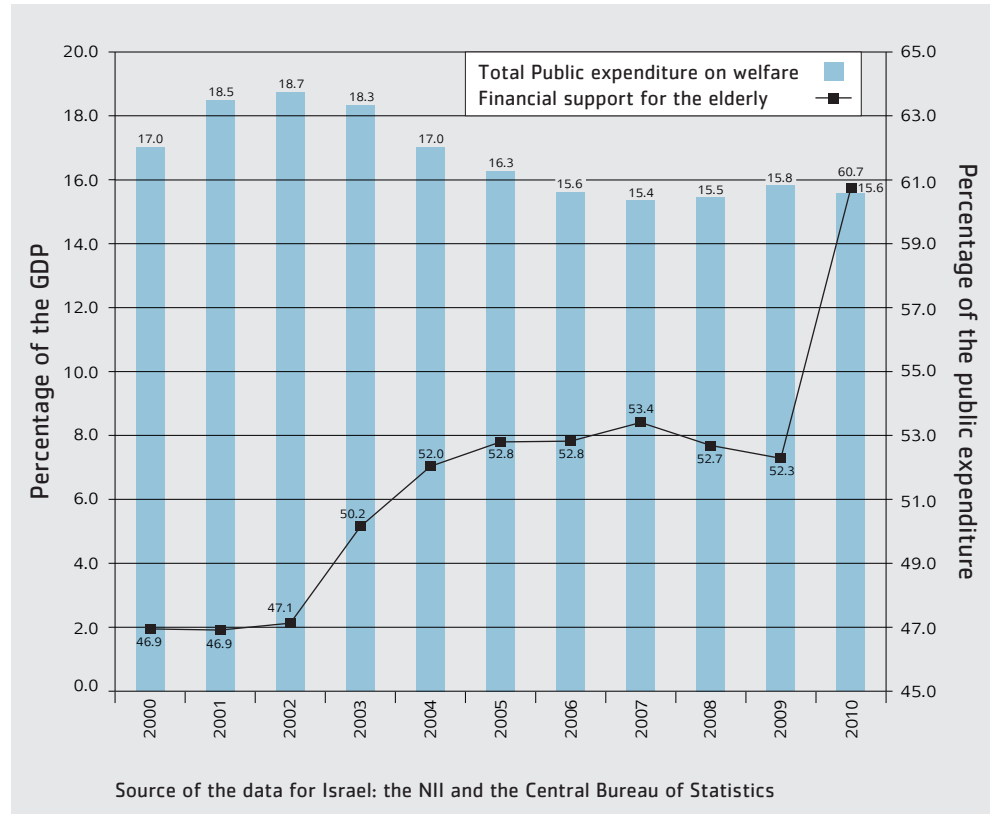
2. Development of the public expenditure 2000 – 2010

Between 2002 and 2004, the total public expenditure in Israel declined by approximately 3% of the GDP, years in which a policy of cutbacks in public expenditures was enforced. Since then, the public expenditure has stabilized at around 15% to 16% of the GDP. During this period, that portion of the expenditure allocated to assisting the elderly has been steadily increased. The majority of the increase in the extent of the support to the elderly derives from improvement to the old-age pension. A smaller portion of the increase in financial support channeled to the elderly derives from the improvement in the Israeli economy that began in 2010, which reduced the need to provide support to the needy of working age, primarily by way of unemployment benefits and income support, while recognizing, of course, the meager support that is being provided anyway to the needy of working age (Table 25 in the Poverty Appendix).

Between 2002 and 2004, total public expenditure in Israel declined by 3% of the GDP, and since then, it has stabilized at 15% to 16% of the GDP

1 In the past, this chapter presented a report on poverty and other analyses. Since 2007, the report on poverty has been published in an expanded and more in-depth version and on an earlier date, shortly after the Israeli Central Bureau of Statistics releases its income survey data.

Graph 1
Public Expenditure on Welfare, as a Percentage
of the GDP, 2000–2010



3. Development of poverty in 2009 and during the first half of 2010

Poverty among families reached 20.5%, with substantial differences between Jews and Arabs

The dimensions of poverty in Israel are palpable, both generally and when examining population groups (Table 1). The incidence of poverty among all families in Israel has reached the level of 20.5%, with substantial differences between Jews and Arabs (15.2% versus 53.5%, respectively). The average income gap from the poverty line has reached 35.5% among the entire population and, among families with children – 36.5%.

In 2010, there was a positive turn in economic activity, following the economic slump that had characterized the end of 2008 and part of 2009.

The upswing in the level of economic activity also affected the development of poverty: according to half-year data, the ratio of poor individuals began to stabilize at a

Table 1
Poverty among Families and the Income Gap Ratio, by Population Group (percentages), 2008 and 2009

Population group	Income after transfer payments and taxes		Income gap ratio	
	2008	2009	2008	2009
Total population	19.9	20.5	34.2	35.5
Jews	15.3	15.2	32.8	33.1
Arabs	49.4	53.5	36.0	38.3
Elderly*	22.7	20.1	23.0	24.8
New immigrants	18.0	17.4	29.4	26.4
Ultra-orthodox Jews**	54.9	56.9	37.8	37.8
Families with children – total	24.5	26.8	35.4	36.5
1-3 children	17.8	20.2	33.9	34.7
4 and more children	57.8	59.9	36.7	38.1
5 and more children	68.6	69.4	37.1	39.0
Single-parent families	28.8	32.3	36.9	35.3
Work status of head of household				
Working	12.2	13.4	26.9	28.4
Employee	12.2	13.5	26.5	28.0
Self-employed	12.7	12.5	29.7	31.3
Not working while of working age	71.4	68.9	50.9	52.3
One wage-earner	23.0	24.9	28.0	29.7
Two and more wage-earners	3.0	3.7	20.6	21.7
Age of head of household				
Up to 30	24.4	26.1	35.4	35.8
31-45	20.7	22.7	33.9	36.1
46 to retirement age	14.5	14.5	39.0	38.3
Statutory retirement age***	23.1	20.7	21.4	23.0
Education of head of household				
Up to 8 years of education	44.6	42.0	35.9	38.4
9-12 years of education	22.1	24.2	33.9	35.2
13 and more years of education	12.8	13.0	33.5	34.2

* According to the definition that had been in effect to date: as of age 60 for a woman and age 65 for a man.

** Due to fluctuations, a two-year moving average is presented. The term “ultra-orthodox Jews” is as defined in the Gottlieb-Kushnir study (2009).

*** The definition was adjusted to the work retirement age under the Retirement Age Law. Therefore, this population is not standardized until the process of raising the retirement age has been completed.

high level during the second half of 2009. When economic activity began to accelerate during the first half of 2010, this ratio slightly declined.²

2 At the time this survey is being prepared, we have annual data up to 2009 and half-year data through the first half of 2010. A detailed analysis of these data was published in the report of “the Dimensions of Poverty – 2009” and in the document “Trends in the Development of Poverty and the Standard of Living during the First Half of 2010.” Both of these reports may be downloaded from the NII’s website: www.btl.gov.il.

The data on economic growth in Israel indicate an inverse correlation between economic growth and poverty

The data on economic growth in Israel indicate an inverse correlation between economic growth and poverty. In other words, periods of economic growth are accompanied by a decrease in the percentage of the poor, or by stabilization or moderation of the change therein. This correlation can be seen in Graphs 2 and 3 of the half-year data, according to the official data (year-end data) and according to the mid-year data.³ Thus, for example, a decrease in the inception of general poverty began in 2005 and persisted through the first half of 2008, when a surge in economic growth began (Table 1). On the other hand, the outbreak of recession during the second half of 2008 triggered a sharp rise in the percentage of the poor.⁴

The aforesaid inverse correlation between economic growth and poverty (and inequality) according to income is quite obvious, but what is surprising is that the correlation between growth and the performance of the social indices is so weak. This weak correlation is a phenomenon observed in other countries as well: in the European Union, for example, they reached the conclusion a long time ago that it is important to explicitly include the concept of “inclusive growth”⁵ in the social targets; i.e., a policy tool that enables the correlation between growth and socio-economic distress to be strengthened so that weaker strata in society can share in economic success through increasing their participation in the work force at a fair wage. Such targets must be achieved by making it worthwhile to work, for example, by tax benefits, subsidies, recognition of the expenses of joining the work force for tax purposes and more. As an OECD report shows, Israel invests only about one sixth in pro-active policies in its weak labor market compared with investments by other OECD countries.

Additional policy measures are necessary to strengthen the impact of economic growth on poor populations

Although Graphs 2 and 3 indicate that economic growth has a favorable impact on the dimensions of poverty, that impact is minor. Additional policy measures are necessary and to a degree that will suffice to strengthen the impact of economic growth on poor populations. Economic growth potentially constitutes an important mechanism for achieving a sustainable reduction of poverty and inequality, since it can be used to increase employment and improve the wages of the poor. As long as this mechanism is not appropriately used, government policy is missing the mark. Customary ways to

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3 Both series of data are produced by the Central Bureau of Statistics. The NII’s official report on poverty (with year-end data) is based on calendric data.

4 The poverty indices in Israel are based on a relative approach, whereby poverty is seen as a phenomenon of distress that should be evaluated relative to the characteristic standard of living in Israel. 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 the reports on poverty and social gaps and in this chapter of the survey are based on annual income and expense surveys published regularly by the Central Bureau of Statistics. For details and additional information on the measurement methodology and the sources of the data, see “Measurement of Poverty and Sources of Data” in this publication.

