**Press Release**

October 30, 2013

**Remarks by the Incoming Governor at a conference on “Causes and Consequences of Inequality”**

The Incoming Governor of the Bank of Israel, Dr. Karnit Flug, today chaired a discussion at a conference on “Causes and Consequences of Inequality” hosted by the Taub Center for Social Policy Studies in Israel, with the participation of researchers from Israel and around the world. At the beginning of the discussion, Dr. Flug presented some basic data and posed a number of questions for discussion. The presentation she used is attached.

Dr. Flug showed (Slide 2) data that indicate there has been an increase in the Gini Index of inequality in most of the OECD countries, including Israel, between 1985 and 2008. Since inequality in Israel was already among the highest in OECD countries at the beginning of this period, this situation did not change by the end of the period. The data for Israel (Slide 3) show that there has been a slow but prolonged decline in market-income inequality, while disposable-income inequality increased until 2006, and then stabilized at high levels.

Dr. Flug also presented data which allow trends in inequality to be segmented by various income levels, and to distinguish between inequality between population groups and inequality within the groups themselves (Slide 4). The analysis indicates that most of the inequality comes from inequality within population groups, and not between one group and another. In addition, most of the growth in inequality is a result of growth in the gaps between the various population groups.

Dr. Flug discussed the process of change that has taken place in the characteristics of the Israeli labor market since the beginning of the 1990s, during which the labor market has become more flexible. As a result, both the level of wages in the economy and the unemployment rate became very sensitive to the business cycle of the economy. For example, during the recession at the beginning of the 2000s, wages declined by around 10 percent (Slide 5), and the unemployment rate increased sharply, while afterwards, the trends reversed with the recovery in the macroeconomic situation. We were also witness to this phenomenon during the global financial crisis, following which there was a rapid recovery in the labor market.

Another point emphasized by Dr. Flug is the growth that has taken place in the past decade in the percentage of households with two wage earners. She noted that there is a clear tradeoff between labor market flexibility and disposable-income inequality, and that the process of reductions in transfer payments combined with reductions in direct taxes that has taken place in the past few years contributed to both increased flexibility in the labor market and to an increase in disposable-income inequality.

Dr. Flug posed two questions to the participants in the discussion: Does the situation in which we find ourselves today reflect the proper balance between labor market flexibility and the level of inequality? And are there potential policy measures that could contribute to lowering inequality without harming labor market flexibility? In answer to the second question, the Incoming Governor mentioned that the negative income tax policy that has been implemented in Israel in recent years is a good example of a policy that fulfills both these conditions.