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Poverty and Social Gaps

Annual Report



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Poverty and Social Gaps Annual Report

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Main Findings

Indicators of Poverty and Inequality

The recent global economic crisis that took its toll on the Israeli economy in late 2008 terminated a period of 5 years of consecutive growth.

In 2008 the standard of living slightly declined, in terms of the equalized median per capita income. This income declined in real terms at a rate of 0.6% and hence the poverty line derived from it declined as well. In terms of average equalized income the standard of living remains more or less at the 2007 level. In an overall perspective most poverty indicators of poverty and income gaps are similar to those that prevailed in 2007 – for the total population – but they differ with respect to different population groups.

- The poverty incidence of families remained **stable** in 2008: the rate of families whose disposable income fell below the poverty line totaled **19.9%** – as in 2007.
- The rate of persons living in poor families also **remained stable** at **23.7%** (as compared to 23.8% in 2007).
- The poverty incidence of children – that had sharply increased during the previous decade (at a rate of 60%), continued its downward trend of 2007, **dipping slightly** from **34.2%** in 2007 to **34%** in 2008.
- Stability over the last two years was recorded in other poverty indices as well: the depth and severity of poverty remained at their 2007 levels.
- There were **420,100** poor families in Israel in 2008, comprising **1,651,300** persons, including 783,600 children.
- After a continued downward trend in the direct contribution of government policy measures to reduce poverty, the percentage of families lifted out of poverty as a result of direct taxation and transfer payments remained the same: 38.3%.
- The decline in poverty as measured by economic income (income from work, pension and capital) was halted: In 2008 32.3% of the families were defined as poor on the basis of their economic income – an identical rate to that of 2007.
- The Gini index measuring inequality in disposable income rose slightly, by **0.6%** between 2007 and 2008. On aggregate, the index **rose** from 2000 to 2008 by about 5%.
- In contrast, the Gini index for **economic income** continued to decline in 2008 as well (by 0.3%) and on aggregate since 2002 it has **declined** by about 5%.

Below are selected findings in the breakdown by population groups.

- The condition of the **elderly** remained **stable**. The incidence of poverty among them totaled 22.7% in 2008. In contrast the other indices for evaluating poverty - the income gap and the SEN Index for poverty severity – show a **slight improvement** in the condition of the elderly. The government's contribution to reducing poverty among the elderly rose between the two years.
- The poverty incidence of **Arab families continued to decline**, from 54% in 2006 and **51.4%** in 2007 to **49.4%** in 2008. The decline from 2006 to 2008 is statistically significant, and can be attributed primarily to integration in the labor market: between the years 2007 to 2008 the number of income providers rose by about 4% on average per family and correspondingly the **Arabs' share** of the poor population declined from 34.6% in 2007 to 33.8% in 2008.
- The contribution of policy measures to reducing poverty among Arabs, which is lower in relative terms than for other groups, **rose** in 2008, from **11.8%** in 2007 to **13.5%** in 2008.
- The incidence of poverty among new immigrants **declined** slightly, from 18.8% in 2007 to 18% in 2008. In contrast, the income gap **rose** from 27.6% to 29.4% between the two years.
- The incidence of poverty among **families with children declined** slightly, from 24.8% in 2007 to 24.5% in 2008. This decline reflects a decline in the poverty incidence among families with 1-3 children (from 18.4% to 17.8%), that was partially offset by a rise in the poverty rate of larger families (from 56.5% to 57.8%) between 2007 and 2008.
- The **rate** of poor **single-parent families declined** from 29.8% in 2007 to 28.8% in 2008. However, the poor families **became poorer**: the income gap ratio (that expresses the distance between income and the poverty line) **rose sharply** – from 32.8% to 36.5% – and poverty severity as measured by the squared income gap measure (FGT index) recorded a sharp rise of about 22%. These increases were found to be statistically significant.
- The aggravation in the poor **single-parent families'** condition is explained by the deterioration of their condition on the job market, apparently following the dismissal of the sole provider in the household: income from work declined by a real rate of about 4% and the number of average providers per family declined by 1.7%. At the same time the components of "support from other families (?)" of these families rose steeply (at a real rate of about 18%).
- The incidence of poverty among **working families remained stable** at **12.2%**. This stability is reflected also in the other poverty indices showing the income gap and poverty severity. Nevertheless, in 2008 the share of the working population in the poor population continued to rise, totaling **46.3%** (as compared to 45.7% in 2007).

- The proportion of families among the **working-age population who are not working** has been steadily decreasing in recent years, but the poverty rates of those who remain in this category are still very high and they continued to rise, from 69.8% in 2007 to 71.4% in 2008. Transfer payments and direct taxes extricate only about 20% of these families from poverty.
- The incidence of poverty of households headed by **persons with median education** rose from 20.9% in 2007 to 22.1% to 2008. In contrast a drop was recorded in poverty among those with higher education (from 13.4% to 12.8%).
- In terms of **geographic** distribution, between 2007 and 2008 the incidence of poverty declined in all districts, except for Tel Aviv and the South. The Jerusalem district "leads" in terms of high poverty indices in comparison with the other districts.
- **Indications from the survey** suggest that the **economic crisis** that took its toll in the latter half of 2008 fully offset the real increase in disposable income of the first half of the year, and probably diminished the improvement in poverty among persons and children in 2008 that might have been observed otherwise.

Additional poverty indices

- The findings for the years 2004-2005 calculated for countries belonging to the OECD and Israel showed that by **international comparison** Israel is at the high end of the list with an incidence of poverty similar to those of the United States and Mexico. In 2008 the poverty indicators remained at their high level of 2005. The proportion of families that extricate themselves from poverty in Israel via direct benefit and tax policies is low by international comparison.
- **Financial expenditure for current consumption by 60% of poor families is also below the poverty line.** This may be viewed as an indication of poverty persistence or permanent poverty. The findings display a growth between 2007 and 2008 in the number of families (from 57% to 61%) and persons (from 61% to 64%) who live according to this estimate in continuous poverty.
- The findings regarding the quintiles demonstrate that the standard of living of families in all quintiles declined or remained constant in 2008. In terms of expenditures, however, the trend is not uniform: the level of expenditure declined in real terms in the bottom quintiles but rose in the intermediate quintiles.

Causes of poverty and the policy for reducing it

- The growth rate in the employment of workers living in poor families was higher than average (totaling 3.8% in 2008 compared to 2.8% among the non-poor workers).
- Since 2006 an inverse relationship, as expected, exists between the employment rate and the poverty rate of Arabs: the former rose in parallel with a reduction of the latter. However this relationship is not uniform over the years or among other population groups.

- The government objective to reduce poverty was originally set for 2008 to 2010, but its implementation was postponed to 2013. Had the government attempted to implement its objective in 2008, **the target would have been missed**, since gross income per family in the bottom quintile **declined** in real terms by 1.3% compared to a **growth** of 2.3% in the per capita gross domestic product (2%) and an additional 10% of the growth rate (together 2.3%).

INTRODUCTION

The goal of this report is to provide a broad and in-depth status report on the state of poverty and social gaps and their causes in Israel in 2008 as compared to 2007 and previous years. This enables policy makers to use the report as a factual basis for informed policy discussion in support of rational decision making concerning the desired social policy for Israel.

The State of Israel is in the process of joining the OECD that groups together countries of vast economic strength. The report on Israel under preparation by the OECD examines various aspects of Israel's economy and society. The main area in which substantial gaps are identified in an international comparison of Israel's situation is in terms of poverty and social gaps. The causes of these are familiar and their analysis finds expression in the current report and in previous reports issued by the National Insurance Institute of Israel (NII) and other bodies. It further emerges from comparisons with the OECD that a substantial gap exists to Israel's detriment regarding the degree of generosity of the social security system, and in the current report we have for the first time expanded the analysis of this issue. The measures taken in recent years in the social area were sometimes contradictory. Nevertheless a consistent strategy for handling the gaps was recently formulated. It involved defining goals for reducing poverty mainly through increasing employment at a fair pay, particularly among sectors with low levels of employment and education. To assure the success of this objective it is vital, *inter alia*, to strengthen the enforcement of labor laws, both for Israeli and non-Israeli workers. This is not only an elementary moral obligation, but also serves the need of preserving the competitiveness of Israeli workers at the lower end of the wage distribution, a large and growing group given the especially high fertility rates in part of the population. A simultaneous improvement in education, an important step in itself, will mature only gradually and it is not suitable to everyone. Therefore one should also seek employment solutions in the realm of employing people with low education. An example of this is the handling of nursing care: given the demographic changes in Israel, where the rate of the elderly as well as of those requiring long term care is expected to increase rapidly in the coming years, such professions constitute an opportunity in the labor market to help attain social objectives, particularly at a time when industry jobs for people of lesser ability are disappearing, partly due to the share of low wage foreign workers in this branch. The analysis here highlights the fact that recent cutbacks in NII benefits have worsened their capacity to reduce inequality and poverty. The NII initiated the establishment of an internal committee, with the objective of examining the changes required in the benefit system, in order, *inter alia*, to rehabilitate this capability.

It is important for the government to persist in achieving its objectives and to resist the temptation to postpone their implementation. It is acceptable for a target to be missed, as long as this underperformance is met by policy actions that increase the prospects for attaining the goal at the next possible opportunity. This report analyzes, *inter alia*, the extent to which the official goal was met in the first year following its setting. It emerges that the results are unsatisfactory.

In recent decades Israel was confronted with severe economic problems and has successfully used a strategy of closely monitored targets to achieve them – this was the case in the area of inflation and in the area of the budget deficit. Now the time has arrived to do so, without delay, in the social realm as well.

Dr. Daniel Gottlieb
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A. Introduction

The report on poverty and social gaps presents the findings on poverty and social gaps for 2008 in comparison with 2007, as well as longer-range trends indicated by the data. Similarly to last year, also this year we expanded our analytical tools compared to past reports, this time concerning the effect of direct tax and benefits policies on poverty incidence. The report presents the findings on poverty and social gaps for 2008 in comparison with 2007, as well as longer-range trends indicated by the data, according to the relative approach practiced in Israel.¹ The findings result from the Research and Planning Administration's adaptation of are all based on the household income surveys and expenditure surveys of the Central Bureau of Statistics.²

In addition to data on poverty according to the existing approach, the report also provides findings from calculations performed in accordance with the recommendations submitted by the Team for Developing Additional Poverty Indices;³ analysis by quintiles while referring to the government poverty target set in terms of income for the bottom quintile; a calculation of the indicator for persistent (permanent) poverty and a calculation of the dimensions of poverty as practiced by international organizations, represented by the OECD. Chapter 4 of the report is devoted to an analysis of factors influencing poverty – the labor market, policies of benefits and taxation – and surveys the relevant changes that occurred in them in 2008. In part 5 the manner in which the government has met **the government target for reducing poverty**⁴ is examined and a poverty forecast for 2009 is presented.

B. Findings on Poverty and Inequality

1. A Summary of Income Trends Based On Data from the Income Survey

In 2008 the standard of living declined slightly, in terms of median income per standard person. This income declined in real terms by 0.6% and so did the poverty line derived from it (Table 1). In terms of average income per equalized person it remained more or less at its 2007 level (a decline of 0.1%).⁵

¹ Information about the measuring method, its definitions and the sources of the data can be found in the appendix to the Annual Survey of the National Insurance Institute of Israel, 2008.

² The findings generally refer to income surveys, unless noted otherwise.

³ See "Report of the Team for Developing Additional Poverty Indices" headed by Prof. Shlomo Yizhaki, February 2008, published by the Central Bureau of Statistics. The report includes the implementation of recommendations from the report that can be implemented within the limitations imposed by the existing data bases.

⁴ See the report by the Inter-Ministerial Committee to formulate Socio-Economic policy in Israel 2008-2010, the National Economic Council of the Prime Minister's Office.

⁵ It is common practice to use an equivalence scale, thus enabling the comparison of households of different family size. The National Insurance Institute uses an equivalence scale derived in the past from the share of food expenditure in total expenditure.

Table 1: Average Monthly Income per Household by Type of Income (in NIS), 2006-2008

Income Type	2006	2007	2008	Change over 2007 – in real terms
Economic per family	10,705	11,303	11,680	-1.2
Economic per equivalized person	4,047	4,282	4,416	-1.4
Gross per family	12,347	12,935	13,346	-1.4
Gross per equivalized person	4,774	5,016	5,159	-1.7
Net per family	10,077	10,465	10,973	0.3
Net per equivalized person	3,914	4,078	4,261	-0.1
Net median income per equivalized person	3,184	3,349	3,483	-0.6
Poverty line per equivalized person	1,592	1,675	1,742	-0.6

Table 1 demonstrates that economic income that derives exclusively from the labor market and capital (without government and other⁶ transfers to persons and before deduction of direct taxes) declined at a higher rate in real terms: by 1.2% on average per family. This decline reflects a slight decline in income from salaried labor alongside a sharp decline in income from capital (about 12%). Compared to 2007 and the years preceding it, the capital market ceased to be a factor contributing to the rise in the population's standard of living.

The rise in earnings from self-employment and from benefits slightly mitigated the fall in economic income. Gross income that also includes transfer payments declined by a rate of 1.4%, following the decline of the support component by a real rate of a single percent. Despite such trends, disposable income (average per family) recorded a slight rise, of 0.3% -- since compulsory payments (income tax, social security and health insurance) declined in 2008 by the appreciable rate of about 8%.

The poverty line for families of various sizes and as a portion of the minimum wage and the average wage when adjusted to the survey period are presented in Table 2. The poverty line in 2008 stood at NIS 2,180 for households of one person, about NIS 3,480 for a family with 2 persons and so forth. The data in the table shows that having only one minimum wage earner in the household leaves the families above three persons in need for transfer payments in order to escape poverty or reduce its severity. If she earned an average wage this situation occurs only for households exceeding 6 persons.