5 This term is similar to the term “pro-poor growth,” which is used, for example by the World Bank. See for example, the Kakwani and Pernia paper in this regard at <http://www.adb.org/poverty/forum/pdf/ProPoor.pdf>.

improve the impact of growth on poverty are, inter alia, a fair minimum wage, effective enforcement of the minimum wage by allocating adequate resources to the Ministry of Industry, Trade and Labor, and by re-instituting employment incentive programs. It is important that such a program will enable a customer seeking work to choose the operator by himself, so that competition between operators is created. The pool of operators should be expanded to include a unit supported by professionals from the Employment Service, nonprofit organizations or “social businesses,” alongside private placement businesses, similar to the format used in the “Prospects for Employment” program. The implementation of negative income tax at a more significant level than the current level needs to constitute a key component of a pro-active program for increasing employment.⁶

Graph 3 shows that the trend of **the changes** (in percentage points) in the incidence of poverty is quite similar between both series of data, and therefore, it is reasonable to expect that the year-end data on the incidence of poverty during the first half of 2010 will be downward adjusted.

This development corresponds well with the development in the labor market, as expressed in the decrease in the unemployment rate: this conclusion is drawn from the low level of unemployment during the third quarter of 2008 (below 6%) versus nearly 8% during the second quarter of 2009 (seasonally adjusted data), which began a steady decline again and stabilized at around the level of 6% until the end of 2010 and the beginning of 2011. At the same time, some erosion of the real minimum wage began: the rise in prices eroded the minimum wage from 2008- 2010 by about 6%. The increase of the old-age pensions and their current updating prevented them from becoming eroded, and even enabled them to be increased in real terms by 1%-2%.

The intensity of poverty, as measured by the FGT Index,⁷ increased during the recent period, mainly among Arabs and large families, and is nearly twice as high as

The impact of growth on poverty can be improved by a fair minimum wage, effective enforcement of the minimum wage and by re-instituting employment incentive programs

The rise in prices eroded the minimum wage from 2008 to 2010 by 6%

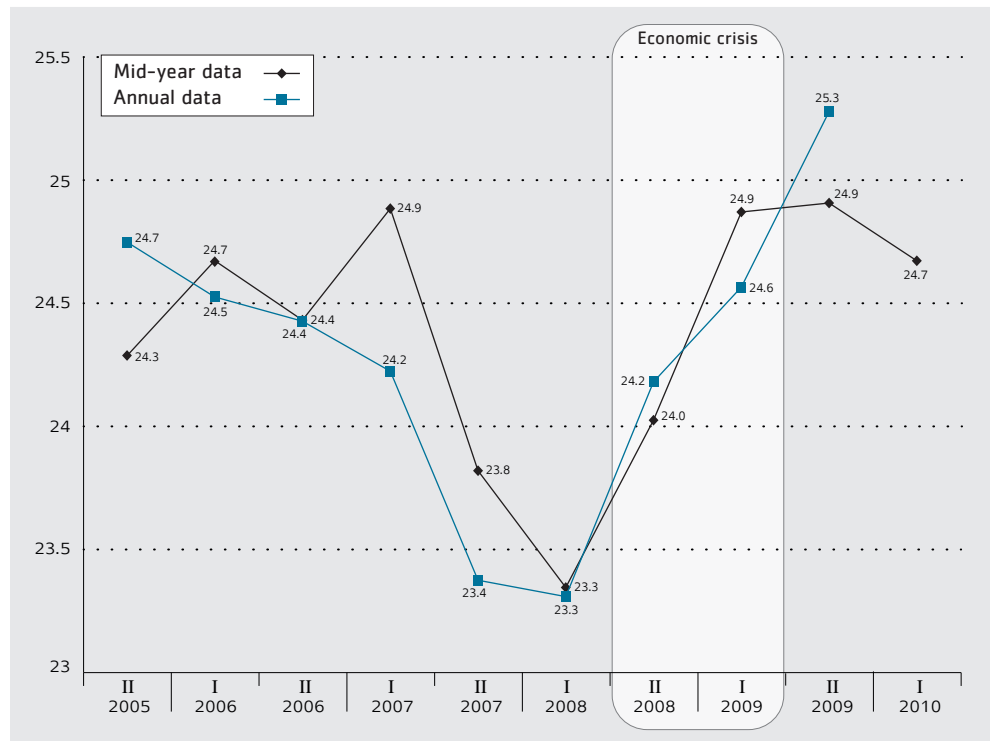
6 See discussion in the NII's Annual Survey of 2009, pp. 32-44, particularly p. 38.

7 The FGT Index was developed by Foster, Greer and Thorbecke (Econometrica, 1984) and, in recent years, has become the most accepted index for expressing the intensity of poverty. This index combines the incidence of poverty with the income gap in a special way, giving greater significance to the aggregate, the wider the income gap of families becomes. The FGT index accepts values of between 0 (when the aggregate income gap from the poverty line is at the minimum) and 1 (when the aggregate income gap from the poverty line is at the maximum). The index is calculated according to the following formula:

$$1/n * \sum ((z_i - y_i) / z_i)^2$$

where z_i is poverty-line income, y_i is the income of a poor family (i.e., under the poverty line), and n is the total population. According to the professional journals, this index is preferred over measuring poverty according to the inception of poverty, since it meets important theoretic criteria needed from the dimensions of poverty. One important criterion for example, is the “transfer criterion,” whereby a proper poverty index should indicate improvement if a sum of money is transferred from a rich family to a poor family. Since the inception of poverty is not sensitive to the intensity of poverty, it does not meet this criterion, while the FGT Index does, which theoretically, makes it a preferred criterion.

Graph 2
Mid-year Incidence of Poverty, by Annual Report and
Mid-year Report, 2005–2010

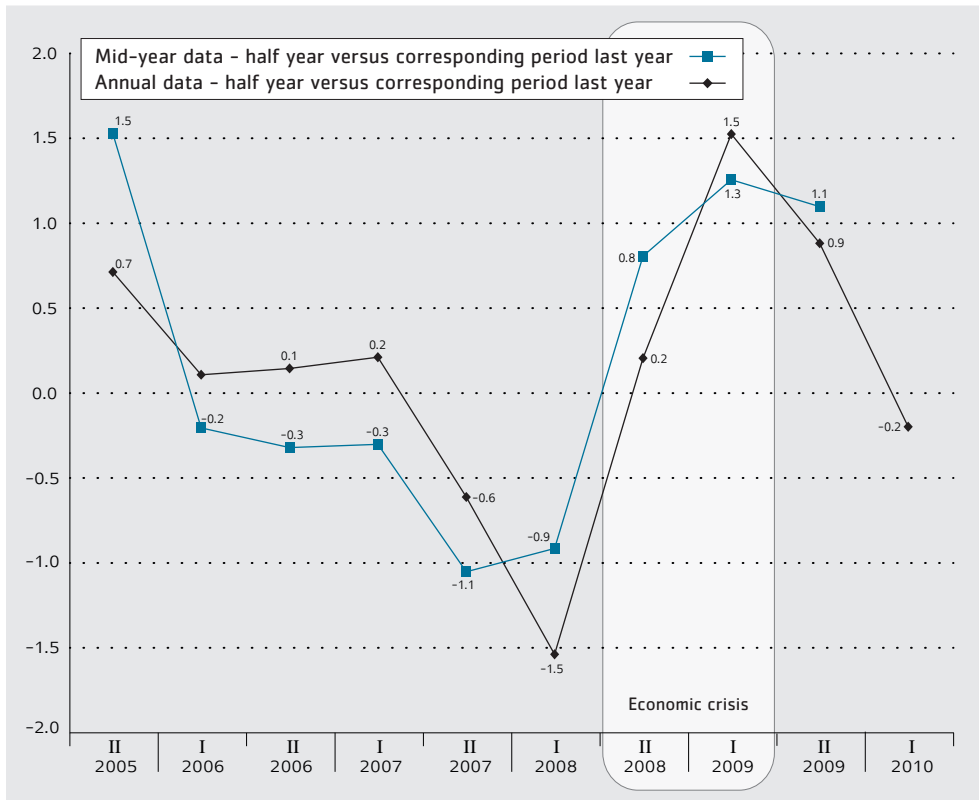


that of the general population (Graph 4). While the intensity of the general poverty has risen recently, some moderation in the intensity of poverty has been observed in these two groups. On the other hand, the intensity of poverty has risen steadily and significantly recently among single-parent families, as well as among families with 1 – 3 children. Among the elderly and the working population, the intensity of poverty is not particularly high, while among the elderly, it has even been alleviated somewhat during the recent period.

Estimated inception of poverty in 2010

The sinking of the economy into a recession and the subsequent rise in unemployment from the end of 2008 until mid 2009 was accompanied by a rise in the inception of poverty, while the renewed growth in 2009 and at the beginning of 2010 and the subsequent drop in the unemployment rate indicate a chance for a favorable turnaround in the inception of poverty as well. The slight decline in the inception of poverty during the first half of 2010, after having stabilized during the second half of 2009 (according to mid-year data), reinforces the assessment published in the last report on the dimensions of poverty: that the rise in the inception of poverty during 2009 had been temporary.

Graph 3
Change in the Incidence of Poverty (Persons, Half-Year Data Compared with the Corresponding Period Last Year, 2005–2010)



The steady drop in the unemployment rate from 7.6% in 2009 to 6.6% in 2010, and its stabilizing at a lower level during the second half of 2010 and at the beginning of 2011, coupled with the continuing expansion of the economy and the real rise in the average wage – albeit, only by about 0.9% – increase the chances that the inception of poverty will continue to decrease in 2010 compared with 2009.

