

Chapter 8

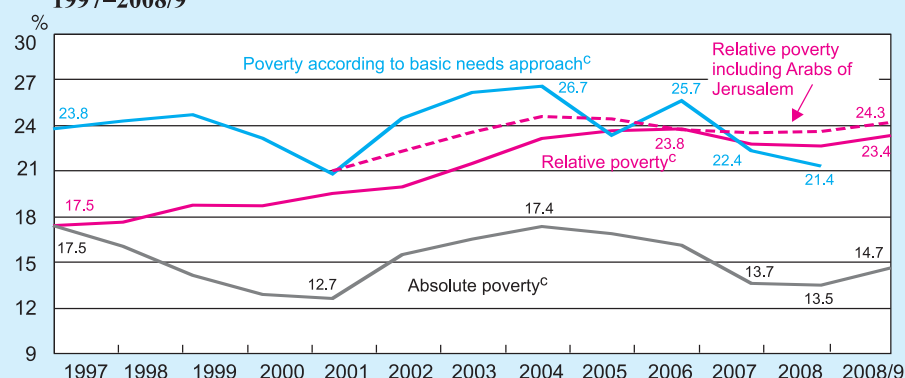
Welfare Policy Issues

- ◆ The economic crisis and its effects on the labor market can be seen in the widening of poverty: the incidence of poverty, according to the accepted relative definition, rose to 24.3 percent of the population, about 1.7 million poor people. At the same time the incidence of poverty in families, the incidence of poverty according to the absolute approach and the SEN poverty index also grew. As opposed to these, the income gap (which measures the average distance of poor people's incomes from the poverty line) and the Gini index (which measures income inequality) remained almost unchanged.
- ◆ The rate of poor people by income who consume below the relative poverty line, an index that usually indicates continuing poverty, had already grown significantly in 2008, and stood at 62.4 percent.
- ◆ The scale of poverty in Israel is high, both in comparison with OECD countries and compared with the past. The trickling down of growth to the weaker segments was slow and relatively late, so that when the crisis broke out Israel did not have "social reserves" to lean on.
- ◆ The incidence of poverty rose in 2008/9, despite the real decrease of 1.6 percent in equivalised median per capita income, which led to a similar rate of decrease of the relative poverty line.
- ◆ The direct contribution of policy for reducing poverty by means of transfer payments and taxes grew slightly, but is very low in relation to the past and in relation to OECD countries.
- ◆ The incidence of poverty is particularly high among the Arabs and the ultra-Orthodox—two population groups characterized by a high birth rate and a low rate of employment (the latter particularly among Arab women and ultra-Orthodox men). In 2008/9 the Arab poor were 44 percent of the poor in Israel and the ultra-Orthodox poor—18 percent.
- ◆ Over the past decade the extent of poverty has grown among households with at least one earner. This development points, on the one hand, to the entry of weaker populations into the circle of employment, and on the other hand, to the absence of satisfactory policy to improve the level of earned income of populations whose earning power is low.
- ◆ In October 2008 the implementation of Earned Income Tax Credits (EITC) commenced in several regions in Israel. EITC acts to improve the welfare of workers earning low salaries, and in this respect is consistent with the overall policy of reducing poverty by increasing employment. However, because of the limited extent of the implementation, and the relatively low level of the grant, the impact on employment and on welfare is, at the present time, small.
- ◆ In 2008 there were in Israel about 195 thousands recipients of a general disability allowance, constituting about 4.6 percent of the population in the entitlement age for this allowance. Following the recommendations of the Laron Committee, far-reaching policy changes have been instituted in recent years with regard to disability allowance recipients and the disabled in general, with the aim of promoting their integration into the community and the labor market.
- ◆ In Israel, unlike the developed countries, dental health services are provided largely by the business sector. The benefits of basic dental treatments for children are great, and their cost is low. For this reason it is important to introduce these treatments into the health basket.

1. POVERTY AND THE POLICY FOR POVERTY REDUCTION¹

The incidence of poverty of individuals (according to the accepted relative measure) reached 24.3 percent in 2008/9,² which encompasses about 1.7 million people.³ About 794 thousand poor people are children, and the incidence of poverty among children stood at 35 percent in 2008/9; the incidence of poverty measured according to the absolute approach was 15.5 percent.⁴ These rates reflect a rise in the incidence of poverty, following a fall in 2006 and 2007 (Table 8.1 and Figure 8.1). The indices of the intensity of poverty show a mixed picture: the income gap remained stable, while the SEN index rose.