⁶ The government is the source of about 90% of the monetary transfers to households.

Table 2: The Poverty Line by Family Size, 2008 (on average for the survey period)

Number of persons in the family	NIS a month	As a percentage of the minimum wage	As a percentage of the average wage
1	2,177.1	57.9	27.0
2	3,483.4	92.6	43.2
3	4,615.5	122.7	57.3
4	5,573.4	148.2	69.2
5	6,531.4	173.7	81.1
6	7,402.2	196.8	91.9
7	8,273.1	220.0	102.7
8	9,056.8	240.8	112.4
9	9,753.5	259.4	121.1

* The minimum wage and the average wage were calculated according to the weights of the survey period. The minimum and average wages totaled NIS 3,760 and NIS 8,050, respectively.

2. Poverty and Inequality Findings for 2008

The incidence of poverty for families remained **stable** in 2008: the incidence of families with disposable income below the poverty line remained unchanged at 19.9%. The poverty rates of persons and children also stagnated compared to last year: 23.7% as compared to 23.8% in 2007. The poverty incidence among children, that had increased sharply in the preceding decade by 60% and reached its zenith in 2006, continued the downward trend that began with 2007 and declined to 34.0% in 2008, as compared to 34.2% in 2007 and 35.8% in 2006. The slight decline in the poverty incidence of persons and children in 2008, that is not significant in comparison with 2007, was found to be statistically significant in comparison with 2006.⁷ Chart 1 demonstrates the development of poverty among families, persons and children in recent years.

⁷ At a 5% level of significance.

Chart 1: Incidence of Poverty for Families, Persons and Children, 2002-2008

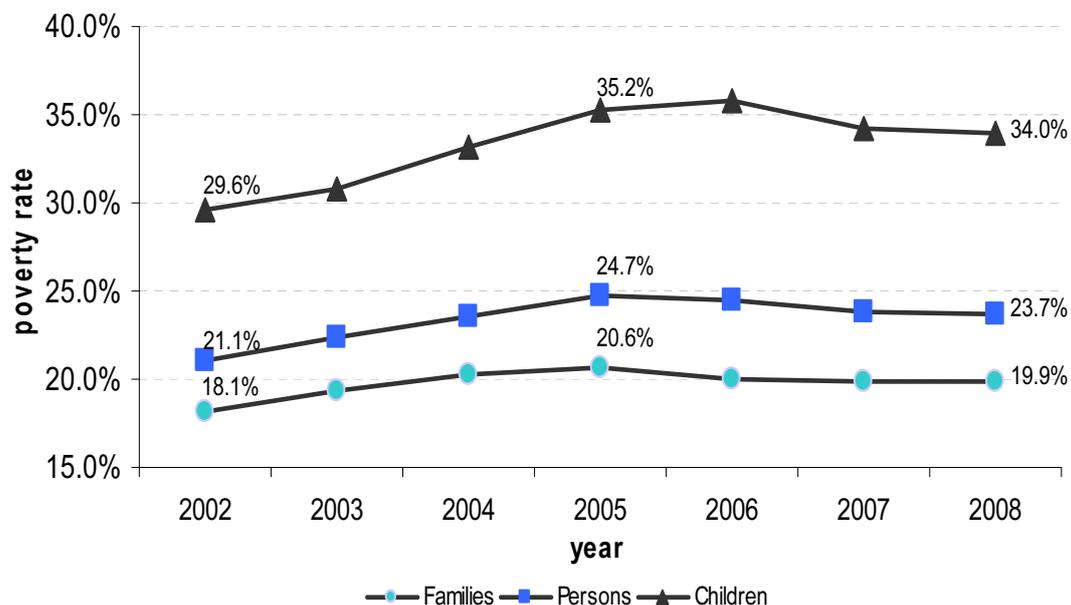


Table 3 reveals that according to economic income poverty remained unchanged compared to 2007: in both years the poverty incidence of families measured by economic income totaled 32.3% (compared to 32.9% in 2006). By contrast the incidence of poverty for persons and children rose slightly between the two years (increases that are not statistically significant).

Following a downward trend in benefit payments and direct taxation to the reduction of poverty, the rate of families extricated from poverty as a result of these measures stabilized at a level of 38.3%. In an analysis by persons and children their contribution to reducing poverty grew slightly: In 2008 the transfer payments and direct taxation extricated 27.7% of persons and 15.9% of children from poverty -- compared to 26.8% of persons and 14.3% of children in 2007. For the sake of comparison, in 2002 transfer payments and direct taxation extricated nearly 40% of persons and 30% of children from poverty. The downward trend in the influence of financial benefits and direct taxation on reducing poverty was blunted for children already in 2007 and expanded to persons in 2008.

In Table 3A, the incidence of poverty according to various definitions of income is provided and the contribution of direct taxes and transfer payments of various categories (from the National Insurance Institute, from other government institutions and other households) for reducing poverty are decomposed. As one can see, the contribution of the transfer payments (without direct taxes) for reducing poverty totals about 47%, and it is divided into 3 components: NII benefits, that constitute the bulk of transfer payments, contribute about 36%, and support components from other government institutions and support for from other households (that also include alimony payments) contribute about an additional 6% each. The net influence of

the government in the area of transfer payments for reducing poverty reaches about 90% of the total transfer payment contribution to families.⁸

Table 3: Incidence of Poverty (percentages and absolute numbers), 2007-2008

	Prior to transfer payments and direct taxation	After transfer payments and direct taxation	Rate of decline in poverty incidence following transfer payments and direct taxation
	Percentages		
2008			
Families	32.3	19.9	38.3
Persons	32.7	23.7	27.7
Children	40.4	34.0	15.9
2007			
Families	32.3	19.9	38.4
Persons	32.5	23.8	26.8
Children	39.9	34.2	14.3
	Absolute numbers		
2008			
Families	680,900	420,100	
Persons	2,283,300	1,651,300	
Children	931,300	783,600	
2007			
Families	669,100	412,900	
Persons	2,225,600	1,630,400	
Children	901,000	773,900	

The contribution of all those policy measures in reducing the poverty severity is cited in Table 3 in the Appendix and it demonstrates government performance in alleviating poverty, even though they were not extricated from poverty. The findings point to a slight decline – albeit not a significant one – in the contribution of policy measures to reducing poverty severity of families (from 43.5% in 2007 to 42.6% in 2008).

⁸ There are other transfer payments from the government to the families, such as benefits in kind, that are not taken into account. There are supports given to various businesses within the framework of the Law for Stimulating Capital Investments and other laws, that work to raise profits and – as a result – also the income of certain households (it is a plausible assumption that these belong to the upper deciles), but there is no way of quantifying their influence in this framework.

Table 3a: The Incidence of Poverty According to Various Income Definitions, and the Contributions of Direct Taxation and Transfer Payments of Various Categories in Reducing Poverty, 2007-2008

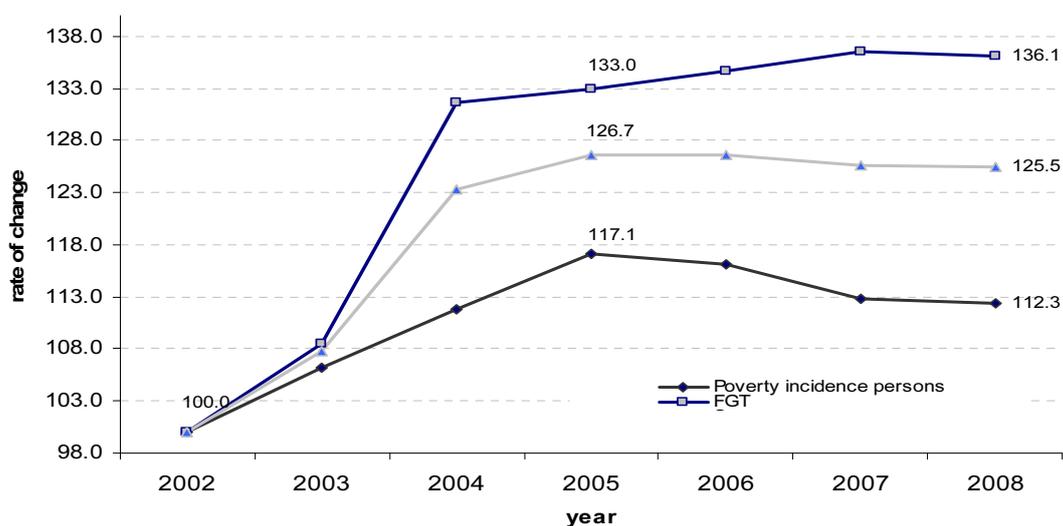
Year	Poverty incidence							Rate of poverty incidence decline				
	Prior to transfer payments and direct taxation	Following only transfer payments	Following only NII payments	Following only payments from government institutions	Following only payments from households and individuals	Following transfer payments and direct taxation	Following transfer payments and direct taxation	Following transfer payments and direct taxation	Following only transfer payments	Following only NII payments	Following only payments from government institutions (without NII)	Following only transfers from other households
2008												
Families	32.3	17.2	20.6	30.4	30.4	19.9	38.3	46.7	36.3	5.7	5.9	
Persons	32.7	21.3	23.9	31.3	31.5	23.7	27.7	34.9	27.1	4.4	3.7	
Children	40.4	31.4	33.9	39.3	39.5	34.0	15.9	22.3	16.1	2.7	2.3	
2007												
Families	32.3	17.1	20.4	30.4	30.2	19.9	38.3	47.1	36.7	5.8	6.4	
Persons	32.5	20.9	23.4	31.2	31.2	23.8	26.7	35.5	27.8	3.9	4.0	
Children	39.9	30.8	33.4	39.0	38.9	34.2	14.1	22.6	16.2	2.2	2.4	

Table 4 below assembles the findings on poverty and inequality among families, persons and children in the total population according to selected indices, during the years 2002 to 2007, and Chart 2 that follows presents the poverty incidence according to selected indices.

Table 4: Selected Poverty Indices, 2002-2008

Index	2002	2003	2004	2005	2006	2007	2008
Poverty incidence among families	18.10%	19.30%	20.30%	20.60%	20.00%	19.90%	19.90%
Poverty incidence among persons	21.10%	22.40%	23.60%	24.70%	24.50%	23.80%	23.70%
Poverty incidence among children	29.60%	30.80%	33.20%	35.20%	35.80%	34.20%	34.00%
Income gap ratio ("poverty gap ratio")	29.70%	30.50%	33.30%	33.10%	33.80%	34.20%	34.20%
FGT poverty severity index (quadratic income gap ratio)	0.0306	0.0332	0.0403	0.0407	0.0412	0.0418	0.0417
Gini Inequality Index among the poor	0.1833	0.1852	0.204	0.1948	0.1946	0.2039	0.2051
SEN Poverty index	0.09	0.097	0.111	0.114	0.114	0.113	0.113

Chart 2: Selected Poverty Indices, 2002-2008 (2002=100.0)



The income gap ratio – that conveys the income gap for families (in other words, the average distance between the income of the poor and the poverty line) – that totaled 34.3% in 2007, remained unchanged in 2008. The FGT index, reflecting poverty severity and combining poverty incidence with the income gap while weighing families higher, the poorer they are, stabilized for the first time in recent years and remained unchanged from 2007, and the same

applies for the SEN index. All indices surveyed above therefore show no change between 2007 and 2008. Among all the indices cited in Table 4, the only one pointing to any change whatsoever between the two years is the Gini index of the poor, which rose by half of one percent.

It should be noted that the survey indicates that the economic crisis that affected the economy in the latter half of 2008 fully offset the real increase in disposable income of the first half of the year, and likewise erased the improvements that could have been attained in the incidence of poverty for persons and children in 2008.

3. Analysis by Population Groups

The findings cited above demonstrate that despite the fact that the macroeconomic conditions over the last two years differed, poverty and social gaps picture remained unchanged with respect to the total population. Nevertheless, an examination of the condition of specific population groups shows that the picture is not a uniform one.

In the following tables, selected findings by population groups are provided. Table 5 demonstrates the poverty incidence of families by income before and after transfer payments and direct taxes, and the rate of decline in the incidence of poverty that results from transfer payments and direct taxes⁹ in the various population groups (in Table 2 in the Appendix the same data is provided for persons). Table 6 demonstrates the share of each group in the total population and in the poor population, and Table 7 produces additional indices for evaluating the dimensions of poverty in the various groups, such as the income gap and poverty severity.

Below are the main findings:

- The poverty incidence of Arab families continued to decline, from 54.0% in 2006 to 51.4% in 2007 and to 49.4% 2008. The decline from 2006 to 2008 is statistically significant. This decline is primarily attributed to integration in the job market: Between 2007 and 2008 the number of providers (on average per family) rose by about 4%, after a similar rise took place also between 2006 and 2007 (for the sake of comparison, in the Jewish population the rate of income providers rose by 2% between 2006 and 2008). At the same time, the Arab share of the poor population declined from 34.6% in 2007 to 33.8% in 2008.
- The decline in the poverty rates of Arab families is connected also to changes in the composition of these families: the ratio of families without children headed by a working-age person is rising slowly but consistently, from 18% in 2005 to 21% in 2008. These families are characterized by a relatively low number of persons relative to this population (3 persons on average per household).

⁹ The reported poverty incidences for income prior to transfer payments and direct taxation can bias the policy influence, for it is plausible to assume that without the existence of a system of monetary social benefits, people would behave differently and their poverty rate considering only economic income would probably be lower. In other words this perspective ignores long term effects of the taxation and benefit systems. An analysis of the longer-term influences requires a more in-depth study.