During 2010, the minimum wage was eroded – from 47.3% of the average wage in 2009 to 45.7% of the average wage, which adversely affects poverty and inequality among working families during this period.⁸ The percentage of recipients of unemployment benefits (from among total unemployed persons, according to data from the Central Bureau of Statistics), also decreased, from 31.8% to 28.1%. Therefore, these factors adversely affected the chances of a continuing reduction in the inception of poverty also during the second half of 2010.

During 2010, the minimum wage was eroded, which adversely affects poverty and inequality among working families

⁸ As is known, the minimum wage was increased in 2011 and is expected to be increased again in 2012. See discussion in the box in this chapter.

Graph 4
FGT Index of the Intensity of Poverty Among Various Population Groups

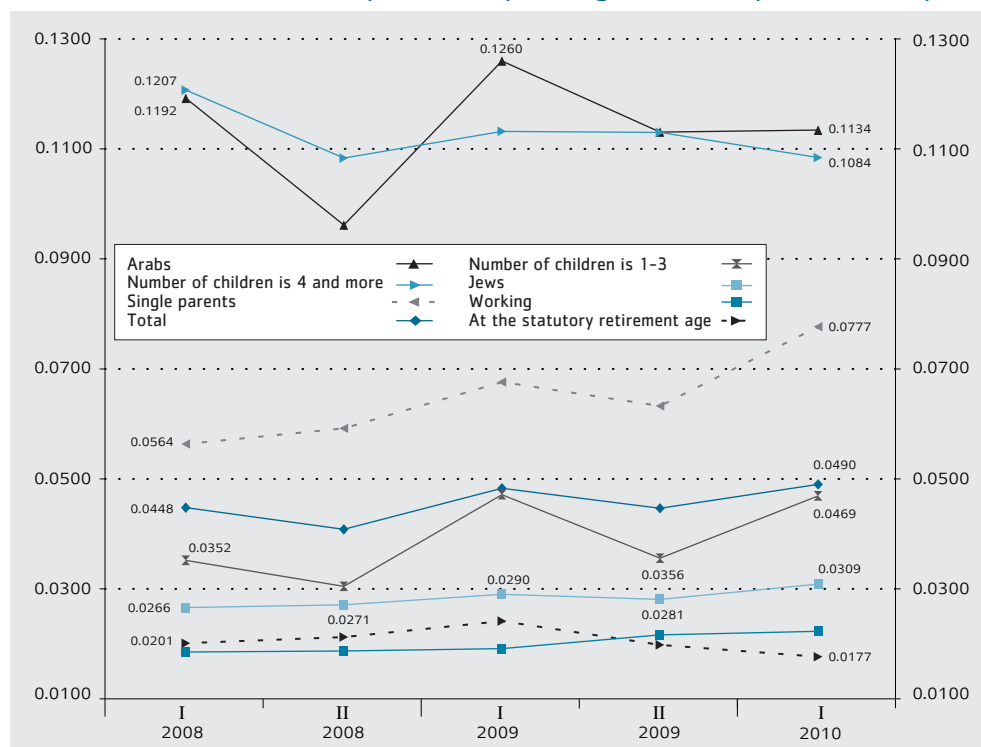


Table 2
Factors Affecting Poverty (percentages), 2005–2010

Affecting factor	2005	2006	2007	2008	2009	2010
Growth rate of the GDP	4.9	5.7	5.3	4.2	0.8	4.7
Rate of change in price levels in each survey period compared with the previous period	1.3	2.1	0.5	4.6	3.3	2.7
Rate of real change in the average wage in the economy	1.8	1.3	1.8	-0.4	-2.5	0.9
Unemployment rate	9.0	8.4	7.3	6.1	7.6	6.6
Percentage of recipients of unemployment benefits from among the unemployed	23.9	23.7	23.5	26.7	31.8	28.1
Minimum wage as a percentage of the average wage	45.5	46.2	47.5	46.8	47.3	45.7

4. Selected issues

A. The incidence and dispersion of poverty (extreme poverty and the risk of poverty)

One of the ways to define extreme poverty is to examine households whose income falls far below the official poverty line of 50% of the median disposable financial income per

standard person. Thus, for example, it is accepted to refer to households living at a level of income that is less than 40% of the median income as households living in extreme poverty⁹ while, applying that same logic, one can refer to households whose income is indeed above the official poverty line but falls below the threshold of 60% of the median income as households living at risk of poverty.¹⁰ Table 3 below presents an overview of poverty among various population groups according to this approach.

Table 3 indicates that, in total, a smaller percentage is living slightly above the poverty line than the percentage living in extreme poverty, but is in danger of sinking into poverty. The phenomenon of living at risk of sinking into poverty has tremendous significance in terms of social stability and can potentially undermine stability, because it infers that the society is very vulnerable and could encounter a situation whereby a significant negative economic event or a slow accumulation of such events are liable to drag a particular population group down into poverty when this population is unaccustomed to it. Such a situation is liable to occur as a result of any economic or social crisis that might arise for reasons completely unrelated to policies in Israel, such as an outside crisis. The natural protest of a group who is unaccustomed to living in poverty and who becomes cognizant of its distress at a certain stage is a main catalyst for undermining social stability. The younger the population group the greater the protest, since it views its situation as having a long-term detrimental effect that could harm young people's chances of acquiring an education and improving their earning capacity.

Living at risk of sinking into poverty can undermine social stability

Naturally, it is difficult to determine the degree of risk that undermines stability, and it is reasonable to assume that it is affected by additional causes of poverty. Nonetheless, proximity to the poverty line constitutes a risk. Thus, for example, not a few households with two wage-earners are some distance from the poverty line, but sufficiently close to it that a sudden cut in their income is liable to cause these families to plummet below the poverty line. While extreme poverty is a marginal phenomenon among these families, the risk of sinking into poverty is particularly high – 1.9 times, according to this index.¹¹ The combination of such households and such families being unprepared for poverty is what translates this situation into social instability. If we judge according to the poverty and inequality situation in Israel, the social protest that broke out during the summer of 2011 expresses frustration, and the more that the economic difficulties focus on young people with potential and economic capabilities, the greater their frustration over economic distress, since they are, for the most part, normative young people who want to work and earn a living with dignity.

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9 A more accepted approach among researchers of poverty is to define extreme poverty using the FGT Index, which generally reflects the squared sum of the income gaps, as described elsewhere in this chapter. The approach in this table is simpler to understand.

10 The 60% factor was prescribed by the European Union as the official poverty line at risk of living in poverty. See "Poverty and Social Exclusion" at the website: <http://ec.europa.eu/social/>.

11 9.7 divided by 5.2.

Table 3
Incidence of Poverty, Extreme Poverty, and Risk of Poverty among Families, by Population Group, 2009

Population group	Living in extreme poverty – under 40% of median income	Living in moderate poverty – 40-50% of median income	Living under the official poverty line of 50%	Living above the official poverty line, but at risk of poverty
Total	17.3	7.7	25.0	6.6
Jews	11.0	5.9	16.9	5.6
Arabs	42.8	14.6	57.4	10.6
Elderly*	9.5	10.8	20.3	8.0
New immigrants	9.8	8.2	18.0	7.9
Ultra-orthodox Jews**	48.1	13.2	61.2	9.5
Families with children – total	22.5	8.6	31.2	7.3
1-3 children	13.8	6.9	20.6	6.8
4 and more children	48.3	13.8	62.1	8.7
5 and more children	56.9	14.0	70.9	7.5
Single-parent families	25.5	9.3	34.8	9.6
Work status of head of household				
Working	11.6	6.8	18.4	6.4
Employee	11.8	6.9	18.7	6.5
Self-employed	10.2	6.3	16.6	5.6
Not working while of working age	70.1	10.0	80.2	5.6
One wage-earner	26.2	12.5	38.7	9.2
Two wage-earners	2.1	3.0	5.2	4.5
Age of head of household				
Up to 30	21.5	10.1	31.6	8.8
31-45	23.7	8.0	31.6	6.4
46 to retirement age	24.7	4.7	29.3	5.2
At statutory retirement age***	4.1	12.1	16.2	8.4
Education of head of household				
Up to 8 years of education	38.3	13.6	51.9	10.5
9-12 years of education	21.0	9.1	30.0	7.7
13 + years of education	10.3	5.3	15.6	5.0

* According to the definition in effect to date: as of age 60 for women and age 65 for men.

** Due to fluctuations, a two-year moving average is presented. The term “ultra-orthodox Jews” is as defined in the Gottlieb-Kushnir study (2009).

*** The definition was adjusted to the work retirement age under the Retirement Age Law. Therefore, this population is not standardized until the process of raising the retirement age has been completed.

The majority of the income is redistributed via the benefits policy, while the impact of the tax policy on progressive taxation diminished during the last three years

On the other hand, almost the entire poor population – except for the elderly and households with more than one wage-earner – is living in extreme poverty, according to the threshold of 40% of the median income.

