Assessment of Policy Effects on Households' Welfare in the Last Decade

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As documented in numerous research studies and reports, Israeli governments changed their welfare and taxation policies over the past decade, such that they decreased the direct effect on reducing inequality in the distribution of income. This reflected the government's declared policy of reducing the economic burden on taxpayers and allocating sources to the business sector while encouraging employment. The policy resulted in a decline, between 2001 and 2010, of about 3.5 percentage points in the share of primary civilian public expenditure in GDP, while there was a concurrent decrease in the tax burden by reducing direct tax rates. Altogether, the government's effect on the distribution of income in the economy declined by about one-third. This study finds that the policy benefited the welfare of high- and medium-income earners, and exacerbated the welfare of low earners. The greater the benefit that households derived from government social expenditure, the more the difference between income quintiles was blurred, in terms of the effect of the policy on their welfare. In addition, the study examines the effects of economic policy on welfare, through a theoretical function that assumes that welfare increases with income and decreases as inequality increases. This function indicates that in order for the policy that increased inequality to increase total welfare as well, the increase in inequality must lead to income that is higher by about 30%-45%.

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