- **The contribution of direct policy measures to reducing poverty (taxes and transfers) rose among the Arabs** in 2008 – from 11.8% in 2007 to 13.5% in 2008 – but it still much lower than its level among the Jews: about 46%. The explanation for the large gaps between Arabs and Jews in this area stems primarily from the composition of the Arab population vis-à-vis the benefit structure: old-age and survivors pensions are the largest benefits, whereas the Arab population is relatively younger and characterized by a large number of children.
- The condition of the **elderly** remained **stable**. Their incidence of poverty among the elderly totaled 22.7% in 2008 (compared to 22.6% in 2007). The cost of living allowance of old age pensions by 2.5% in the beginning of 2008 and their increase (April 2008) by an average of about 2% vis-à-vis an actual rise in the consumer price index of 4.5% in 2008 left poverty among the elderly unchanged.
- The other indices for evaluating poverty among the elderly – the income gap and poverty severity as measured by the SEN poverty index – all point to a **slight improvement** in the condition of the elderly. The government's contribution to reducing poverty severity among the elderly rose between the two years.
- The incidence of poverty among **new immigrants declined** slightly, from 18.8% in 2007 to 18% in 2008. By contrast, the index of the relative income gap **rose** from 27.6% to 229.4% between the two years.¹⁰
- The incidence of poverty among **families with children declined** slightly, from 24.8% in 2007 to 24.5% in 2008. This decline reflects a drop in poverty for families with 1-3 children (from 18.4% to 17.8%), that was partially offset by a rise in poverty among larger families (from 56.5% to 57.8%) between 2007 and 2008.
- The rise in poverty among large families reflects, almost certainly, a rise in the incidence of poverty among the ultra-Orthodox, who are characterized by large families. In surveys used for the purpose of preparing this report, one cannot directly identify such families. By various definitions,¹¹ it was discovered that the poverty rates

¹⁰ A new immigrant is defined as someone who immigrated to Israel from the 1990s onwards. The findings attest that the condition of the veteran immigrants is better than that of the newer ones, although foreign workers are also apparently subsumed under new immigrants in the survey.

¹¹ The accepted definition for identifying ultra-Orthodox families in the income and expenditure surveys makes use of the field "last institution of learning": the family will be defined as ultra-Orthodox if a member of the family studied at a yeshiva (school of study of sacred Jewish texts). This definition includes a non-insignificant amount of families that are not ultra-Orthodox. On the other hand, ultra-Orthodox families are not included in it. As a result implausible demographic data are obtained about the population. Thus for example, under this definition, the number of ultra-Orthodox families in this income survey decreased in 2008 by about 18% – although in reality the natural increase of this population is higher than average. As a result of this we get peculiar findings about poverty: during the sharp cutback in benefits between 2002 and 2004, the poverty incidence of ultra-Orthodox under this definition declined appreciably. A different definition for ultra-Orthodox appears in Gottlieb D., (2007) "Poverty and Behavior in the Labor Market in ultra-Orthodox Society", Policy Study Series number 4, Programme for Economics and Society, Van Leer Institute of Jerusalem, pp. 1-56. According to this definition the employment rates of ultra-Orthodox are very different from those received under the accepted aforesaid definition.

in this group are substantially higher than those of other groups (except for the Arabs), reaching rates of between 60 and 70% (for families). However, in our estimate, within the limitations of the data one cannot reach conclusions regarding short-term changes in this population without additional research, and therefore the ultra-Orthodox, although characterized by especially high poverty rates, are absent from the report tables at this stage.¹²

- The **rate of poor single-parent families** declined from 29.8% in 2007 to 28.8% in 2008. However, the poor families became **still poorer**: the income gap ratio – that expresses the average distance of the poor's income from the poverty line – rose at a **steep rate**: from 32.8% to 36.5%, and the FGT index for poverty severity recorded a sharp rise: about 22%. These increases were found to be statistically significant.
- The aggravation in the condition of the poor **single-parent families** can be explained by the deteriorating situation in the labor market, apparently given the dismissal of the sole provider in the household: income from work declined at the real rate of about 4% and the number of average providers per family **declined by 1.7%**. At the same time the component of "support from private persons" for these families rose substantially (at a real rate of about 18%).
- The incidence of poverty among **working families remained stable** at a level **12.2%**. This stability is reflected also in the other poverty indices that display the income gap and poverty severity. In contrast, the share of the working population in the poor population continues its growth trend of the past 2 decades: in 2008 the share of the working population in the total poor population reached 46.3%, compared to 45.7% in 2007.
- The share of **non-employed working-age families** in the population has been constantly decreasing in recent years. Thus, for example, while in 2002 they constituted 12% of the total number of families, in 2008 their share declined to 9%. This finding reflects the success of a policy of integrating many of these families in jobs. Nevertheless, the very high poverty rates of those who remain in this category continue to rise: in 2006, 66% of these families were poor according to their disposable income. In 2007 this rate rose to 69.8% and in 2008 it increased still further to 71.4%. Transfer payments extricate only about 20% of these families from poverty (compared to 38% of total families).
- The incidence of poverty of households headed by **persons of median education** rose from 20.9% in 2007 to 22.1% in 2008. In contrast, a decline was recorded in the incidence of poverty among those with higher education (from 13.4% to 12.8%). The indices for the income gap and poverty severity suggest that poverty conditions of the poor population in these two groups remained unchanged.

¹² The Research and Planning Administration is working to formulate a way to involve this population and publications based on Central Bureau of Statistics surveys.

- The incidence of poverty for households headed by **persons with low education**, that totaled 44.6%, in 2008 remained stable, whereas the income gap and poverty severity declined between the two years: the income gap declined from 38.6% to 35.5% and the FGT index also declined appreciably - by about 15%.

Table 5: The Poverty Incidence of Families by Population Groups (Percentages), 2007 and 2008

	Income prior to transfer payments and taxes		Income following transfer payments and taxes		Rate of decline of poverty incidence following to transfer payments and taxes (in percentages)	
	2007	2008	2007	2008	2007	2008
Total population	32.3	32.3	19.9	19.9	38.3	38.3
Jews	28.3	28.4	15.0	15.3	46.8	46.2
Arabs	58.3	57.1	51.4	49.4	11.8	13.5
Elderly*	55.9	55.9	22.6	22.7	59.5	59.4
New immigrants	40.2	40.7	18.8	18.0	53.2	55.7
Total families with children	30.5	30.9	24.8	24.5	18.5	20.6
1-3 children	23.8	24.0	18.4	17.8	22.9	25.8
4 or more children	63.2	65.1	56.5	57.8	10.5	11.1
5 or more children	74.9	77.4	66.7	68.6	10.9	11.4
Single parent families	46.9	46.9	29.8	28.8	36.5	38.6
Occupational status of household head						
Worker	18.2	18.8	12.2	12.2	33.1	34.8
Salaried employee	18.6	19.3	12.1	12.2	34.8	36.8
Self-employed	15.4	15.3	12.4	12.7	19.3	17.3
Working age unemployed	91.2	89.5	69.8	71.4	23.5	20.2
Single provider	35.2	35.3	23.5	23.0	33.4	34.7
Two or more providers	4.1	4.7	2.8	3.0	30.9	35.9
Age bracket of household head						
Up to 30	35.7	36.4	25.7	24.4	28.1	32.9
Aged 31-40	26.6	26.7	20.5	20.7	23.0	22.5
46 to pension age	22.0	21.3	14.1	14.5	36.1	31.9
Legal pension age	59.3	58.2	23.5	23.1	60.5	60.3
Education bracket of household head (years of schooling)						
Up to 8	69.4	68.7	44.3	44.6	36.2	35.1
Between 9-12	32.6	33.5	20.9	22.1	35.9	34.2
13 or more	23.2	23.2	13.4	12.8	42.4	44.9

* A woman aged 60 years or over and a man aged 65 years or over.

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

Table 6: The Share by Categories of Families in the Total Population and In the Poor Population According to Demographic and Occupational Characteristics, 2006-2007

	Total population		Poor population			
			Prior to transfer payments and direct taxation		Following transfer payments and direct taxation	
	2007	2008	2007	2008	2007	2008
Jews	86.6	86.4	75.8	75.9	65.4	66.2
Arabs	13.4	13.6	24.2	24.1	34.6	33.8
Elderly*	19.6	19.6	34.0	33.9	22.3	22.3
New immigrants	19.0	19.0	23.6	24.0	17.9	17.2
Total families with children	46.1	46.0	43.5	44.1	57.5	56.7
1-3 children	38.3	38.3	28.2	28.4	35.3	34.2
4 or more children	7.8	7.8	15.3	15.6	22.2	22.5
5 or more children	3.9	3.7	9.0	8.9	12.9	12.8
Single parent families	5.4	5.3	7.8	7.7	8.0	7.7
Occupational status of household head						
Worker	74.7	75.4	42.1	43.8	45.7	46.3
Salaried employee	65.2	66.0	37.5	39.4	39.7	40.3
Self-employed	9.5	9.3	4.5	4.4	5.9	6.0
Working age unemployed	9.3	9.0	26.3	25.0	32.6	32.3
Single provider	33.9	34.6	37.0	37.8	39.9	40.1
Two or more providers	40.8	40.8	5.1	6.0	5.8	6.2
Age bracket of household head						
Up to 30	18.1	17.9	20.0	20.2	23.3	21.9
Aged 31-40	34.3	34.6	28.2	28.6	35.3	35.9
46 to pension age	30.9	30.2	21.0	19.9	21.8	22.0
Legal pension age	16.7	17.4	30.8	31.3	19.7	20.2
Education bracket of household head (years of schooling)						
Up to 8	11.9	11.4	25.6	24.2	26.5	25.5
Between 9-12	38.4	37.9	38.7	39.3	40.2	41.9
13 or more	49.7	50.8	35.7	36.5	33.3	32.6

* A woman aged 60 years or over and a man aged 65 years or over.

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

Table 7: An Evaluation of the Poverty Dimensions in Various Population Groups According to Selected Indices, 2006 and 2007

	Income gap ratio		FGT index		SEN index	
	2007	2008	2007	2008	2007	2008
Total population	34.3	34.2	0.042	0.042	0.113	0.113
Jews	32.0	32.8	0.026	0.027	0.073	0.076
Arabs	37.0	36.0	0.107	0.101	0.276	0.263
Elderly*	23.4	23.0	0.024	0.022	0.081	0.075
New immigrants	27.6	29.4	0.023	0.025	0.072	0.073
Total families with children	35.2	35.4	0.052	0.052	0.140	0.140
1-3 children	33.2	33.9	0.032	0.032	0.087	0.087
4 or more children	37.1	36.7	0.109	0.109	0.288	0.293
5 or more children	37.6	37.1	0.126	0.128	0.333	0.341
Single parent families	32.8	36.9	0.050	0.061	0.146	0.161
Occupational status of household head						
Worker	26.9	26.9	0.018	0.018	0.063	0.062
Salaried employee	26.5	26.5	0.017	0.017	0.062	0.061
Self-employed	30.4	29.7	0.022	0.025	0.066	0.072
Working age unemployed	50.9	50.9	0.258	0.265	0.521	0.534
Single provider	27.8	28.0	0.040	0.040	0.139	0.135
Two or more providers	21.3	20.6	0.003	0.004	0.012	0.013
Age bracket of household head						
Up to 30	34.9	35.4	0.058	0.055	0.154	0.142
Aged 31-40	35.1	33.9	0.048	0.045	0.129	0.128
46 to pension age	36.9	39.0	0.030	0.035	0.076	0.085
Legal pension age	21.0	21.4	0.020	0.019	0.075	0.071
Education bracket of household head (years of schooling)						
Up to 8	38.6	35.9	0.116	0.098	0.286	0.255
Between 9-12	33.1	33.9	0.043	0.046	0.120	0.126
13 or more	32.5	33.5	0.024	0.027	0.070	0.073

* A woman aged 60 years or over and a man aged 65 years or over.

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

Table 8 presents poverty dimensions by geographic region, divided between Jews and Arabs.¹³ Between 2007 and 2008 the incidence of poverty declined in most districts, save for Tel Aviv and the South. In the Northern District the incidence of poverty among families declined from 32.4% to 30.5% and in the Central District it declined from 12.1% to 11.3%. In contrast, in the Tel Aviv District the incidence of poverty among families rose from 12.1% to 13.7% and in the Southern District from 23.2% to 23.6%. The trends of change in the incidence of poverty among persons and children in the various districts -- are similar.

The income gap and severity demonstrate trends that are not necessarily similar: in the Jerusalem and Northern Districts the poor became still poorer, whereas in the other districts (aside from the Tel Aviv District, where the two indices show contradictory directions), these indices point to a certain amelioration in their condition.

Similar to 2007, in the Jerusalem District the dimensions of poverty – as they find expression in the rate of poor people and in poverty severity – were higher in 2008. Poverty incidence among families in this district reached 32.2% and among children it reached 54.9%. In the Central District – that in 2008 replaced the Tel Aviv District as the district with the lowest dimensions of poverty – poverty among families reached 11.3%, nearly half of the national level, and the income gap and its severity were the lowest among all districts.

The Jerusalem District continues to be the poorest district for Arabs and Jews, although poverty severity among the Arab families in Jerusalem is appreciably higher than that among Jewish families. The portion of poor Jewish persons in the Jerusalem District totals 30.9% and among children it totals 44.8%, compared to rates of 63.2% and 72.7%, respectively, for Arab persons. The gap between these two national groups is reduced when we compare the situation of poor families only: in all the districts and nationalities the gap between income and the poverty line is 30% , except for the Jerusalem District, where the average relative income gap of the poor reaches about 39% from the poverty line for Jews and about 47% for Arabs.