Table 4 shows that the majority of the income in the economy is redistributed via the benefits policy. The impact of the tax policy on progressive taxation has diminished

Table 4
Impact of the Benefit and Taxation Policies on the Distribution of
Income in the Economy, by Decile, 2007–2009

Decile*	Share of total income by each decile (%)**								
	Before transfer payments & taxes			After transfer payments			After transfer payments & taxes		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
Bottom	0.0	0.0	0.0	1.7	1.7	1.6	1.9	1.9	1.8
2	1.3	1.4	1.3	3.0	3.1	3.0	3.5	3.5	3.4
3	3.0	3.1	3.0	4.1	4.1	4.1	4.7	4.6	4.5
4	4.6	4.6	4.5	5.3	5.3	5.3	6.0	6.0	5.9
5	6.3	6.3	6.3	6.7	6.7	6.8	7.4	7.4	7.4
6	8.1	8.1	8.3	8.2	8.3	8.4	9.0	9.0	9.1
7	10.4	10.4	10.7	10.1	10.1	10.4	10.8	10.8	11.0
8	13.4	13.3	13.6	12.7	12.7	12.8	13.1	13.1	13.2
9	18.2	18.1	18.2	16.8	16.8	16.8	16.3	16.5	16.4
Upper	34.8	34.8	34.1	31.4	31.4	30.8	27.2	27.3	27.4
Ratio of income between upper to lower quintile	41.5	38.9	41.6	10.3	10.2	10.4	8.0	8.1	8.5
Upper decile relative to lower decile	19.0	18.8	19.0	14.25	14.43	15.20
Upper to 2nd decile	27.3	25.5	27.2	10.4	10.3	10.4	7.77	7.80	8.14
Upper to 3rd decile	11.5	11.4	11.3	7.7	7.7	7.6	5.81	5.90	6.02
Upper to 4th decile	7.6	7.6	7.6	5.9	5.9	5.8	4.51	4.58	4.63
Upper to 5th decile	5.5	5.5	5.4	4.7	4.7	4.5	3.65	3.69	3.69
Upper to 6th decile	4.3	4.3	4.1	3.8	3.8	3.6	3.01	3.03	3.01
Upper to 7th decile	3.3	3.3	3.2	3.1	3.1	3.0	2.52	2.52	2.50
Upper to 8th decile	2.6	2.6	2.5	2.5	2.5	2.4	2.08	2.09	2.08
Upper to 9th decile	1.9	1.9	1.9	1.9	1.9	1.8	1.67	1.66	1.67

* Families in each column are ranked according to the level of income corresponding to a standard person. In each decile are 10% of the persons in the population.

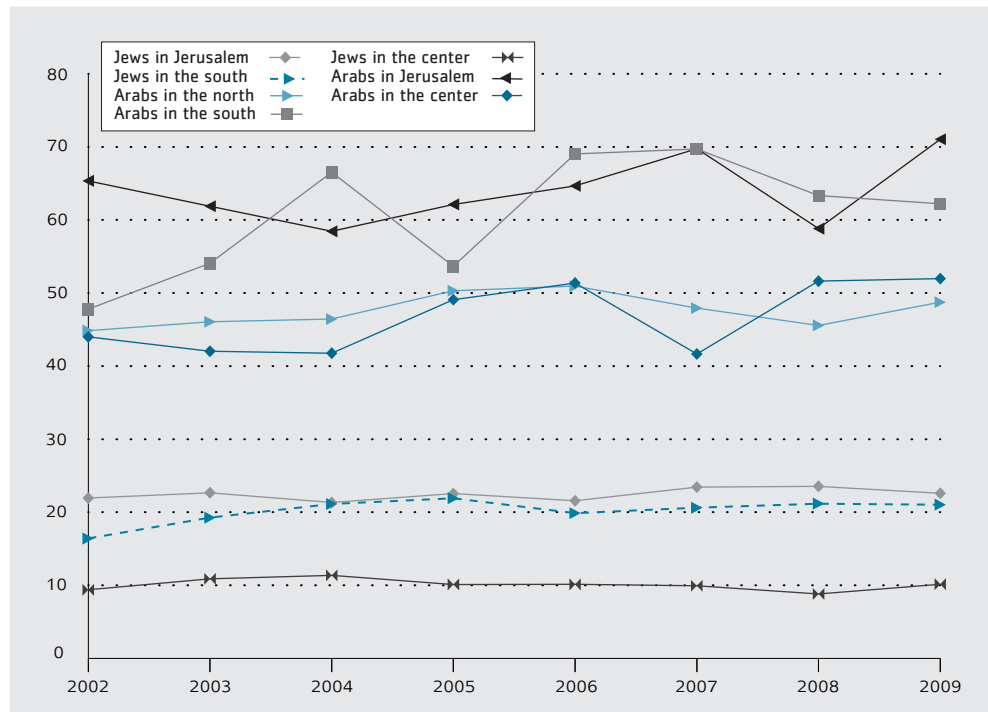
** In terms of income per standard person.

during the last three years. Thus, for example, the income ratio after direct taxes and benefit payments between the upper and lower deciles increased from 14.2 in 2007 to 15.2 in 2009. A similar impact is evident – albeit to lesser degrees – also relative to the second to fifth deciles, and the reason for this is that the income tax reform had a significant adverse impact on the progressiveness of the tax system, not only among the poor, but also among the middle class. Table 4 also shows that no changes occurred in the seventh to ninth deciles relative to the upper decile during the years under survey.

B. Poverty by population group and geographical region

Among Jews, the inception of poverty is 10–25%, depending upon geographical region. Poverty is higher in Jerusalem and in the south, and lower in the center and in Tel Aviv. Poverty in all other regions of the country spans the entire range.

Graph 5
Inception of Poverty, by Population Group and Geographical Region, 2002–2009



Among Arabs, poverty is particularly high in all regions, and a certain uptrend has been observed over the years. Fluctuations apparently derive more from the size of the sampling of the income survey than from economic reasons.

The inception of poverty among Jerusalem Arabs and Arabs living in southern Israel may be defined as being at a dangerous level, since their poverty is at levels that cannot be sustained. It is difficult to assess when a crisis will occur, but the currently prevailing atmosphere of crisis in the Middle East in general, coupled with the social crisis in Israel, could incite the groups living in economic distress. It is difficult to foresee the precise timing, but as time passes, the likelihood only increases. Since the poor populations, for the most part, are those with many children, the danger of social instability increases as the children grow and turn into unemployed and poorly educated youth. Therefore, the uncertainty regarding long-term social stability becomes a question of critical magnitude.

C. Benefits relative to the minimum standard of living – according to the official poverty line

One can consider the poverty line as one of the expressions of the minimum standard of living that a social security system is supposed to guarantee. In light of the fact that there

Table 5
Income Support Benefits, Child Allowances and Old-Age Pensions
(including Income Supplement to the Elderly), as the Coverage Ratio of
the Poverty Line, by Family Composition and Age of the Head
of Household, 2009

Family composition	Age of the head of household			
	Up to 55	56 to retirement age	Retirement age to 80	80+
One adult without children	70.3	87.9	106.3	113.0
With one child	70.3	82.2	-	-
With two children	62.2	75.3	-	-
Two adults without children	60.4	82.4	98.4	104.5
With one child	53.1	75.4	-	-
With two children	51.5	73.5	-	-
With three children	48.8	67.6	-	-
With four children	49.7	66.2	-	-
With five children	48.6	63.4	-	-

- Not listed due to low representation in the population.

are various definitions of “poverty,” the ratios at which NII subsistence benefits cover the poverty-line population also differ depending upon the definition of “the poverty line.”¹²

Table 5 presents the subsistence benefits, including the child allowance, in terms of the “coverage ratio” relative to the official poverty line.¹³

The picture obtained is that of a low level of coverage, mainly among large families and among households in which the head of household is under the age of 55. The coverage of their needs is clearly under the minimum standard of living. This is also the case among families with three and more children: the level of coverage for them is at a level that is less than half of the minimum standard of living according to the official poverty line.

The level of benefits relative to the poverty line is low, mainly among large families and households in which the head is under 55

D. Poverty and work

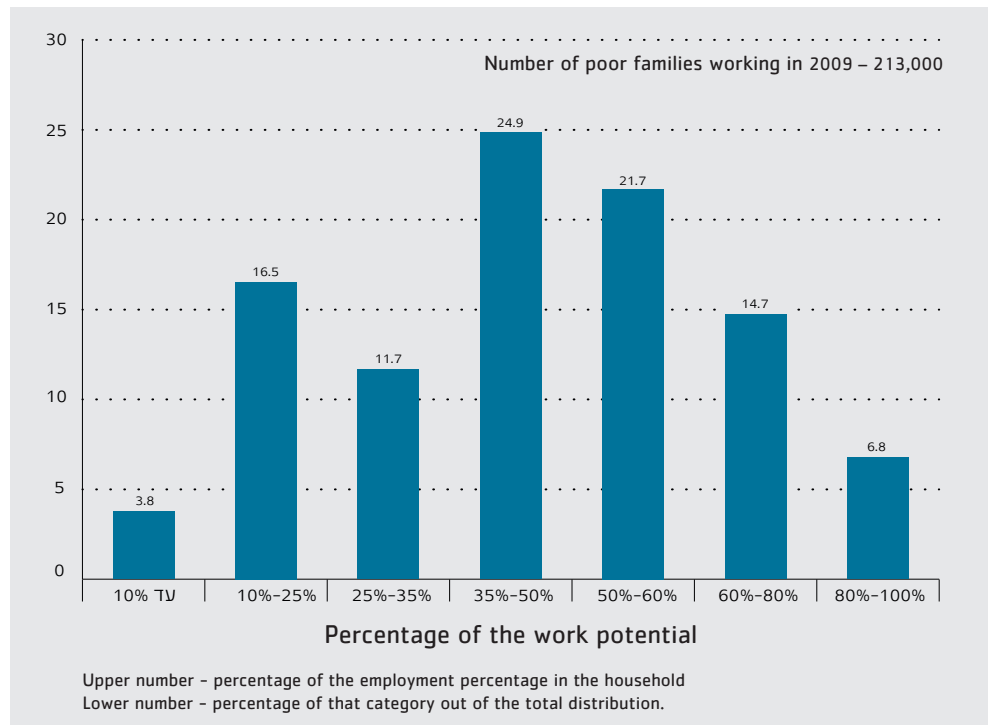
A fundamental demand is that work provides wage-earners with a livelihood that will distance them and members of their households from poverty. However, we are

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12 It is interesting to use the various poverty lines to calculate the minimum for subsistence with dignity, since the official poverty line does not take into account such important income as in-kind income and refers only to financial income. In-kind income constitutes, precisely at the relatively weak strata, an important component of their income, such that anyone without in-kind income, who depends solely on benefits, is in far worse condition than is implied in this table.