Table 9 displays Gini indices for inequality of disposable income over time. The index for disposable income shows a rise of about half a percent between 2007 and 2008¹⁴, and on aggregate, it declined at a similar rate in the 3 years between 2005 and 2008.

The cumulative increase in the Gini Index for inequality of disposable income between 2002 and 2008 totals 4.7%. In contrast, the index for economic income (that does not include government intervention via direct taxation and benefits) **declined** at a similar rate during that period.

¹³ Except for the cells where one could not calculate indices owing to a paucity of observations.

¹⁴ Since 2006 a new method has been implemented in income surveys in whose framework an average is performed on a given number of observations with top incomes ("top coding "). This change does not affect poverty measurement, but it does affect calculations of income inequality and income distribution. Nevertheless, from examinations performed regarding past data it appears that these changes are relatively small in the indices examined.

Table 8: Incidence of Poverty by District and Nationality, 2007-2008

	2007						2008					
	Poverty incidence			Income gap	FGT	Poverty incidence			Income gap	FGT		
	Families	Persons	Children			Families	Persons	Children				
Total*	19.9	23.8	34.2	34.2	0.042	19.9	23.7	34.0	34.2	0.042		
Jerusalem	33.3	42.6	55.6	41.4	0.103	32.2	41.1	54.9	43.1	0.107		
North	32.4	35.5	44.9	29.8	0.047	30.9	33.7	42.8	32.2	0.051		
Haifa	18.2	20.7	31.4	34.6	0.037	18.3	21.1	31.5	31.7	0.031		
Center	12.2	13.3	18.8	32.3	0.022	11.3	12.2	17.0	30.4	0.018		
Tel-Aviv	12.1	13.0	20.3	32.8	0.023	13.7	15.2	23.4	31.5	0.025		
South	23.2	26.1	36.4	33.7	0.043	23.6	25.8	35.2	31.3	0.039		
Jews	15.0	16.2	23.8	32.0	0.026	15.3	16.4	23.6	32.8	0.027		
Jerusalem	23.6	31.4	45.9	36.0	0.057	23.7	30.9	44.8	39.1	0.065		
North	18.4	16.0	17.7	28.4	0.022	18.5	16.6	19.3	29.6	0.024		
Haifa	13.2	13.1	20.4	31.3	0.02	13.3	12.9	17.9	29.4	0.017		
Center	10.1	10.2	14.2	30.1	0.015	9.0	8.7	11.5	29.0	0.012		
Tel-Aviv	12.0	12.8	19.8	32.3	0.022	13.5	14.6	22.1	31.7	0.024		
South	20.8	19.8	25.7	30.3	0.028	21.3	20.2	25.6	32.5	0.033		
Arabs	51.4	54.5	62.5	37.0	0.107	49.4	53.1	62.1	36.0	0.101		
Jerusalem	69.9	69.3	74.1	47.3	0.212	59.0	63.2	72.7	47.3	0.2		
North	48.1	51.1	60.4	30.1	0.067	45.7	47.6	56.2	32.9	0.073		
Haifa	44.0	44.3	50.8	37.8	0.089	43.2	46.5	56.2	33.8	0.074		

* The total also comprises the Judea and Samaria District.

** In the Central, Tel Aviv and Southern Districts there are no calculations for the Arabs due to a paucity of observations.

Table 9: Gini Index for Inequality in Income Distribution for the Population, 2002-2008

	Prior to transfer payments and direct taxes	Following transfer payments and direct taxes	Percentage decline as a result of transfer payments and direct taxes
2008	0.5118	0.3853	24.7
2007	0.5134	0.3831	25.4
2006	0.5237	0.3923	25.1
2005	0.5225	0.3878	25.8
2004	0.5234	0.3799	27.4
2003	0.5265	0.3685	30.0
2002	0.5372	0.3679	31.5
1999	0.5167	0.3593	30.5
2008 vs. 2007	-0.3	0.6	
2008 vs. 2005	-2.1	-0.6	
2008 vs. 2002	-4.7	4.7	
2008 vs. 1999	-1.0	7.2	

C. Additional Poverty and Inequality Indices

1. Financial Data by Quintiles

This section presents selected data regarding the population's standard of living by quintiles¹⁵ in 2007 and 2008.

Chart 3 displays the real growth in disposable income per standard person by quintiles in 2008 and in the period from 2002 to 2008. Between 2007 and 2008 income remained almost unchanged [-0.1%] for the total population. In the upper quintile, the third and the fourth quintile incomes remained more or less at their 2007 level and in the second quintile it declined at the relatively deviant rate of 1.2%. Only in the upper quintile was a slight increase recorded between the two years [0.2%].

In a more long-term appraisal, since 2002, income rose at a real cumulative rate of 17% for the total population. In the 2 upper quintiles it rose at a similar rate (between 17% and 19%), and in the second quintile it rose it rose by 13.4% and in the bottom quintile at a rate lower by almost a half – 8.2%.

Chart 3: The Real Change in Disposable Income per Standard Person by Quintiles (Percentages)

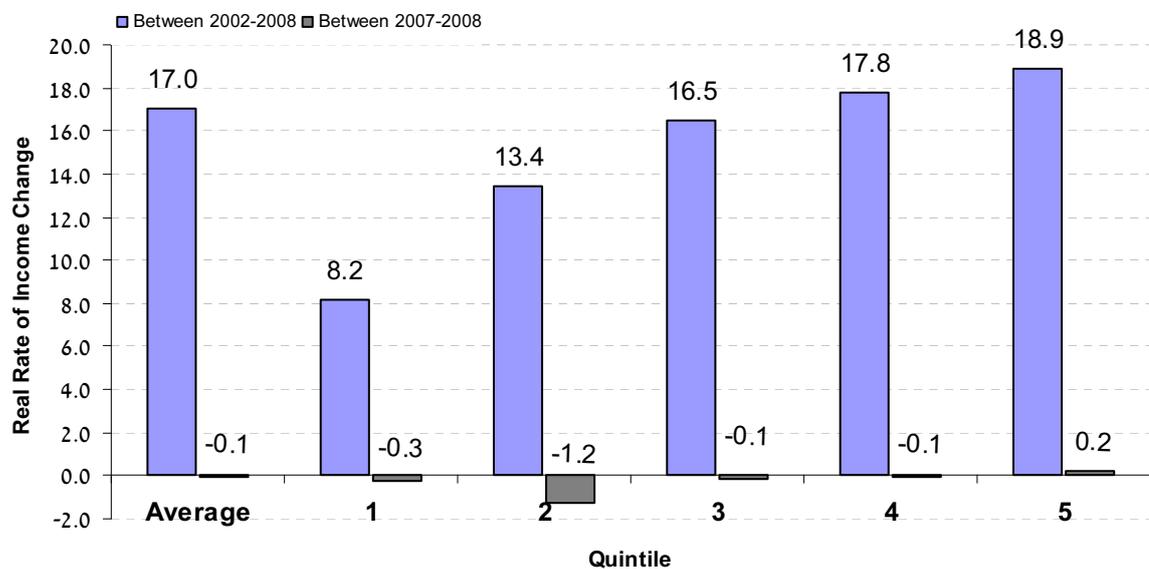


Table 10 below displays income for 2008, according to source and type of income, as well as the real change in percent, compared to 2007; Table 11 presents the division of the income

¹⁵ Quintiles were classified by equalized personal disposable income. Each quintile equals 20% of the families. This definition is also compatible with the definition for the government poverty target which identifies the poor by the lowest quintile (see chapter 4 below).

"pie" by their various definitions into quintiles; whereas Table 12 displays the changes in family expenditure and the division of the expenditure "pie" into quintiles.

The findings of Table 10 show that income from work declined on average by 1.1% and that the decline was common to the bottom, the 3rd and the 4th quintiles. In the 2nd and upper quintiles, income from work remained almost unchanged. The income of the top quintile from work is 14 times higher than that of the lowest quintile from this source. Real declines occurred also in income from two other sources: pension, provident and capital funds (a decline of about 3% on average) and income from stipends and benefits (a decline of about 2% on average). These declines led to a decline of 1.7% in gross personal equivalized income, and to declines in varying rates among all the quintiles: in the lowest quintile, gross income declined by 0.6% and in the other quintiles it declined at higher rates, of up to 2%. In contrast, compulsory payments declined at a steep rate of about 8% and in toto this left disposable income without any real change for the total population as well as for each of the quintiles, save for the 2nd quintile whose disposable income per standard person declined by 1.2%. Similarly to 2007, the ratio between the corrected disposable income of the top quintile and the income of the bottom quintile totaled 7.8% in 2008.

Table 11 displays the share of each quintile in total income by its various definitions. The data indicates that the share of the top quintile in income from work rose from 46.7% in 2007 to 47.3% in 2008. The upper 4th and 5th quintile control together 70% of income from work but only about a third of income from stipends and benefits. In contrast, the two lower quintiles control about 12% of income from work and half of the income from stipends and benefits. The table also shows the degree in which the various categories of direct taxation are progressive: in 2008 the top quintile paid almost 73% of income tax but only about 57% of National Insurance institute contributions and about 42% of health insurance contributions.

Nearly half of the economic income (48.3%) – whose sources derive from the labor market and capital – is in the hands of the top quintile, compared to 3% in the hands of the bottom quintile. The government's means for direct intervention – direct taxation and transfer payments – reduce the share of the top quintile to about 40% of total disposable income, and raise the share of the bottom quintile to 6.4% of it.

Part 3 in Chapter 4 of the report deals extensively with the government's objective to reduce poverty based on change in the income of the bottom quintile in comparison with the change in per capita gross domestic product.

The trend towards changes in expenditure between the various quintiles is less uniform. The findings presented in Table 12 demonstrate that the financial expenditure per standard person declined between the two years by half a percent. The real drop in financial expenditure was in the bottom quintile and in the top (4th and 5th) quintiles. In contrast, in the intermediate quintiles, the 2nd and 3rd, financial expenditure rose on average by about 3%. The share of expenditure in total financial expenditure declined from 12.1% to 11.7% in the bottom quintile. The 4th quintile as well reduced its share in total financial expenditure, from 23.5% to 22.6%. In contrast, the 2nd, 3rd and top quintiles increased their share in the total expenditure pie.

Since the change in the composition of the population of the various quintiles explains some of the changes in the data from one year to the next (the sample changes every year), the data in Table 13 assume a stable composition of the various quintiles (children and the elderly). In 2007 population movements occurred between the first and 2nd quintiles, in a manner in which a relatively high rate of large families "moved" to the 2nd quintile. In the transition from 2007 to 2008, by contrast, the changes in the composition of the population appear negligible, and therefore they do not explain the differences in the rate of change for income and expenditures.

An examination of income and expenditure by quintiles using the equivalence scale practiced by the OECD – in other words, when the equalized number of persons in the household equals the square root number of persons in the household,¹⁶ can, as expected, produce somewhat different findings that can be explained by the structure of the equivalence scale.¹⁷ Tables parallel to Tables 10 to 12 that utilize the OECD equivalence scale instead of the Israeli equivalence scale are presented in the Table Appendix.

¹⁶ This is done both for the purpose of sorting the quintiles as well as for calculating equalized personal income. See additional details in the chapter on international comparisons below.

¹⁷ While both equivalence scales award equal weight to an adult and to a child, the equivalence scale of the square root of the number of persons" assigns greater economies of scale to family size ("savings in expenditure from an increase in the number of persons"), and therefore the increment in the income/expenditure required for an additional person joining the household is relatively smaller than that required according to the Israeli scale. As a result even the composition of the quintiles sorted by equalized income is different for each of the quintiles: The bottom quintiles tend to include a higher proportion of large families, since as stated their economies of scale based on the Israeli equivalence scale are smaller, and therefore the increments required in order to remain at a steady standard of living in income/expenditure are higher.

Table 10: The Source and Type of Income by Quintiles*, 2008, and the Real Change compared to 2007

Source/Type of income **	2008					2007					Ratio between income for the top and bottom quintile	
	Average	1	2	3	4	5	Average	1	2	3		4
From work	10,430	1,750	4,660	8,350	12,730	24,640	-1.1	-4.1	-0.2	-1.5	-3.0	0.1
From pension provident fund and capital	1,320	90	400	880	1,450	3,760	-2.9	14.7	-7.1	-4.8	-3.6	-1.9
From stipends and support payments	1,600	1,880	1,870	1,530	1,400	1,290	-2.1	-1.1	-43.0	0.8	2.4	-7.8
Compulsory payments	-2,370	-250	-590	-1,150	-2,360	-7,530	-8.2	-7.0	-7.3	-11.8	-13.4	-6.0
Net per family	10,970	3,520	6,350	9,620	13,220	22,170	0.2	-0.9	-1.2	0.0	-0.4	1.4
Gross per family	13,350	3,760	6,930	10,760	15,580	29,690	-1.4	-1.4	-1.7	-1.4	-2.6	-0.6
Economic per family	11,680	1,870	5,020	9,190	14,090	28,220	-1.2	-1.4	-1.0	-1.6	-2.9	-0.2
Net equivalized	4,260	1,190	2,280	3,500	5,040	9,290	-0.1	-0.3	-1.2	-0.1	-0.1	0.2
Gross equivalized	5,160	1,280	2,480	3,800	5,860	12,300	-1.7	-0.6	-1.5	-1.3	-2.0	-1.7
Economic equivalized	4,420	520	1,600	3,170	5,190	11,590	-1.4	-0.6	-0.8	-1.8	-1.9	-1.2

* Quintiles were classified by disposable income per standard person when each quintile totals 20% of the families.

** Compulsory payments constitute of course negative "income".

Table 11: The Share of Each Quintile in Total Income, 2007-2008

Types of income and compulsory payments	2007					2008						
	Total	1	2	3	4	5	Total	1	2	3	4	5
Income from work	100.0	3.5	8.9	16.1	24.9	46.7	100.0	3.4	8.9	16.0	24.4	47.3
From pension provident fund and capital	100.0	1.2	6.3	13.6	22.2	56.7	100.0	1.4	6.1	13.3	22.0	57.2
From stipends and support payments	100.0	23.4	24.0	18.7	16.8	17.2	100.0	23.6	23.5	19.2	17.5	16.2
Compulsory payments	100.0	2.1	4.9	10.1	21.0	61.9	100.0	2.1	4.9	9.7	19.8	63.4
Income tax	100.0	0.4	2.7	7.7	19.5	69.7	100.0	0.3	2.4	6.8	17.9	72.6
NII	100.0	2.7	6.1	12.0	23.6	55.7	100.0	2.5	6.4	11.8	22.6	56.6
Health insurance	100.0	7.3	11.0	16.2	23.7	41.8	100.0	7.2	11.1	16.1	23.3	42.3
Net per family	100.0	6.5	11.7	17.6	24.3	39.9	100.0	6.4	11.6	17.5	24.1	40.4
Gross per family	100.0	5.6	10.4	16.2	23.6	44.2	100.0	5.6	10.4	16.1	23.3	44.5
Economic per family	100.0	3.2	8.6	15.8	24.6	47.8	100.0	3.2	8.6	15.7	24.1	48.3

Table 12: Equivalized Personal Expenditures by Quintiles, Rates of Real Change and the Distribution of Expenditure, 2007-2008

	Average	1	2	3	4	5
Monthly expenditure in NIS						
Expenditure on consumption	4,820	2,620	3,460	4,430	5,410	8,200
Monetary expenditure	3,680	1,930	2,660	3,370	4,130	6,290
Expenditure on family consumption	12,340	7,400	9,510	11,820	14,000	18,980
Family monetary expenditure	9,480	5,560	7,400	9,090	10,700	14,640
Real change vs. 2007						
Expenditure on consumption	0.9	1.5	3.9	2.0	-2.0	0.8
Monetary expenditure	-0.4	-0.5	3.8	1.5	-4.0	-0.6
Expenditure on family consumption	1.9	-1.1	6.8	2.8	-1.1	2.3
Family monetary expenditure	0.4	-2.9	6.5	1.6	-3.6	1.0
Share of expenditure in total expenditure -2007						
Expenditure on family consumption	100.0	12.3	14.7	19.0	23.4	30.6
Family monetary expenditure	100.0	12.1	14.7	18.9	23.5	30.7
Share of expenditure in total expenditure -2008						
Expenditure on family consumption	100.0	12.0	15.4	19.1	22.7	30.8
Family monetary expenditure	100.0	11.7	15.6	19.2	22.6	30.9

Source: Survey of Household Expenditures, the Central Bureau of Statistics

Table 13: Composition of the Quintiles, 2007 and 2008

	Total	1	2	3	4	5
2007						
Average persons per family	3.31	3.95	3.43	3.32	3.12	2.72
Average children per family	1.09	1.87	1.24	0.99	0.81	0.54
Average elderly per family	0.38	0.35	0.44	0.38	0.35	0.36
2008						
Average persons per family	3.31	3.95	3.43	3.32	3.12	2.72
Average children per family	1.09	1.87	1.24	0.99	0.81	0.54
Average elderly per family	0.38	0.35	0.44	0.38	0.35	0.36

2. Persistent Poverty

The poor population is not constant from one period to another: some of the poor move out of poverty, while other people join the poor population. The larger the share of the poor, the greater is persistent ("permanent") poverty. In the professional literature it is customary to refer to expenditure as being influenced primarily by permanent income, because according to the theory of permanent income a family tends to change its (permanent) current consumption due to stable changes in income, whereas temporary changes in income tend to increase primarily savings and purchases of durable goods. Therefore, expenditure typically fluctuates less than does current income. The assumption is that when a sudden loss of current income occurs (such as due to unemployment), the families will attempt to preserve a stable standard of living, by bridging the gaps via savings, loans etc. in the short term they will bridge the gaps via savings, loans etc. The standard of living will change only if the household is persuaded that its income has changed for the long-term horizon.

Israel has no longitudinal survey available that would facilitate monitoring families in order to measure persistent (permanent) poverty among them, and therefore recommendation 2 (a.) in the "Report of the Team for Developing Additional Poverty Indices" suggests that in calculating the index presented here one should regard a poor family (by the usual income definition) whose expenditure is also below the poverty line, as a representative of permanent poverty. Specifically, an examination would be conducted for every family defined as poor according to the existing approach, to determine whether it is poor not only according to its current income but also according to its financial expenditure. If so, this will be an indication of that family's persistent poverty.

Table 14 presents the proportion of poor families and persons by that definition. These findings yield the conclusion that the stability trend that characterized 2008 from the standpoint of general poverty is not reflected in the data for permanent poverty: between 2007 and 2008 the ratio of families whose financial expenditures are lower than the poverty line rose from 57% to 61%, while the number of persons rose from 61% to 64%. This data can be reconciled with a real decline in expenditure for the lower quintiles (Table 12). A possible explanation for the estimated rise in permanent poverty can be the households' requirement to economize on expenditures given the relatively high inflationary expectations in 2008. In some groups we get appreciable increases in the rate of families "suspected" of being permanently poor. Among the elderly, the level of permanent poverty rose sharply in 2008 to 69%. This result was found to be significant and it is deviant, since the permanent poverty estimated among elderly families since 2002 did not exceed 60%. An analysis of the breakdown of expenditure demonstrates that the major cutback among the elderly poor in 2008 was on "non-vital" health services expenses and : dental care and private health services. Increases in estimated permanent poverty were also encountered among Arabs (compared to the trend towards improvement in their general poverty data), single-parent families and those with low education. It should be noted that fluctuations in the rate of permanent or estimated permanent poverty occurs frequently, since the groups examined are relatively small (in all specific population groups one refers only to the poor

families within it; the smaller the group and the smaller the incidence of its poverty, the smaller the number of families).

The table shows that according to this indicator most families and persons living currently in poverty (61% and 64% respectively) are also permanently poor. Furthermore, the groups characterized by high rates of poverty tend to be characterized also by high rates of permanent poverty: 71% of the poor families with 4 or more children and 72% of the poor families with 5 or more children live, according to this index, in permanent poverty. The same applies to families headed by persons with low education (71%). Among new immigrants the rate of permanent poverty is high (68%), although their rate of general poverty is lower than average.

Table 14: Estimate of Permanent Poverty- the Rate of Families and Persons Whose Financial Equivalized Personal Expenditure is below the Poverty Line (in percentages) 2007 and 2008

Population Groups **	Families		Persons	
	2007	2008	2007	2008
Total population	57	61	61	64
Jews	61	62	65	65
Arabs	50	61	55	63
Elderly*	56	69	56	72
New immigrants	67	68	69	73
Total families with children	60	63	63	66
1-3 children	53	57	52	58
4 or more children	71	71	72	72
5 or more children	76	72	76	72
Single-parent families	56	61	57	72
Occupational status of household head				
Worker	54	56	58	58
Salaried employee	56	55	62	55
Self-employed	36	55	34	59
Working age unemployed	62	64	69	74
Single provider	55	56	59	59
Age bracket of household head				
Up to 30	56	54	64	63
Aged 31-40	60	61	65	65
46 to pension age	57	59	58	60
Legal pension age	57	70	58	74
Education bracket of household head (years of schooling)				
Up to 8	61	71	64	73
Between 9-12	54	62	57	65
13 or more	55	52	63	56

* Source: Surveys of the Central Bureau of Statistics on Household Expenditures 2007 and 2008

** Since the sample for the expenditures survey is less than half the sample for the income survey, it was impossible to consolidate a plausible estimate for all categories of the population presented in the previous tables. Therefore, for example, the group of families with 2 providers was left out of this table.

3. Poverty Indices According to the OECD Definition

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

The Source of the Data

The source of the data for calculating poverty in each country are surveys conducted by the national Central Bureaus of Statistics in a representative sample of households (the survey of household income/expenditure) that includes information on the income of households and on their demographic and economic characteristics.

The Indicator for Standard of Living

Similarly to Israel the OECD uses disposable financial equivalized income as the indicator for standard of living. However the definition differs in two important aspects, namely the choice of the basic unit of the distribution from which (half) the median income is derived, and the equivalence scale to be used:

The Poverty Line

Following the OECD the poverty line is calculated according to a rate of the median income defined above and calculated using three alternatives: 40%, 50% and 60% of the median relevant income.¹⁸ The calculation is based on the distribution of personal equivalized income rather than on the distribution of income per family.

The Equivalence Scale

In recent years the OECD uses an equivalence scale that is also practiced in the European Union, according to which the number of standardized persons in the family is equivalent to the square root of the number of persons in it.¹⁹

Table 15 displays the incidence of poverty of families, persons and children when the poverty line is calculated according to 50% of the income median according to the parameters detailed above, for various population groups, in 2007 and 2008 (in the Table Appendix, data for earlier years as well are presented, and for rates of 40% and 60% of the median).

The findings using the OECD method and the Israeli definition are generally similar since basically they both use the relative income approach. Nevertheless, the changes from

¹⁸ Nevertheless, from consultations with a senior personage in the organization, it emerges that for the purpose of analysis and comparisons they generally use 50% of the median financial disposable income per standard individual.

¹⁹ Until a few years ago another equivalence scale used in the OECD assumed the weight of the first adult in the household to be 1; the weight of each additional adult to be 0.5 and the weight of each child as 0.3. That equivalence scale was nearer in spirit to that used in Israel. The present OECD scale assumes greater economies of scale the larger the family.

comparing 2007 and 2008 are different: The incidence of poverty among families – that remained unchanged when measured by the Israeli approach – rose from 18.4% to 19% between the two years and thus reverted to its 2006 level. The poverty incidence of persons rose slightly, and the poverty incidence of children remained almost unchanged. As the principal difference between the two approaches is the difference of the equivalence scale, the explanation for the difference is tied primarily to this difference. The OECD equivalence scale assigns greater relative weight to smaller families and the converse (as opposed to the Israeli equivalence scale). Since the incidence of poverty for small families (such as the elderly) rose slightly, and the incidence of poverty for Arab families that are relatively larger, declined somewhat -- differences in the direction of the change between 2007 and 2008 were created between the two approaches.

The trends of changes in poverty rates over time are similar, while the general trends in analysis by population groups remains intact: the poorest population groups are Arab families and large families (that to a certain degree overlap each other), families headed by persons of particularly low education (up to 8 years of study) and families headed by someone who is unemployed at working age. The incidences of poverty among working families in the categories detailed in the table are at a similar level according to both approaches. Nevertheless, in families characterized by a number of persons that differs from the average, such as the elderly or families with children, the rates of poverty change according to the aforesaid regarding the equivalence scale preference: the incidence of poverty among the elderly is higher when calculated by the OECD definition and in 2008 it totaled 27.5% of the elderly families and about a quarter of the elderly persons. In contrast, the incidence of poverty among families with children is similar to the average -- 20% – and the rate of poverty among children is low in comparison with the existing approach, totaling 26.6%.

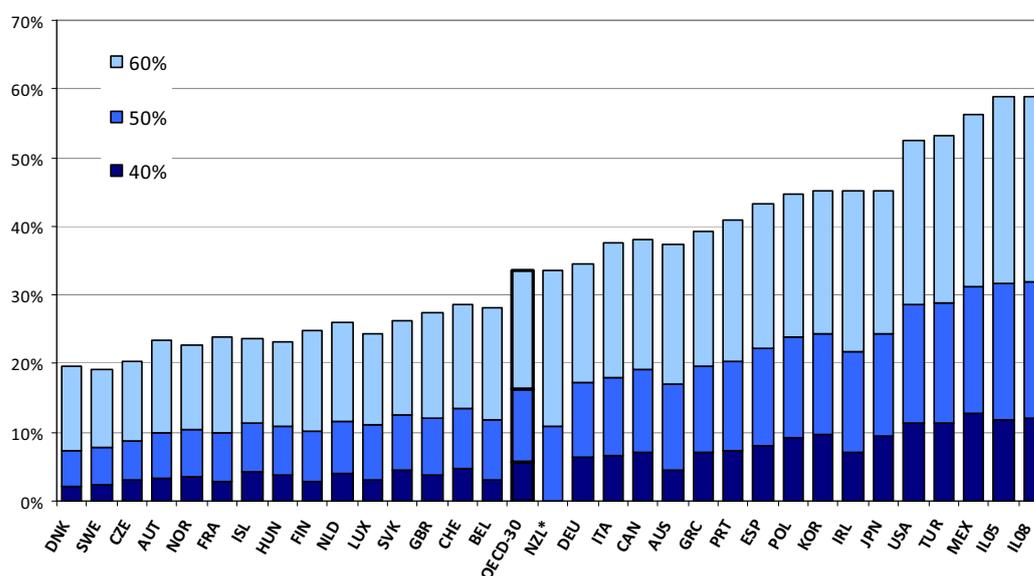
Chart 4 displays the incidence of poverty of persons by 40%, 50% and 60% of the median disposable financial income per standard person, for the mid-2000s in the OECD countries. The data for Israel in the relevant period (2005) as well as for 2008 were added to the chart while employing an identical calculation to the OECD approach with all its components.