13 A similar table was presented in the Annual Survey for 2009, based on the poverty line of basic needs according to an alternative measurement of poverty (see Annual Survey 2009, Box 3, p. 115).

Graph 6
Poor Working Households, by Realization of their Work Potential, 2009



witnessing a phenomenon of poverty among working households. This derives from a number of reasons: (1) the limited volume of work input relative to the household’s work potential; (2) unfair consideration for the work effort; (3) the size of the household is so large that the per capita income is insufficient to fund the household’s essential needs.¹⁴

Graph 6 presents the distribution of poor working households, by work potential being realized by the household (hours of work relative to the potential hours of work of the working-age members of that household).

Graph 6 shows that, in 2009, approximately one fifth of the poor working families are poor mainly because the household is not realizing its full work potential (is realizing only up to one quarter of the household’s employment potential). Slightly more than one third of the poor working families realized between one quarter and one half of their work potential. Nearly half of the poor working households realized at least half of their work potential. Another third remained poor even though they realized more than 60% of their work potential.

In 2009, one fifth of the poor working families are poor mainly because the household is not realizing its full work potential

¹⁴ Of course, one should take into account the economies of scale, as expressed in the scale of equivalents.

A more in-depth analysis needs to address the question as to why a family is not realizing its employment potential. One possible reason may be weak demands, due to an economic slump. Other reasons may include: a process of restructuring of the composition of industrial branches, which reduces opportunities for the poorly educated to earn a living, or problems relating to a shortage of infrastructure that are necessary in order to join the work force, such as adequate public transportation, industrial zones in the vicinity of the place of residence, etc. All these are liable to lead to a low demand for workers, *inter alia*, for poor workers.

Among a portion of the ultra-orthodox Jewish sector – the “society of scholars” – the low employment percentage derives from the family’s desire to live according to the accepted norm in their community, whereby the study of the *Torah* by the husband is a higher priority than increasing income, which leaves the family’s subsistence relying solely on the wife’s wage-earning efforts, when, in most cases, she also has many children. Of course, there are families in the ultra-orthodox Jewish community in which both spouses work and they are still poor. In such cases, the reasons for poverty among working families are apparently similar to the reasons for poverty among all the other poor working families – including the payment of an unfair wage, low earning capacity and the size of the family.

The reasons for low earning capacity could be the type of industry or occupation in which the worker is employed. An indication of problems of this type may be found in Table 20 of the Poverty Report for 2009,¹⁵ in which it was found, for example, that the ratio of poor workers employed in agriculture was three times that of the non-poor. In the construction industry, this ratio was 3.7 times, and in education, the ratio was 1.5 times. It could be that personal barriers, such as disability or inadequate education, also pose difficulties in obtaining a fair wage or an adequate number of work hours.

The ratio of poor workers employed in agriculture was three times that of the non-poor

As stated, another reason for poverty among working families is that, despite the fact that the household is realizing its employment potential, the consideration is too low, whether due to problems of noncompliance with the labor laws and a lack of enforcement power, or whether due to the number of dependents (the number of persons above and below working age), or whether due to a cost of living higher than the wage level. It is reasonable to assume that these are the reasons for the fact that 7% of the poor working families who are realizing their employment potential at a high rate (80% to 100%+) are poor nonetheless.

A special problem relating to the working poor concerns single mothers, since their earning potential is limited to one wage-earner only, and their employment potential is limited, depending upon how young their children are and how many children they have. If we add to this, a problem of a lack of education and occupation, or an industry in

15 See: http://www.btl.gov.il/Publications/oni_report/Pages/oni2009.aspx.

Table 6
Disposable Income of a Single-Parent Family Relative to the Poverty Line (percentages), Selected Years

Number of children in the family	Minimum disposable income*	Median disposable income*	Number of children in the family	Minimum disposable income	Median disposable income
2009			2009 compared with 2005**		
One child	107	161	One child	-5.0	-10.8
Two children	84	125	Two children	-3.5	-7.9
Three children	73	107	Three children	-2.4	-6.0
2005			2009 compared with 2005**		
One child	112	172	One child	-13.7	-10.5
Two children	87	132	Two children	-11.2	-13.5
Three children	76	113	Three children	-12.4	-18.2
2002					
One child	120	171			
Two children	95	138			
Three children	86	125			

* Calculated as the amount of minimum wage or median wage, respectively, net of compulsory payments and after adding a child allowance.

** Changes are in percentage points.

which the employers' compliance with the minimum wage is low, the problem becomes even more acute.¹⁶

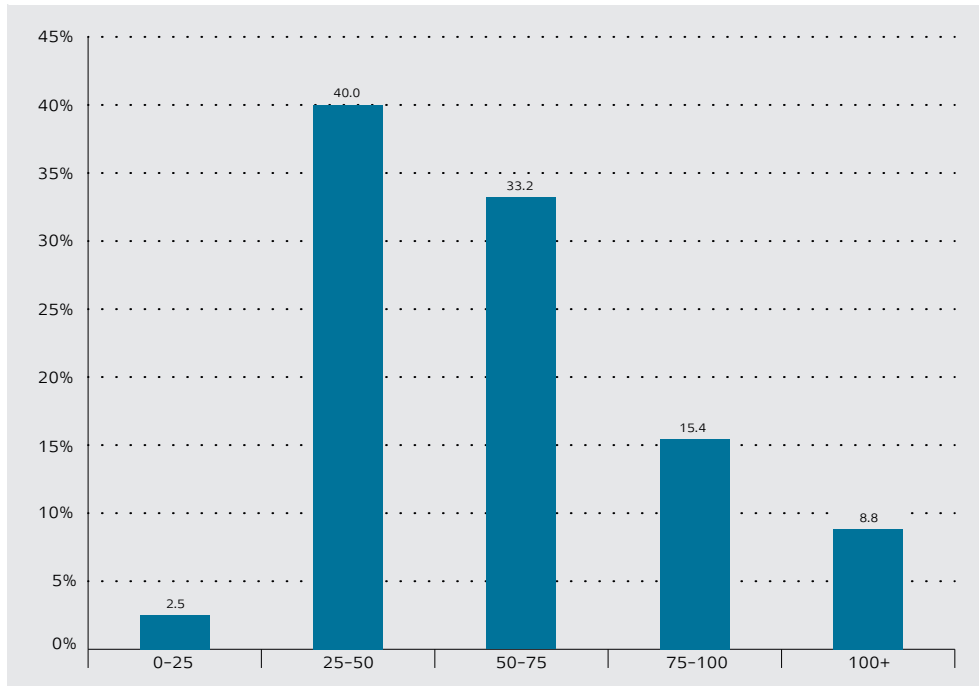
Table 6 below emphasizes the problems facing a single mother even if she is working at a full-time job at minimum wage, since her net income (including child allowance) does not enable her family to live above the poverty line. In other words, even her normative conduct (working a full-time job) will not prevent her from needing additional assistance, such as income support!

As may be seen in Table 6, which compares the economic situation of a normative single mother in 2002, 2005 and 2009, the government forces single mothers to contend with an economic situation that only gets worse over the years: for a "normative" single mother with one child who earns a wage above the poverty line – the distance from the poverty line has eroded from 120% of the poverty line in 2002 to 107% of the poverty line in 2009 – the likelihood that she will sink into poverty has been steadily increasing

A "normative" single mother with one child earns a wage above the poverty line, but the distance from the poverty line eroded from 120% of the poverty line in 2002 to 107% in 2009

16 See, for example, Eliav et al, "Trends in Noncompliance with the Minimum Wage – the Case in Israel," 2009, and updates to this article on the NII's website; and D. Gottlieb, "Compliance with and Enforcement of the Minimum Wage Law in Israel," the Israel Tax Quarterly 110 (2000). Although the latter study is not up-to-date, it is based on verifications by the Ministry of Industry, Trade and Labor, and therefore contains findings not contained in other studies, such as the study of the correlation between compliance and the size of the business, and the correlation between compliance and employers of non-Israeli workers.

Graph 7
Distribution of Poor Single-Parent Families, by Realization of Employment Potential, 2009



Source: Income Survey 2009 of the Central Bureau of Statistics. Processing by the NII's Research and Planning Administration.

in recent years. A single mother with two or more children will already be forced to live in poverty even if she works at a full-time job and earns a minimum wage. The raising of the minimum wage that occurred in July 2011 and will continue during 2012 constitutes a reasonable solution to the problem described here (see box below).

Graph 7 shows that the majority of single mothers work at between a half-time job to a full-time job, but that quite a large group work at a quarter-time to half-time job.¹⁷ This is not surprising, since the constraints on a single mother relating to the raising of her children are greater than those on a two-parent family; it is reasonable to assume that a single mother has a more difficult time working a full-time job.

It should be noted that the negative income tax plan does not constitute a satisfactory solution to this problem, even if, in principle, it is a customary tool used worldwide to resolve this problem. In Israel, for example, the grant for a wage for a half-time job at minimum wage totals a few dozens of shekels, while in the United States, the grant begins

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 17 Although at issue is a percentage of the employment potential in households that also include others of working age, it is reasonable to assume that a single mother is the only person of working age in the household.

Table 7
Minimum Family Income, as a Percentage of the Poverty Line (percentages), Selected Years

Household composition	Minimum disposable income* for one job	2009			2009 compared with 2005				
		Minimum disposable income* for 1 ½ jobs	Minimum disposable income* for 2 jobs	Median disposable income for one job	Minimum disposable income* for 1 ½ jobs	Minimum disposable income* for 2 jobs	Median disposable income* for 2 jobs as a % of the poverty line		
Single, no kids	164	-	-	249	-8.6	-	-	-17.0	
With 1 child	107	-	-	161	-5.0	-	-	-10.8	
With 2 children	84	-	-	125	-3.5	-	-	-7.9	
With 3 children	73	-	-	107	-2.4	-	-	-6.0	
Couple, no kids	102	154	205	156	-5.4	-8.1	10.8	-10.6	
With 1 child	81	119	158	121	-3.8	-5.8	7.9	-7.8	
With 2 children	69	101	133	103	-2.9	-4.6	6.3	-6.2	
With 3 children	63	90	117	91	-2.0	-3.5	4.9	-4.8	
With 4 children	60	84	109	85	-2.3	-3.6	4.8	-4.8	
With 5 children	58	80	101	81	-3.6	-4.7	5.9	-5.8	
2005									
Single, no kids	172	-	-	266	-20.0	-	-	-5.9	
With 1 child	112	-	-	172	-13.7	-	-	-10.5	
With 2 children	87	-	-	132	-11.2	-	-	-13.5	
With 3 children	76	-	-	113	-12.4	-	-	-18.2	
Couple, no kids	108	162	216	166	-12.5	-18.8	-25.1	-3.7	
With 1 child	84	125	166	129	-10.3	-15.1	-19.8	-3.8	
With 2 children	72	106	140	109	-9.3	-13.2	-17.1	-5.9	
With 3 children	65	93	122	96	-10.6	-13.9	-17.3	-8.8	
With 4 children	63	88	113	90	-13.0	-15.9	-18.9	-16.9	
With 5 children	62	84	107	86	-20.7	-23.3	-25.9	-	
2002									
Single, no kids	184	-	-	255	-	-	-	-	
With 1 child	120	-	-	171	-	-	-	-	
With 2 children	95	-	-	138	-	-	-	-	
With 3 children	86	-	-	125	-	-	-	-	
Couple, no kids	115	172	230	159	-	-	-	-	
With 1 child	91	134	178	125	-	-	-	-	
With 2 children	79	115	151	107	-	-	-	-	
With 3 children	73	104	134	97	-	-	-	-	
With 4 children	73	100	127	94	-	-	-	-	
With 5 children	79	103	127	98	-	-	-	-	

* Calculated as amount of minimum wage or median wage, respectively, net of compulsory payments and after adding a child allowance.
 ** Changes are in percentage points.

from the first dollar and steadily rises up to the maximum grant, which is significantly larger than that given in Israel.¹⁸

Table 7 below examines the extent at which the income from a minimum wage, plus a child allowance – which is a universal benefit – suffices to provide a minimum for subsistence, as reflected in the official poverty line. The answer to this question answers the basic demand that work for a normative wage should protect against sinking into poverty.

Table 7 indicates a few interesting conclusions: income that is based on work at minimum wage by only one of the spouses does not succeed in keeping the family from poverty. This is also true in the instance whereby the wage-earner earns the median wage, when his family has three and more children! When both of the spouses work a full-time job, the family seemingly is extricated from poverty, although the margin above the poverty line is very thin. We point out that this calculation does not take into account the costs incurred by a household when both parents are out working a full-time job. Taking these expenses into account would sink a portion of these families into poverty. Therefore, one can deduce that, when one of the spouses in families with three and more children works only a half-time job in order to care for the children (while the other spouse works a full-time job), the families cannot extricate themselves from poverty. In this case, families with two children will also find themselves at borderline poverty. Table 7 also shows that the situation in 2009 was worse than in 2002 and 2005. We emphasize that this deterioration not only relates to the low level of child allowances, but also the low minimum wage level. The raising of the minimum wage is a praiseworthy measure towards alleviating the problem.

Income based on work at minimum wage by only one of the spouses does not succeed in keeping the family from poverty

Impact of the Raising of the Minimum Wage on Poverty¹

The issue of the minimum wage as a policy tool has gained a great deal of attention in Israel recently.

The willingness of employers to comply with the minimum wage is an essential precondition to successful policy enforcement, particularly when the resources being allocated for enforcement by the government are relatively meager compared with

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 1 See previous document in this regard prepared by the NII's Research and Planning Administration:
www.btl.gov.il/Publications/more_publications/Documents/idkunminimum.pdf.

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 18 See the discussion of this issue in the NII's Annual Survey for 2009, p. 42.

other countries, as can be seen in the report on the labor market situation in Israel compared with select OECD countries.²

From this, we find that a key component of a successful minimum wage policy is ensuring not only that the formal minimum wage is at an adequate level, but also the minimum wage that is actually being paid, which depends on the employers' degree of compliance with the labor laws. It is precisely the raising of the minimum wage that underscores the importance of augmenting enforcement, since raising the minimum wage increases the profitability of violating it.

The decision by the Histadrut labor federation and the employers to raise the minimum wage led the NII's Research and Planning Administration, at the beginning of 2011, to examine the question of whether raising the minimum wage would improve the poverty and inequality indices. In mid 2011, the Bank of Israel's Research Division also addressed this issue.³ To a certain extent, the two institutions reached opposite conclusions: while the NII's Research and Planning Administration viewed the raising of the minimum wage as very beneficial in the battle against poverty, as expressed in the reduction of poverty and economic inequality among working families, the Bank of Israel questioned this benefit: it included in its analysis not only the impact effect, but also the secondary effect, which, in the Bank's opinion, is liable to undermine the initial achievement, in that the very raising of the minimum wage will change the representative standard of living (median disposable financial income per standard person), and, consequently, the poverty line (half of this income), which constitutes a sort of minimum for subsistence in dignity.

These differences of opinion sharpen the substantive discussion of minimum wage as a social policy tool, since it is clear that every tool has a limited ability to influence the objectives of reducing poverty and inequality, and the question, in effect, is: what is that limit of the minimum wage level. We will not be able to resolve this issue within this framework, but we will present here results of simulations of two opposing scenarios – the first taking into account only the impact effect, while the other takes

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2 Enforcement has improved in recent years, but an additional (and essential) improvement requires a sharp increase in resources being allocated for enforcement of labor laws. The State of Israel budgets few labor-law enforcement inspectors, despite repeated requests by the Ministry of Industry, Trade and Labor to increase the team of inspectors. The shortage is particularly evident relative to select OECD countries (See: "OECD Reviews of Labour Market and Social Policies: Israel" 2010, Graph 2.4, p. 96). Nonetheless, in recent years, the public sector has made important decisions regarding the policy of employing contractors' employees, which are expected to help improve the enforcement of labor laws. Thus, for example, contractors who are found to have violated labor laws last year may be prevented from participating in tenders and from receiving various benefits. It appears that this is a particularly effective tool, since it constitutes a long-term penalty and achieves more than an administrative penalty or criminal proceedings that may drag on for many years.

3 See the press release by the Bank of Israel dated June 5, 2011, announcing the publication of "Latest Economic Developments in Recent Months."

into account the secondary effect – and finally, we will discuss the considerations for preferring one approach over the other.

1. The scenarios and their assumptions

The forecast was calculated assuming that the decision of the Manufacturers' Association and the Histadrut labor federation regarding the raising of the minimum wage by the Ministry of Industry Trade and Labor will be approved by the government. The assumption underlying the calculations was a rise of approximately 11.7% (according to the proposal) from NIS 20.70 to about NIS 23.15 per hour.⁴ Since the last income survey available to us is that of 2009, we were forced to make a few assumptions for the sake of simplification:

- **Assumption 1:** the effect of raising the minimum wage on the wage level of those earning less than the minimum wage: it was assumed that anyone who worked (in 2009) will be working, and anyone whose wage had been less than the minimum wage would remain in his relative position; i.e., would receive an increment similar in percentages.⁵ In this scenario, therefore, we are not assuming full enforcement under the minimum wage, but rather a sort of spillover effect; i.e., the existing wage distribution continues, but at a higher wage level according to the rate of the rise in the minimum wage.
- **Assumption 2:** the effect of raising the minimum wage on employment: the raising of the minimum wage will not affect employment, whether adversely or beneficially. Prima facie, this sounds like a sweeping assumption, but it is less problematic than it appears to be at first glance, since a fierce debate has already taken place in the global professional literature in this regard and has been left undecided. There are those who argue mainly about the negative impact on employment, inter alia, due to the cut in businesses' profitability.⁶ On the other side, are findings that have been multiplying since the mid 1990s regarding a neutralizing effect or sometimes even the opposite outcome: according to this approach, whose prominent proponents are A. Krueger and D. Card, the raising of the minimum wage not only will not harm employment, but may also even lead to improving employment among poorly skilled workers, inter alia, because a higher wage makes it more worthwhile to them to seek employment.

4 In order to take into account the rise in prices expected during the period of the wage update (by the beginning of October 2012), the increase must be translated into 2009 data. For this purpose, about 0.5% must be deducted from the increase, from 11.7% to about 11.2%. We found that this has a negligible impact on changing the dimensions of poverty.