Table 15: The Incidence of Poverty among Families, Persons and Children in Selected Population Groups according to the OECD Definition, 2007 and 2008

	2007			2008		
	Families	Persons	Children	Families	Persons	Children
Total population	18.4	19.5	26.4	19.0	19.9	26.6
Jews	14.6	13.6	17.9	15.3	14.2	18.4
Arabs	43.4	43.9	49.4	42.2	42.7	48.8
Elderly*	25.6	24.6	52.2	27.5	25.1	49.9
New immigrants	19.3	16.2	20.1	19.5	16.1	19.7
Total families with children	19.9	22.4	26.4	20.0	22.8	26.6
1-3 children	15.2	15.1	16.6	15.0	15.0	16.2
4 or more children	42.7	43.2	44.2	44.4	45.2	45.9
5 or more children	49.6	48.9	49.8	49.9	49.5	50.6
Single-parent families	27.1	28.4	33.4	27.1	29.9	34.2
Occupational status of household head						
Worker	9.5	12.0	17.9	9.8	12.3	18.0
Salaried employee	9.5	12.2	18.5	9.7	12.3	18.1
Self-employed	9.8	11.0	14.5	9.9	12.0	17.1
Working age unemployed	68.9	76.0	83.7	71.6	78.6	86.5
Single provider	18.9	27.0	36.8	19.2	27.4	37.2
Two or more providers	1.7	2.0	2.6	1.8	2.2	2.8
Age bracket of household head						
Up to 30	22.3	25.0	37.1	21.9	23.4	34.1
Aged 31-40	16.8	21.0	25.8	17.0	21.6	26.4
46 to pension age	13.5	12.7	19.8	14.1	13.8	20.9
Legal pension age	26.7	25.8	59.2	28.2	25.8	44.6
Education bracket of household head (years of schooling)						
Up to 8	43.2	47.5	61.8	44.5	46.0	61.1
Between 9-12	18.5	20.9	30.0	20.3	22.5	31.5
13 or more	12.4	12.2	16.3	12.2	12.2	16.3

As the chart demonstrates, poverty rates in Israel are almost double the average for OECD countries that totaled 10.6% in 2005. The poverty rate for persons in Israel totaled 19.9% in 2005 and in 2008 (after a small decline to 19.5% in 2007), and it is closer to the rates prevailing in Mexico (18.4%), Turkey (17.5%) and the United States (17.1%). Israel's place on top of the scale does not change by calculating according to 60% of the median. When calculating by 40% of the median, Israel's poverty incidence is exceeded only by Mexico.

Chart 4: Poverty Rates for Various Poverty Thresholds (40, 50 and 60 Percent of the Median Income) OECD States and Israel in 2005 and Israel in 2008*



* The OECD data is updated once every 5 years. This chart will be updated for the countries compared with Israel upon the publication of new data by the organization.

Legend for the states:

DNK-Denmark, SWE-Sweden, CZE-The Czech Republic, AUT-Austria, NOR-Norway, FRA-France, ISL-Iceland, HUN-Hungary, FIN-Finland, NLD-Holland, LUX-Luxembourg, SVK-Slovakia, GBR-Great Britain, CHE-Switzerland, BEL-Belgium, NZL-New Zealand, DEU-Germany ITA-Italy, CAN-Canada, AUS-Australia, GRC-Greece, PRT-Portugal, ESP-Spain, POL-Poland, KOR-Korea, IRL-Ireland, JPN-Japan USA-United States, TUR-Turkey, MEX-Mexico IL05-Israel 2005,IL08-Israel 2008

Source: Growing Unequal? (2008) OECD, for Israel the calculations are based on the CBS income survey, as adapted by the National Insurance Institute Research and Planning Administration.

There are a number of reasons for Israel's high place in the hierarchy of poverty. One reason lies in the extent of government financial support for the working age population being lower than that existing in most Western countries. The contribution of transfer payments and direct payments to reduce the rate of the poor reaches 33% of all persons in Israel, as compared to a nearly double rate of 60% on average in the OECD countries ²⁰(see Table 8 in the appendix).An additional reason has to do with Israel's demography, which is characterized by a relatively high rate of large families, compared to OECD countries. Thus, for example, the rate of families with at least 3 children in Israel totals about a third, as

²⁰ See: Growing Unequal? (2008) OECD as well as : National Insurance Institute of Israel, *Annual Survey for 2008*, chapter 2.

compared to a fifth and lower for most developed countries.²¹ Another possible reason can be related to the high level of cultural heterogeneity in Israel (relative to the countries compared). In various studies it was discovered that this heterogeneity finds expression generally in less accessibility for populations with a separate culture to the government budget, infrastructures etc., as compared to that of the homogenous majority.

²¹ See: National Insurance Institute of Israel, *Annual Survey for 2007*, Box 1 chart 2.

D. An Analysis of the Factors Influencing Poverty and the Policy for Reducing It

1. The Labor Market

The recent global economic crisis took its toll on the Israeli economy at the close of 2008, bringing to an end a five-year period of consecutive growth. The data for the general economy indicates that between 2007 and 2008 the number of employed rose by 3.3%, following a rise of 5% in the previous year. The increase in the number of employed is almost totally attributed to the first half of 2008. The unemployment rate continued to decline in 2008 and reached 6.1%, compared to 7.3% in 2007 and 8.4% in 2006.²² Nominal wages rose by 4%; however due to consumer price inflation of 4.5% in 2008 real wages dropped by half a percent.

The rise of 3.3% in the number of employed was not uniform in the various sectors of the economy: in electronics and water supply, construction and agriculture employment declined (of 3.3%, 1.4% and 0.9% respectively), whereas in industry, hospitality and food services the number of employed rose at rates between 2% and 3%, and in , commerce, banking and insurance, transport and communication and other services employment grew at a rate above average.

Changes in salaries between the two periods of the survey likewise were not uniform: in the electronics and water sectors real wages rose by 3% and in the construction sector by 2.5%; in the sectors of education and commercial services salaries rose by 1.5% and in the sectors of agriculture, banking and insurance, wages rose at a real rate of about one percent. In all the other sectors there were declines in real wages, with the sectors of transportation and communications, public administration and industry leading the declines in real wages with about -2%.

The Income Survey for 2008 shows a similar picture: the number of salaried employees rose by 2.9% between the two surveys. Income from salaried work of household heads and their spouses declined by half a percent. However the entry of new household providers led to a 2% increase in income from salaried work by additional persons in the household, offsetting the decline in earnings by the household head and spouse. Total income from work declined by about 1%, following a sharp decline (about 6%) in income from self-employed work.

Table 16 displays the wage distribution of wage earners, subdivided into the poor and non-poor wage earners in 2008. The findings show substantial gaps in the level of wages of the poor workers in comparison with that of total wage earners: about 75% of the total wage earners in the economy had full-time jobs, and 13% of them were paid wages lower than the minimum wage. Among wage earners living in poor families, about 60% were employed full time, and nearly 40% of them earned a salary below minimum wage. All other poor wage earners employed full time – about 60% – earned more than the minimum wages but less than the average wage in the economy.

²² According to an average calculation in accordance with the weights in the income survey

Table 16: Wage Distribution of the Salaried Population and the Salaried Poor Population According to wage levels, 2008

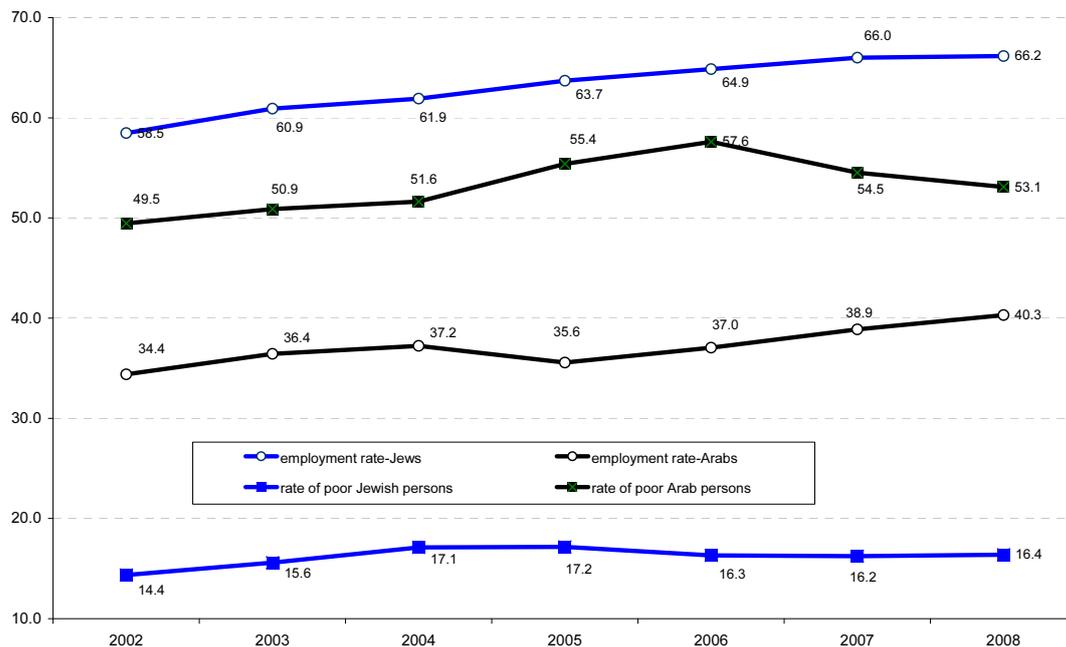
	Total (thousands)	Percent- age	Up to 1/2 the minimum wage	From 1/2 the minimum wage up to minimum wage	Minimum wage up to average wage	Above the average wage
Total salaried workers	2,403	100.0	8.6	16.1	44.0	31.3
Salaried workers full time employed	1,834	100.0	2.7	10.3	48.8	38.1
Among the poor population according to economic income						
Total salaried workers	310	100.0	30.2	32.9	36.4	0.5
Salaried workers employed full time	171	100.0	11.4	31.1	56.7	0.8
Among the poor population according to net disposable income						
Total salaried workers	196	100.0	27.5	30.9	41.0	0.6
Full time salaried workers Full time Full time employed	118	100.0	11.8	27.8	59.4	1.0

* 35 hours a week and over

** The minimum wage and the average wage in the economy were adjusted for the period of the 2008 Income Survey.

Chart 5 displays the employment rates vis-à-vis the incidence of poverty (of persons) for Jews and Arabs separately during the years 2002 through 2008. The chart shows that since 2006 an inverse relation since 2006, as expected, exists between the rate of employment and the rate of poverty among Arabs. However, the relation is more complex for other years and populations. Among the Jews this relation does not obtain in the aforesaid years: Whereas the rate of employment rose between 2006 and 2008, the poverty rates remained stable. In earlier years the employment rates and the poverty rates rose together. A partial but not complete explanation for this is the drastic cut in benefits during the period 2002 to 2004.

Chart 5: The Employment Rate and the Poverty Rate among Persons by Nationality, 2002-2008



Source: adaptations by the Research and Planning Administration of the income surveys for the years in the chart; anyone whose work status was a salaried employee and/or self-employed aged 15-65 was considered employed.

The growth in the employment rate of workers living in poor families was higher than average, and totaled 3.8% (as opposed to a rise of 2.8% in the better off worker population). The data of Table 17, that display the percentage of salaried employees in the years 2007 and 2008 by sectors of employment, shows that the number of poor employed in the sectors of construction, hospitality and food declined, and their number in the services sectors (health and welfare services and community services) remained intact. Among the better off workers no change was discernible in employment patterns by sector between the two years. Table 18 displays the salary of the workers by sector in contrast with the average wage for the survey, as well as a change in real wages between 2007 and 2008 by sectors of employment. According to the findings, in 2008 the wages of the salaried employees declined in real terms by 1.3%, when the wages of the poor workers declined at a sharper rate, of about 3%. The wages of the poor workers totaled about 42% of the average wage and fluctuated within the range of 30% of the average wage in the services sectors and up to 55% of the average wage in the building, transportation and communications and public administration sectors. Real wages declined in most sectors of employment, both with regards to poor workers as well as better off workers. Steeper declines occurred in the construction sector (for both populations), the industry sector (with regards to the poor salary earners) and in the transport and communications sector (with regards to the better-off wage earners). In most sectors, the wages of the better-off workers between 2007 and 2008 declined less than did those of the poor workers (or even rose). By contrast, in the transportation and communications sector and the hospitality and food services sector the wages of the poor workers declined at a lower rate than did those of the better-off workers.