5 Professional literature discussing the impact of the minimum wage on the wage distribution has examined the issue of the spillover; i.e., the impact of changes in the minimum wage on those earning around the minimum wage. The question of the impact below the minimum wage has not been afforded much empirical discussion, notwithstanding its importance, particularly in countries like Israel in which there is a low level of compliance with the labor laws.

6 Prominent proponents of this approach are the economists D. Neumark and W. Wascher.

Findings of this type were reached in a few studies, for example, in the United States and in Great Britain⁷ concerning “nonmarketable” sectors; i.e., sectors that cannot be exported. To a great extent, service sectors are such sectors, although in the internet age, this historic distinction between products that are marketable and nonmarketable is rapidly changing. It is reasonable to assume that both effects (that of shrinking and of expanding employment) co-exist, and so what remains to is conduct an empirical study as to which of them prevails in a particular economic situation.

With regard to the Israeli economy, one study found⁸ that changes in the minimum wage had a negative impact on the demand for workers at low wages, mainly in the marketable-products sectors, but no negative impact was found on the demand in the food services sector. It is reasonable to assume that this branch well represents the nonmarketable sectors paying low wages, which are usually labor-intensive.⁹

Assumption 3: impact effect versus secondary effect: an assumption of no change in the poverty line after the raising of the minimum wage emphasizes the impact effect. The justification for this assumption derives from the fact that, actually, the relative poverty line is calculated annually on the basis of all changes that occurred in the median income during that year. Some of the changes favor the weak, while others are liable to be detrimental to them. Therefore, a particular change, like, for example, a change in the minimum wage, is added to innumerable other changes that have some effect on the income distribution and on the formation of the median income, so that, in the final analysis, we will not know what unique effect the raising of the minimum wage had on the median income in the subsequent year.¹⁰ Assuming full secondary effect, as the Bank of Israel did, in effect, provides complete – even if ersatz – certainty of the existence of the effect as the sole effect

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- 7 See: Card, D., and Krueger, A. (1995), *Myth and Measurement: The New Economics of the Minimum Wage*, Princeton: Princeton University Press. Another important study, by Addison, Blackburn, Cotti (2009) in the journal *Labour Economics*: “Do Minimum Wages Raise Employment? Evidence from the U.S. Retail-Trade Sector,” pp. 397-408, also indicates that the raising of the minimum wage in the United States had a favorable impact on employment. The analysis was based on data that tracked relevant sectors for workers at low wages. It was found that the negative impact had been negligible, coupled with statistically stable results of a favorable impact.
 - 8 See K. Flug, N. Kassier and Y Rubinstein (2000), “the Impact of the Minimum Wage on Employment in Simple Labor-Intensive (select) Sectors in the Israel Economy,” <http://www.bankisrael.gov.il/publheb/publslsf.php>.
 - 9 The authors pointed out that in nonmarketable sectors there was no decrease in employment as a result of the raising of the minimum wage, even though a test of a portion of the regressions in their appendix indicates a clear partial expansion of employment, which is reminiscent of the results of Krueger and Card with the American data.
 - 10 It should be noted that a few years ago such an analysis was presented in the report in chapter H of the Bank of Israel report, which emphasizes this point: the effects on the poverty index were broken down then, into the effect of a change in the poverty line that reflects the effect of a rise in the standard of living while all other effects are summed up as the effect of various factors on the “income distribution” – see Bank of Israel report 2006, chapter H, illustration H.6, p. 286.

and assumes the neutralization of all other effects on the standard of living, which without doubt, occur every year. In other words, assuming the secondary effect creates a bias towards reducing the effect, even though this effect is not certain at all. For this reason, research bodies that examine the effects of policies on poverty usually assume that the poverty line remains fixed.

Of course, one should not disregard the secondary effect in any case. In the instance of a significant increase in the minimum wage, which affects mainly the middle class, the impact effect on the dimensions of poverty will not be significant, while it will have a major effect on inequality. In this instance, it is preferable to examine the social effect through the Gini Index, more than through the poverty index (see table below). Also in this instance, such a policy could be very advisable, although deriving less from considerations of battling poverty and more from considerations of raising the standard of living of the middle class.

• **Assumption 4:** the spillover effect

One can expect an additional effect, that of a wage spillover, which actually supports the intention of the policy. The wages of people who were earning around the minimum wage are expected to rise as a result of the increase in the minimum wage, although not uniformly. This effect, which is also called the spillover effect, has been identified in Brazil, for example, where a minimum wage law has been in effect since 1940, as well as in other places.¹¹ Lemos (2009) found that raising the minimum wage has a positive effect on the income distribution, *inter alia*, due to the secondary spillover effect. This effect creates wage compression, or in other words, the lowest wage, at the bottom of the wage scale, is pushed to a slightly higher wage, both in the formal and informal labor markets.

2. Results

The results show that the effect on the poor has not really become less significant compared with the impact effect, not because the minimum wage is inefficient as a weapon in the battle against poverty, but rather, that the rise in the poverty line as a result of raising the minimum wage, if it turns out to be a substantive effect in the future, will indicate a rise in the standard of living. Such a favorable effect will constitute expression of the fact that the minimum wage policy is succeeding in reducing the risk faced by those among the lower middle class of sinking into poverty. The Gini Inequality Index indicates improvement that ranges between 1.7% with full enforcement, and half that with partial enforcement. As stated above, the effect may be even greater if we take into account the spillover effect.

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 11 See S. Lemos (2009), "Minimum Wage Effects in a Developing Country," pp. 224-237, April, vol. 16 (2 Pablo Fajnzylber (2001), "Minimum Wage Effects throughout the Wage Distribution: Evidence from Brazil's Formal and Informal Sectors."

Effect of Raising the Minimum Wage on Poverty and Inequality, on the Basis of 2009

Inception of poverty	Before change in the minimum wage		After change in the minimum wage	Change resulting from policy	
	% or index value	Number of poor people	% or index values	Percentage points	%
Full enforcement					
Families	20.5	435,100	19.3	-1.2	-5.9
Persons	25.0	1,774,800	23.4	-1.5	-6.2
Children	36.3	850,300	34.4	-1.9	-5.2
Income gap ratio	35.5		32.8	-2.7	-7.5
FGT	0.0467		0.0433	-0.00345	-7.4
Gini inequality index	0.3892		0.3827	-0.00646	-1.7
Regular enforcement					
Families	20.5	435,100	20.0	-0.5	-2.4
Persons	25.0	1,774,800	24.3	-0.7	-2.7
Children	36.3	850,300	35.4	-0.8	-2.3
Income gap ratio	35.5		34.1	-1.4	-3.8
FGT	0.0467		0.0450	-0.00175	-3.7
Gini inequality index	0.3892		0.3862	-0.00297	-0.8
Full enforcement: variable poverty line – NIS 1,867.5					
Families	20.5	435,100	20.3	-0.1	-0.6
Persons	25.0	1,774,800	24.4	-0.6	-2.5
Children	36.3	850,300	35.4	-0.9	-2.4
Income gap ratio	35.5		33.6	-1.9	-5.2
FGT	0.0467		0.0456	-0.000116	-2.5
Gini inequality index	0.3892		0.3827	-0.00646	-1.7
Partial enforcement: fixed poverty line – NIS 1,836.1					
Families	20.5	435,100	20.5	0.0	-0.1
Persons	25.0	1,774,800	24.8	-0.2	-0.9
Children	36.3	850,300	35.9	-0.3	-0.9
Income gap ratio	35.5		34.5	-1.0	-2.8
FGT	0.0467		0.0459	-0.00079	-1.7
Gini inequality index	0.3892		0.3862	-0.00297	-0.8

* Not including the effect of recipients of wages above and below the minimum wage.

In summary, one can say that the effect of raising the minimum wage depends on the extent of the government's desire to improve enforcement through the allocation of additional resources to the Ministry of Industry Trade and Labor for this purpose. This transfer of resources may increase the basic impact effect significantly. Even if we take into account a repeat effect – which is unlikely, even if desirable – of a rise in

the standard of living following the increase of the minimum wage, this impact will indeed reduce the expression of the relative policy regarding the incidence of poverty, but will be expressed in the inequality index.

The first scenario in the table in this box assumes that an increase of the minimum wage will be accompanied by full enforcement. Obviously, in order to realize this assumption in reality, a considerable effort is required in terms of the government to improve enforcement. This is also the recommendation of the OECD in its report on the social situation in Israel. The OECD report also shows that other countries in the organization have done this successfully.