Table 17: Employment Rates by Sectors of Employment, (in percentages), 2007 and 2008

Economic sector	Percentage of those employed in the sector					
	2007			2008		
	Total	Poor	Better off	Total	Poor	Better off
Total	100	100	100	100	100	100
Agriculture	1.1	2.2	1	1	2.2	0.9
Industry (mining and industry)	16.6	10.2	17.2	17	12.5	17.4
Electricity and water	0.7	0.5	0.8	0.8	0.3	0.8
Building and construction	5.3	15.3	4.4	5	12.5	4.3
Wholesale and retail trade	12.8	13.5	12.7	12.7	12.4	12.8
Food and hospitality services	4.6	6.5	4.4	4.8	5.7	4.7
Transport, storage and communications	6.4	5.6	6.5	6.4	5.4	6.5
Business services banking and insurance	17.5	11.3	18.1	17.1	9.6	17.8
Public administration	4.5	1	4.8	5	1.9	5.2
Education	13.9	17.9	13.5	14.1	21.5	13.4
Health welfare and relief services	10.4	8.9	10.6	10	8.7	10.1
Community and social services and others	6.2	7.2	6.1	6.2	7.2	6.1

* Average wage calculated by data from the income survey including "unknown sector" that was omitted from the list; in the case of a limited number of observations it is marked ---

Table 18: Salary in Percent of the Average wage and Changes, by Sectors of Employment (percent), 2007-2008

Economic Sector	Salary as a percentage of the average wage for the workers			Rate of real change in the workers' salary between 2007 and 2008		
	Total	Poor	Better off	Total	Poor	Better off
Total	100.0	41.5	105.2	-1.3	-3.0	-1.1
Agriculture	72.0	45.9	77.9	2.7	--	3.1
Industry (mining and industry)	119.7	49.8	124.2	-0.4	-4.2	0.4
Electricity and water	171.7	46.1	175.8	5.0	--	3.6
Building and construction	84.1	54.4	92.1	-3.6	-6.6	-4.4
Wholesale and retail trade	85.5	45.7	89.0	-2.3	0.1	-2.7
Food and hospitality services	57.9	37.5	60.2	-2.9	-1.3	-3.7
Transport, storage and communications	100.8	54.0	104.3	-4.3	-0.2	-4.5
Business services banking and insurance	131.6	38.9	136.2	-0.6	11.5	-1.3
Public administration	129.1	53.2	131.6	-3.7	--	-2.9
Education	80.9	35.6	87.5	-4.5	-6.3	-3.1
Health welfare and relief services	88.5	29.3	93.1	1.2	-0.6	1.5
Community and social services and others	66.8	28.0	71.0	-0.7	-1.3	-0.6

* Average wage calculated according to the data of income survey and including "unknown sector" that was left off the list; in the case of a limited number of observations it is marked--

In Tables 19 and 20, data for employment and salary for sectors of employment by profession are presented. One can see the rise in the share of poor wage earners whose profession is "managers and academic professions", from 5.2% in 2007 to 6.5% in 2008 as compared to a decline in the share of officials between the two years (Table 19). Real declines in salary characterized most professions and the two categories of populations (Table 20). The sharpest decline in wages occurred among salaried workers among those belonging to the poor population (about 21%), reflecting a different composition of workers between the two years, in terms of hours worked of the post and gender of the employees (the share of the male poor and full-time workers in this sector declined). By contrast, salary rises were recorded among nonprofessional salaried workers whose share in the poor population is 3 times higher than their proportion in the better off population.

Table 19: Employment Rates and Changes in Employment by Occupation (in percentages), 2007-2008

	Employed in the occupation (percent)					
	2007			2008		
	Total	Poor	Better off	Total	Poor	Better off
Total	100.0	100.0	100.0	100.0	100.0	100.0
Academic professions and managers	19.1	5.2	20.3	19.0	6.5	20.2
Free and technical professions	16.0	15.2	16.1	15.7	14.8	15.8
Clerical workers	18.7	10.9	19.4	18.3	8.4	19.2
Sales and service workers	19.7	22.0	19.5	20.9	21.9	20.8
Professional workers	18.2	29.9	17.1	18.3	30.1	17.2
Non professional workers	8.4	16.9	7.6	7.8	18.3	6.8

* Total also includes "unknown".

Table 20: Wage Rates and Salary Changes by occupation (in percent), 2007-2008

	Salary as a percentage of the median worker salary			The rate of change in real worker wages between 2007 and 2008		
	Total	Poor	Better off	Total	Poor	Better off
Total	100.0	41.5	105.2	-1.3	-3.0	-1.1
Academic professions and managers	182.5	41.4	186.6	-1.5	-1.4	-1.0
Free and technical professions	103.1	37.0	108.8	-0.4	4.1	-0.5
Clerical workers	86.1	33.0	88.2	-1.0	-21.2	-1.1
Sales and service workers	65.4	33.7	68.4	-2.6	0.2	-2.9
Professional workers	85.6	54.8	90.5	-2.7	-4.9	-2.5
Non professional workers	51.6	38.6	54.8	2.8	6.1	3.4

* Total also includes "unknown".

2. Transfer Payments and Direct Taxes

According to the Income survey, National Insurance Institute benefit payments rose by of 0.8% in real terms (this sample estimate is somewhat lower than the actual increase derived from NII administrative data (1.4%). Taking population growth into account we conclude that the average income per family from NII benefits declined in real terms by about 1% in 2008. This decline is a combined result of various trends in benefits according to survey data. The real decline in benefit payment is primarily due to the fact that the benefits were adjusted in the beginning of 2008 for the previous year's increase in the Consumer Cost of

Living Index ²³that equaled 2.8%, whereas the actual rise in prices during 2008 occurred at a rate of 4.5%. This gap explains most of the real declines in the benefit payments where no changes have occurred in terms of benefit level or number of recipients.

Total payments for old-age and survivors pensions according to the survey data rose in real terms by 0.8%; however, when we deduct the demographic increase in the recipient population (at a rate of 1.6%), payment per family declined by 0.8%. This decline follows a period of 3 consecutive previous years when a policy of raising the level of old age and survivors pensions in their various categories was implemented. In child allowances and income support benefits, declines of from 3% to 4% on average per family occurred: In child allowances the decline derives from the aforesaid gap between updating the benefit and price changes, but also from the influx of "new children" to the ambit of benefit recipients when their benefit level is lower than those of "veteran children". ²⁴The declines in income support benefits reflect, aside from the aforesaid gap in updating prices, also the decline in the number of benefit recipients, given the growth in the number of employed that persisted in 2008 as well.

These declines were partially offset by stability in the average disability pension and a rise in unemployment benefits (at a rate of about 5%) on average per household. The downward trend in the number of unemployment benefits recipients, vis-à-vis the rise in the average payment to the household of the unemployment benefits recipient, is also apparent in the administrative data, albeit at more moderate rates than those presented by the survey data.

²³ More precisely, the cost of living allowance is calculated on the basis of the average index for the period of November 2006 -November 2007, compared to the parallel period during the previous year.

²⁴ In the framework of legislative amendments during the years 2003-2004, a uniform allowance at the level of the allowance for the first two children was instituted for each child, but the change was applied only to "new children" born after June 2003, whose number among total children constantly increases with the years.

E. The Poverty Target and the Outlook for 2009

1. The Government Target for Reducing Poverty

As is known, the government decided to follow an aggregate poverty target: The target chosen is one of "pro-poor growth" in the sense that the government sees its target achieved if the "poor" population's income rises faster than some benchmark value. The "poor population" was defined by the Yitzhaki commission to be the lowest quintile of a relevant income distribution. The income considered to be relevant by the Israeli Council of Economic Advisers was chosen to be the gross family income. The benchmark was chosen by them to be per capita GDP, including a 10% premium, thereby showing the Council's intent to let the "poor" catch up with the rest. The government had also set a time limit – 2008 to 2010. So the target can be stated as following: The intention is to achieve a rising family income in the lowest quintile between 2008 and 2010 by an average rate that exceeds the per capita GDP rate of increase by at least 10%, all in real terms.²⁵ In the interim, within the framework of the 2009-2010 budget, the target's attainment was deferred to 2013.²⁶

The table below and the graph following it present a simulation over time if the poverty reduction target had been in place already during the period presented in the table. The table shows the poverty target as defined by the Council. For comparison, a measure that substitutes the target with a somewhat more consistent one as suggested in the NII Annual Survey 2007. There changes in net income for a standard person in that same quintile are presented.

Table 21: Real Changes in the Poverty Target and the Income of the Bottom Quintile*, 2002-2008

Year	Per capita GDP + 10%	The real change in bottom quintile income from year to year		
		Gross income per family	Gross income per standardized person	Net income per standardized person
2002	-2.6			
2003	-0.3	-1.8	-2.8	-2.3
2004	3.5	-1.8	-1.5	-1.6
2005	3.6	4.4	2.6	3.1
2006	3.7	5.4	4.1	4.8
2007	3.9	1.8	4.2	4.3
2008	2.3	-1.3	-0.6	-0.3

* In accordance with the target definition, the quintiles were classified according to disposable income per standardized person; every quintile totals 20% of the families.

²⁵ If, for example, per capita GDP will grow in this period by 10%, the target will be reached if gross family income for families in the bottom quintile will grow by at least 11%.

²⁶ The Annual Survey of the National Insurance Institute gives quite a critical account of the target definition and suggests improvements in it (see chapter 1 in the 2007 Annual Survey).

In 2008, per capita GDP rose in nominal terms by 4.1%. After deducting inflation in the gross domestic product (about 2% in 2008), per capita GDP rose in real terms by 2.1%, and by adding 10% we get a rate of 2.3% against which we should compare the real growth in gross income per family in the bottom quintile, as determined by the council. The income of the bottom quintile rose in nominal terms by 3.2% and when deducting consumer price rises at a rate of 4.5%, their income declined in real terms by 1.3% between 2007 and 2008. Had the target been set in terms of income per standardized person (thus neutralizing the family size effect, influence of population composition changes in the bottom quintile), the decline in gross income would have been less severe at 0.6%. If the target had been set in terms of disposable income per standardized person, (a version suggested by the NII Research and Planning administration) thus taking into account changes in the realm of direct taxation and benefits as well, the decline in income for the bottom quintile would have been still lower – 0.3%.

The data show that for 2005 and 2006 – each year in itself – the government would have attained the anti-poverty target, but in the other growth years in the period covered by the table, it would not have met its target. A simulation for all the growth years – 2003 to 2008 – demonstrates that real per capita GDP rose by 16% and real per capita GDP with the addition of 10% by 18%-as compared to a real growth of only about 8% in gross income per family in the bottom quintile. At the same time, disposable income for a standardized person that also expresses the changes in direct taxation and benefits rose by about 11% in the bottom quintile. All in all therefore growth according to the government target's definition was anti-poor rather than pro-poor.

2. The Prognosis for 2009

The partial indicators for 2009 demonstrate that the employment rate will continue its downward trend that began in the latter half of 2008. The employment rate in the first half of 2009 declined by 1%, as compared to this rate in the entire year of 2008. The outlook for the 2009 employment rate totals about 8% – as opposed to 6% in 2008. Average wage and minimum wage in 2009 remained almost unchanged in nominal terms. Since prices in 2009 are expected to rise by about 3%, wages are expected to decline by 2%-3%. In contrast, NII benefits were adjusted to the cost of living as defined by law in January 2009, adjusting the benefits by the average price increases that occurred between November 2007 and November 2008, compared to the similar period a year earlier. They were raised by 4.5%.

According to the Law for Economic Efficiency for 2009, basic old-age and survivors pensions will rise gradually till 2011 by 7.3%. It was further determined that the benefits which also include income supplement will rise according to the rate of increase in the basic pension. In August 2009 the first installment of raising old-age and survivors' pensions in their various categories was implemented, and they were raised at an average rate of about 3%. Since the change occurred in August, the influence is less than half of this rate. The expected influence of this measure on the dimensions of poverty among the elderly is a reduction of 1-1.5

points of a percentage, and even for the total population the incidence of poverty among families declines by about 0.3 points of a percentage thanks to this measure.

Child allowances will be raised gradually for the 2nd to the 4th child in every family, so that by the end of the process – in April 2012 – the increment will total NIS 100 per child in comparison with the benefits that obtained in June 2009. The first installment was performed in July 2009 and in its context the benefit was raised by the amount of NIS 93 for the 4th child and NIS 60 for the 3rd child. Nevertheless the 'basic amount' of child allowances will not be adjusted by the cost of living allowance until the end of the process, and therefore after 2009 some erosion of the aforesaid increase in child benefits may ensue. The influence of the aforesaid increment for child allowances in 2009 totals an average rate of about 4% of the benefit, however, the influence on total family disposable income is negligible, and therefore the decline in poverty as a result of the change is minor and totals a decline of 0.1-0.2 points of a percentage in the incidence of poverty among children.

Despite the economic crisis that struck the economy beginning with the latter half of 2008, the reform in income tax continued and the tax brackets of 2009 were reduced again. Since those with low income do not enjoy the reduction in tax rates, the change exerts an influence in the direction of raising income only for those with moderate and high income and therefore it works towards increasing the dimensions of poverty and inequality. Likewise, the maximal income for the payment of social insurance contributions was raised from 5 times the average wage to 10 times the average wage from the beginning of August 2009 and until the end of 2010 (as a temporary directive). This change can be expected to work towards reducing inequality in disposable income but does not influence poverty rates.

The developments described in the labor market, benefits and direct taxation work in a combined and differentiated fashion on diverse populations. For the elderly, the emerging trend is a decline in the dimensions of poverty, whereas for the working age population forces that are occasionally contradictory are in play: on the one hand the unemployment rate rose; on the other hand the rate of benefit increases will exceed the rate of wage increases. A combination of these influences leads us to the conclusion that the dimensions of poverty in 2009 can be expected to be similar and even somewhat lower in comparison to those that prevailed in 2008.