E. Impact of the benefit and taxation policies on poverty and inequality

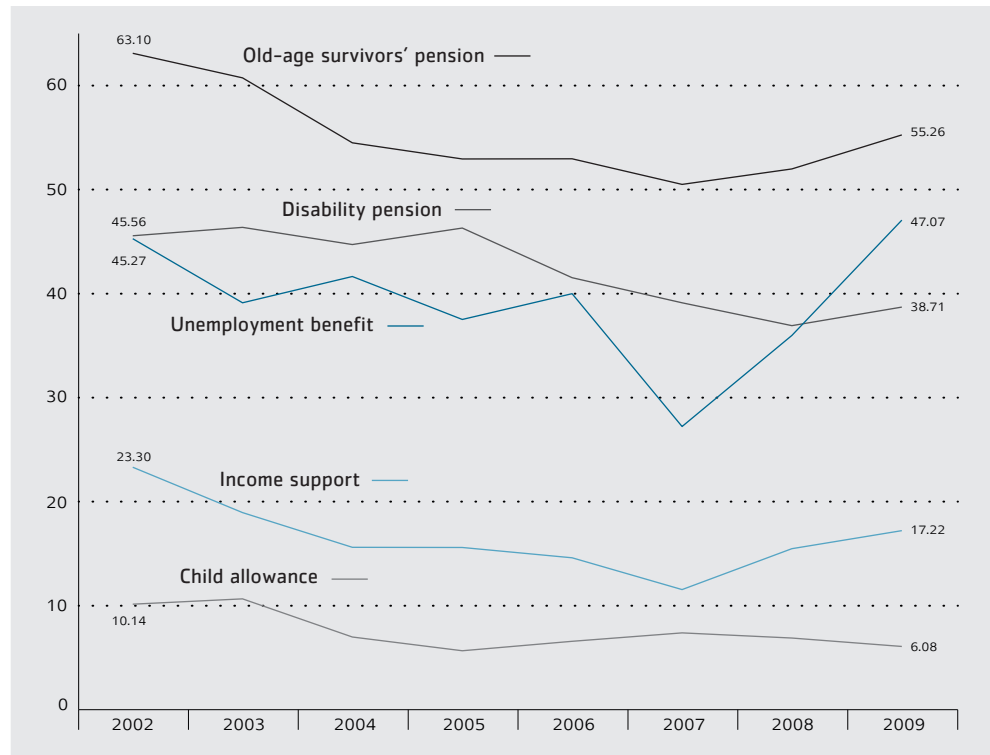
The 2009 Report on the Dimensions of Poverty and Social Gaps presented an analysis of the impact of the payment of various benefits on the recipients. The analysis was performed by comparing the inception of poverty before intervention and the inception of poverty after the specific transfer payment (Graph 8). The data in the graph show the extent of the reduction of the inception of economic poverty (in terms of percentages thereof) after the payment of the specific benefit: in each of the years surveyed, the combined impact of the old-age and survivors' pension was the greatest among the various benefits. In 2002, these benefits succeeded in reducing the inception of poverty among recipients by approximately 63%. This impact diminished over the years until 2007, but since then, it has improved once again and reached approximately 55%. The greatest improvement during the last two years was felt by recipients of unemployment benefits. The impact of this benefit on the inception of poverty among its recipients increased for two consecutive years from approximately 27% in 2007, who were extricated from poverty with the help of this benefit, to approximately 47% in 2009. In this regard, some deterioration over the years has occurred relative to the disability pension – it currently succeeds in reducing the inception of poverty among its recipients by 38.7%, after in 2002, it had succeeded in reducing the inception of poverty among the recipients of a disability pension by 45.6%.

The disability pension reduces poverty among its recipients by 38.7%, after in 2002, it succeeded in reducing poverty among recipients by 45.6%

The policy of increasing the old-age and survivors' pensions succeeded in reducing the inception of poverty among its recipients in 2009 by approximately 5 percentage points, compared with the situation in 2007. Although the extent of the impact is lower than that in 2002, relative to the other benefits, the old-age pension has been maintaining a reasonable standard of living in recent years.

The least impact on reducing the inception of economic poverty occurs among the recipients of income support benefits and child allowances, also retrospectively. Among the working-age recipients of income support, this derives mainly from the fact that the inception of economic poverty is very high among working-age recipients, while on the other hand, the benefit is quite small. Therefore, the combination of the two leads to

Graph 8
Impact of Benefits on the Recipients' Inception of Poverty
Over Time, 2002–2009



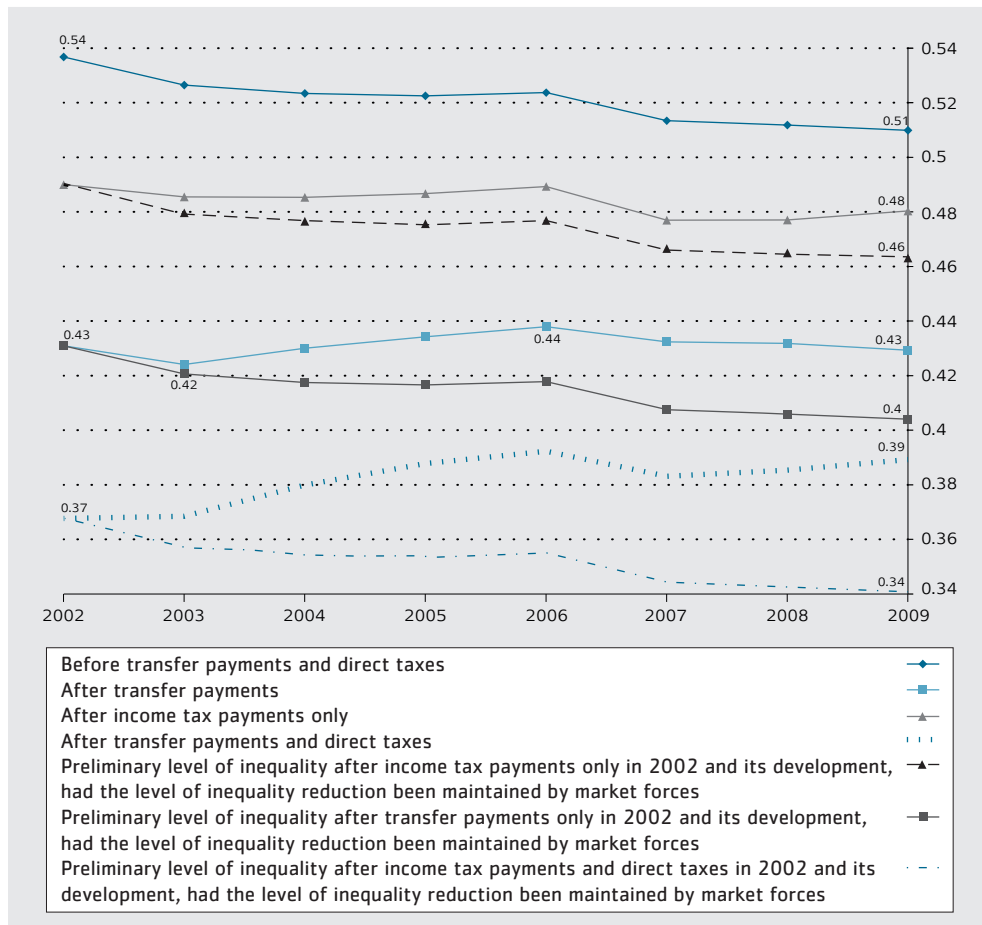
negligible impact. This situation warrants, inter alia, an increase of the income support benefit, and a more just distribution of the benefit funds, according to the severity of the poverty among its recipients.¹⁹ Among the recipients of a child allowance the problem relates to the size of the benefit, which has been cut considerably in recent years; as a result, the child allowance has constituted a weak tool for redistribution of income in recent years, particularly in light of the fact that many of the poor families have a great many children.

In recent years the tax reform, coupled with the income tax exemptions on savings, acted to sharply diminish the progressiveness of taxation

The main function of the income tax system is to fund the State budget. The composition of the taxation, divided among direct and indirect taxes, is intended to distribute the financing burden equally. The division between income tax and value added tax is also intended for the purpose of distributing the burden: the larger the ratio of income tax to total income, the more progressive the entire system becomes. The trend in recent years has been the reverse of this objective. The tax reform, coupled with the income tax exemptions on savings, acted to sharply diminish the progressiveness of

¹⁹ This derives from the fact that a portion of the household's income is not taken into account in the means test, which causes significant inequality among recipients.

Graph 9
Impact of Transfer Payments and Direct Taxes on the
Degree of Inequality, 2002–2009



taxation. Graph 9 illustrates the specific effects of the market forces, the benefits and the direct taxes (not including the impact of tax exemptions) on the degree of inequality during the 2000s.

Inequality, which is dictated by the free market; i.e., without any government intervention whatsoever, is significantly higher than that subsequent to intervention: in 2009, the estimated inequality without any intervention was, according to the Gini Index, approximately 0.5100, while after intervention by taxation and benefits, the inequality decreased to 0.3900 – i.e., improvement of 23.7%, which derives from the actual intervention by taxation and benefits.²⁰ Nonetheless, the graph highlights the fact

In 2009, the estimated inequality without any intervention was, according to the Gini Index, 0.5100, while after intervention by taxation and benefits, the inequality decreased to 0.3900

²⁰ Of course, this estimate is merely an initial indication, since it does not take into account the public's response, who, in such instance, is trying even harder to maintain its standard of living by itself.

that in the distance past (in 2002) this impact had been greater, and had reached 31.5% at that time. In other words, the degree of correction of inequality that derived from the market forces, was reduced through policies by about one quarter. It is interesting to note that inequality caused by the market forces has actually diminished in recent years, from 0.5368 to 0.5099, while the impact of taxes has increased inequality after the impact of the income tax system, inter alia, due to the impact of the income tax reform, which hurt the middle class. The gap between the solid lines and the dashed lines in the graph illustrates the diminished ability to reduce the gaps by direct tax and benefit policies. The majority of the regression occurred in the benefit policies: one can see the regressive impact during the period between 2003 and 2006, and the subsequent correction that served to reduce inequality; the impact during the entire period had been a zigzag – initially, it increased inequality, and later, the undesirable impact was neutralized, mainly due to the updating of the policy regarding old-age pensions.

The reduction of the progressive taxation and the adverse impact on benefits since the beginning of the 2000s caused a significant rise in the Gini Index – a deterioration of 14.2%

Cumulatively, the reduction of the progressive taxation and the adverse impact on benefits since the beginning of the 2000s has caused a significant rise in the Gini Index – a deterioration of 14.2%.