Table Appendix

Table 1:**Number of Poor Families by Income After Transfer Payments and Taxes, 2007-2008**

	2007	2008
Total population	412,900	420,100
Jews	269,900	278,100
Arabs	143,000	142,000
Elderly	92,100	93,700
New immigrants	73,900	72,400
Families with children - total	237,300	238,200
One - three children	145,800	143,500
Four or more children	91,500	94,700
Five or more children	53,400	53,900
Single-parent families	33,100	32,200
Work situation of household head		
Working	188,700	194,400
Employee	162,600	169,400
Self-employed	24,400	25,000
Not working, of working age	134,700	135,600
One earner	164,900	168,300
Two or more earners	23,800	26,200
Age group of household head		
Up to 30	96,100	92,100
Aged 31 - 45	145,600	151,000
Aged 46 until pension age	89,900	92,300
Pension age	81,400	84,700
Education group of household head (years of schooling)		
Up to 8	109,400	107,100
Between 9 and 12	165,900	176,200
13 or more	137,600	136,800

Table 2:
Poverty Among Persons by Population Group (percentages), 2007 and 2008

	Income before transfer payments and taxes		Income after transfer payments and taxes		Rate of decrease in poverty gap ratio after transfer payments and taxes (%)	
	2007	2008	2007	2008	2008	2008
Total population	32.5	32.7	23.8	23.7	26.7	27.7
Jews	25.7	26.0	16.2	16.4	36.8	36.9
Arabs	60.0	60.0	54.5	53.1	9.2	11.6
Elderly	54.3	52.5	23.1	21.8	57.5	58.4
New immigrants	33.8	34.7	18.0	17.2	46.7	50.5
Families with children - total	34.3	35.2	28.9	28.9	15.8	18.0
One - three children	23.7	24.2	18.8	18.3	20.9	24.3
Four or more children	64.6	67.3	57.9	59.5	10.4	11.6
Five or more children	74.7	78.0	66.6	68.6	10.8	12.0
Single-parent families	49.4	50.0	33.1	32.5	33.0	35.0
Work situation of household head						
Working	22.6	23.2	16.9	16.8	25.2	27.6
Employee	23.2	23.7	17.0	16.8	26.5	29.0
Self-employed	18.4	20.0	15.7	16.9	14.8	15.6
Not working, of working age	93.6	93.0	79.7	81.6	14.9	12.3
One earner	48.3	47.9	36.5	35.6	24.4	25.7
Two or more earners	5.4	6.8	3.8	4.4	29.6	36.1
Age group of household head						
Up to 30	41.5	41.3	31.6	28.7	23.9	30.7
31-45	32.6	33.3	27.0	27.7	17.3	16.8
From age 46 to pension age	20.0	20.8	14.8	15.5	26.0	25.3
Pension age under law	57.2	55.3	23.5	22.4	58.8	59.5
Education group of household head (years of schooling)						
Up to 8	70.4	67.4	54.1	51.3	23.2	23.8
Between 9 and 12	34.0	35.4	25.9	26.9	23.8	24.2
13 or more	22.9	23.3	15.3	15.3	32.9	34.4

Table 3:
Income Gap Ratio Among Families, by Type of Family (percentages), 2007-2008

	Income before transfer payments and taxes		Income after transfer payments and taxes		Rate of decrease in poverty gap ratio after transfer payments and taxes (%)	
	2007	2008	2007	2008	2008	2008
Total population	60.7	59.6	34.3	34.2	43.5	42.6
Jews	63.6	63.0	32.0	32.8	49.7	48.0
Arabs	55.6	53.6	37.0	36.0	33.5	32.8
Elderly	80.4	80.8	23.4	23.0	70.9	71.5
New immigrants	71.4	67.8	27.6	29.4	61.3	56.6
Families with children - total	55.9	54.6	35.2	35.4	37.1	35.2
One - three children	53.3	51.9	33.2	33.9	37.7	34.7
Four or more children	58.7	57.4	37.1	36.7	36.8	36.0
Five or more children	61.6	59.2	37.6	37.1	38.9	37.4
Single-parent families	69.1	67.4	32.8	36.9	52.5	45.3
Work situation of household head						
Working	39.0	38.1	26.9	26.9	30.9	29.5
Employee	39.4	37.8	26.6	26.5	32.5	30.0
Self-employed	36.5	40.3	30.4	29.7	16.6	26.3
Not working, of working age	93.9	94.2	50.9	50.9	45.8	46.0
One earner	40.8	41.0	27.8	28.0	31.9	31.7
Two or more earners	27.8	24.4	21.3	20.6	23.5	15.6
Age group of household head						
Up to 30	56.7	54.4	34.9	35.4	38.4	35.0
31-45	54.3	53.0	35.1	33.9	35.4	36.1
From age 46 to pension age	64.5	64.3	36.9	39.0	42.8	39.4
Pension age under law	80.9	81.3	21.0	21.4	74.0	73.7
Education group of household head (years of schooling)						
Up to 8	70.2	67.4	38.6	35.9	45.0	46.8
Between 9 and 12	54.5	55.3	33.1	33.9	39.3	38.7
13 or more	62.0	60.3	32.5	33.5	47.6	44.5

Table 4:
Influence of Transfer Payments and Direct Taxes on Inequality in Income Distribution in Total Population, 2007-2008

Decile*	Share of each decile in total income**					
	Before transfer payments and taxes		After transfer payments		After transfer payments and taxes	
	2007	2008	2007	2008	2007	2008
bottom	0.0	0.0	1.7	1.7	1.9	1.9
2	1.3	1.4	3.0	3.1	3.5	3.5
3	3.0	3.1	4.1	4.1	4.7	4.6
4	4.6	4.6	5.3	5.3	6.0	6.0
5	6.3	6.3	6.7	6.7	7.4	7.4
6	8.1	8.1	8.2	8.3	9.0	9.0
7	10.4	10.4	10.1	10.1	10.8	10.8
8	13.4	13.3	12.7	12.7	13.1	13.1
9	18.2	18.1	16.8	16.8	16.3	16.5
top	34.8	34.8	31.4	31.4	27.2	27.3
ratio of income of bottom quintile to income of top quintile	41.5	38.9	10.3	10.2	8.0	8.1

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

** In terms of income per standard person.

Table 5:
Monetary Data by Quintile (Weighting Scale Used by OECD)

Source/type of income	income by source and type 2008, and real change compared to 2007											
	income (NIS per month)					change compared to 2006 (%)						
	average	1	2	3	4	5	average	1	2	3	4	5
From work	10,430	1,240	4,000	7,460	12,390	25,310	-1.1	-4.8	0.0	-1.5	0.1	-1.3
From pensions, prov. funds, capital	1,320	100	430	920	1,320	3,560	-2.9	27.4	0.2	-4.9	-9.8	-0.2
From benefits	1,600	1,890	1,910	1,560	1,350	1,310	-2.1	-1.3	-2.9	0.6	-2.3	-4.7
Compulsory payments	2,370	220	470	980	2,130	7,530	-8.2	-2.8	-7.6	-10.2	-10.5	-7.2
Net family income	10,970	3,050	5,870	8,960	12,920	22,660	0.2	-0.9	-0.3	-0.5	0.7	0.8
Gross family income	13,350	3,260	6,350	9,940	15,060	30,190	-1.4	-1.0	-0.9	-1.5	-1.1	-1.3
Family economic income	11,680	1,370	4,390	8,320	13,640	28,700	-1.2	-0.6	-0.2	-1.6	-0.8	-1.2
Net income per standard person	6,360	1,760	3,340	5,130	7,370	13,390	0.0	0.1	0.9	-0.1	0.2	0.5
Gross income per standard person	7,710	1,880	3,600	5,660	8,540	17,750	-1.6	0.0	-1.3	-1.0	-1.5	-1.7
Economic income per standard person	6,650	670	2,320	4,640	7,640	16,790	-1.3	1.1	-0.8	-0.9	-1.2	-1.4

Expenditure by Quintiles, Rates of Expenditure and Rates of Real Change, 2007-2008

	average	1	2	3	4	5
Monthly expenditure (NIS, 2008)						
Expenditure on consumption per standard person	4,570	2,470	3,180	4,150	2,008	7,769
Monetary expenditure per standard person	3,530	1,860	2,450	3,180	4,110	6,049
Expenditure on family consumption	11,580	7,150	8,510	10,990	13,530	17,739
Family monetary expenditure	9,030	5,480	6,650	8,550	10,610	13,856
Real change compared to 2007						
Expenditure on consumption per standard person	2.8	1.2	0.9	4.5	3.4	2.7
Monetary expenditure per standard person	2.5	0.4	0.0	3.4	4.1	2.5
Expenditure on family consumption	1.9	3.0	0.2	3.3	4.9	-0.7
Family monetary expenditure	1.5	1.9	-0.6	2.3	5.8	-1.1
Share of expense in total expenditure - 2007						
Expenditure on family consumption	100.0	10.4	13.7	18.4	22.8	34.7
Family monetary expenditure	100.0	10.2	13.9	18.3	22.7	34.8
Share of expense in total expenditure - 2008						
Expenditure on family consumption	100.0	10.5	14.2	18.1	22.8	34.4
Family monetary expenditure	100.0	10.3	14.1	18.1	23.0	34.5

Table 6:**Poverty Incidence Calculated According to OECD and 40% of Median Income, 2007 and 2008**

	2007			2008		
	families	persons	children	families	2008	children
Total population	10.9	12.0	16.7	11.0	12.0	16.6
Jews	8.3	8.2	11.7	8.7	8.6	12.1
Arabs	27.8	27.6	30.2	25.7	25.9	28.9
Elderly	11.7	12.6	46.8	12.0	11.8	40.8
New immigrants	8.2	8.1	12.6	8.9	8.7	14.2
Families with children - total	12.2	14.0	16.7	12.3	14.1	16.6
One - three children	9.0	9.1	9.9	9.1	9.1	9.9
Four or more children	27.6	28.2	29.0	27.9	28.6	29.1
Five or more children	33.2	32.9	33.7	31.5	31.6	32.3
Single-parent families	15.7	17.6	21.5	17.7	18.8	22.5
Work situation of household head						
Working	4.7	5.9	8.7	4.8	5.9	8.7
Employee	4.6	5.8	8.8	4.8	6.0	8.9
Self-employed	5.9	6.4	8.4	4.9	5.5	7.4
Not working, of working age	55.4	63.0	70.7	57.0	63.9	71.6
One earner	9.5	13.3	17.9	9.6	13.7	18.4
Two or more earners	0.8	0.9	1.1	0.6	0.8	1.0
Age group of household head						
Up to 30	15.3	16.1	23.8	14.6	15.0	22.6
Aged 31-41	10.1	12.8	15.8	10.3	12.8	15.8
Aged 46 until pension age	8.9	8.6	13.6	9.2	9.3	14.3
Pension age	11.5	12.1	49.8	11.8	11.6	36.3
Education group of household head (years of schooling)						
Up to 8	28.5	33.1	44.1	26.7	29.7	42.9
Between 9 and 12	10.4	12.1	17.7	11.6	12.9	18.1
13 or more	7.1	7.4	10.4	7.0	7.6	10.7

Table 7:
Poverty Line Calculated According to OECD and According to 60% of Income Median,
2007 and 2008

	2007			2008		
	families	persons	children	families	2008	children
Total population	25.0	26.2	34.8	25.7	26.8	35.1
Jews	20.3	18.9	24.3	21.2	19.7	24.7
Arabs	55.1	56.1	63.3	54.7	55.6	63.1
Elderly	36.0	34.4	62.0	37.5	34.1	50.7
New immigrants	29.0	23.8	27.4	29.4	24.0	27.7
Families with children - total	26.7	29.8	34.8	27.0	30.3	35.1
One - three children	21.0	20.8	22.9	21.1	21.0	22.5
Four or more children	54.7	55.4	56.5	56.5	57.4	58.4
Five or more children	62.4	61.8	62.9	64.9	64.2	65.4
Single-parent families	35.8	37.1	42.7	35.6	37.4	42.1
Work situation of household head						
Working	14.7	18.2	26.6	15.4	18.9	27.0
Employee	14.8	18.4	27.2	15.5	18.9	27.0
Self-employed	14.9	17.3	23.8	15.2	18.7	26.6
Not working, of working age	76.9	83.0	89.7	79.9	85.4	91.6
One earner	28.6	39.8	53.1	29.6	40.7	53.6
Two or more earners	3.2	3.8	5.1	3.4	4.3	6.0
Age group of household head						
Up to 30	29.6	33.4	48.3	30.8	33.3	47.0
Aged 31-41	22.9	28.2	34.3	23.3	29.0	35.1
Aged 46 until pension age	17.5	16.6	25.6	18.1	17.6	25.6
Pension age	38.0	36.5	73.2	38.6	35.4	45.6
Education group of household head (years of schooling)						
Up to 8	54.3	58.9	75.1	55.6	57.7	75.0
Between 9 and 12	25.9	28.5	39.7	27.8	30.2	40.8
13 or more	17.2	17.1	22.6	17.5	17.6	23.2

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

Table 8:
Poverty by Economic Income and Net Income and Influence of Transfer Payments and Direct Taxes, Calculated According to OECD Approach

Population group	Income before transfer payments and taxes		Income after transfer payments and taxes		Rate of decrease in poverty after transfer payments and taxes (percentages)	
	2007	2008	2007	2008	2007	2008
Total population	29.2	29.6	19.5	19.9	33.2	32.8
Jews	23.7	24.0	13.6	14.2	42.7	40.8
Arabs	52.0	52.0	43.9	42.7	15.6	17.9
Elderly	55.1	53.8	24.6	25.1	55.3	53.4
New immigrants	32.7	32.5	16.2	16.1	50.5	50.6
Families with children - total	29.5	30.3	22.4	22.8	24.2	24.9
One - three children	20.6	21.2	15.1	15.0	26.4	29.1
Four or more children	55.3	56.7	43.2	45.2	21.8	20.3
Five or more children	64.2	65.4	48.9	49.5	23.8	24.3
Single-parent families	47.8	47.1	28.4	29.9	40.5	36.5
Work situation of household head						
Working	18.7	19.3	12.0	12.3	35.8	36.5
Employee	19.4	19.9	12.2	12.3	37.1	38.2
Self-employed	14.3	15.3	11.0	12.0	23.4	21.5
Not working, of working age	92.6	92.9	76.0	78.6	17.9	15.4
One earner	41.6	42.6	27.0	27.4	35.1	35.7
Two or more earners	3.4	3.8	2.0	2.2	41.6	42.7
Age group of household head						
Up to 30	38.0	37.5	25.0	23.4	34.2	37.7
Aged 31-41	27.8	28.4	21.0	21.6	24.5	23.9
Aged 46 until pension age	17.9	19.2	12.6	13.8	29.7	27.8
Pension age	58.1	56.8	25.3	25.8	56.5	54.5
Education group of household head (years of schooling)						
Up to 8	66.6	63.6	47.5	46.0	28.7	27.7
Between 9 and 12	29.8	31.8	20.9	22.5	29.8	29.2
13 or more	20.6	20.6	12.2	12.2	40.6	40.7