Figure 8.1
Incidence of Poverty among Individuals by Different Approaches,^a
1997–2008/9^b



^a The **relative poverty line** is calculated according to half the median equivalized income. The **basic needs poverty line** is a combination of Canadian Market Basket Measure (MBM) and the American (NAS) measure. This includes essential spending on food, accommodation, education, transport and personal products. According to the basic needs approach, a household is defined as poor if its income from all sources, after deducting tax, essential family health expenses and expenses associated with going out to work, is below the poverty line. The **absolute poverty line** is calculated relative to the real level of the poverty line in 1997.

^b The data are based on a survey conducted between July 2008 and June 2009.

^c Not including Arabs of Jerusalem.

SOURCE: Based on Central Bureau of Statistics' Income and Expenditure surveys.

¹ This section relates to welfare policy that directly or indirectly affects the problem of poverty. It will not discuss welfare policy in other important areas, such as education, health, personal security, housing, personal and community services, culture and entertainment, sports, environmental quality and religious services. A discussion of some of these areas appears later in this chapter and in Chapter 9.

² Most of the analysis in this chapter is based on data from income surveys and expenditure surveys. The last income survey published was for the period beginning in July 2008 and ending in June 2009. Data from this survey will be indicated here as data for 2008/9. The last expenditure survey published was for 2008, and therefore the data based on expenditure surveys are updated only to 2008.

³ A poor person is defined as someone whose disposable income is below the poverty line. The incidence of poverty is equal to the rate of poor people in the relevant population as a whole.

These data include Arabs of Jerusalem. Most of the data in this chapter are calculated for the population that includes Arabs of Jerusalem. Exceptions to this are the diagrams presenting long-term development (all the diagrams in this chapter, except for Figure 8.6). The data in these diagrams do not include Jerusalem Arabs, because we do not have information on their income in 2000 and 2001.

⁴ The absolute poverty line is calculated relative to its real level in 1997. The relatively rapid rise in prices of basic products in 2008 led to a greater erosion of income in the lowest quintile. In calculating the poverty line according to the fixed index, when it is linked to the price index of products in the consumption basket of the lowest quintile, the incidence of poverty is 16 percent (Table 8.1).

The development of poverty in 2008/9 reflects, for the first time, the effects of the economic crisis. The crisis, signs of which appeared in the economy in the second half of 2008, reversed the previous positive trend, halted growth, and probably also the trickling down to the weaker sectors, which from the beginning was slow and with substantial delays. The rapid turnabout in the business cycle is not reflected in the data of the income survey for 2008, which are annual average data. Most of the indices for 2008 ostensibly present a picture of stability in poverty, which conceals the improvement recorded at the start of the year and the worsening toward the year end. Thus, for example, on average for 2008 there was an increase in the rate of employment in most population groups, both among men and women (Table 8.4); on the other hand, a quarterly analysis of the data from the labor force survey shows that employment expanded in the first three quarters of 2008, while in the fourth quarter there were signs of a worsening in the labor market, expressed, among other things, by an increase in the unemployment rate. (See Chapter 5 of the Bank of Israel Report for 2008 and of this report.) The development of average salary was not uniform for different groups, but we can observe that in groups characterized by the incidence of high poverty (Arabs and those with low levels of education), salaries fell in real terms. These developments mainly reflect cyclical influences: at the beginning of 2008, as opposed to the long-term trend, the relative demand for uneducated workers grew, as a result of the expansion in demand for work in general, and the exhaustion of the more educated and skilled available personnel. This process also resulted in a considerable rise in nominal wages. This cyclical influence continued parallel to the influence of the cutbacks in transfer payments, which pushed the weaker populations into the circle of employment. In the second half of 2008, and particularly in the fourth quarter, signs of slowdown were already evident: layoffs took place on a large scale, parallel to a fall in the nominal wage for a hired position. Overall, the economic crisis, which was expressed in economic activity in Israel in the second half of 2008, was not reflected, according to the average annual data from the incomes survey, in a substantial worsening in the relative situation of those located at the bottom of the distribution of incomes. However, the arrest of the positive trend, together with additional indicators of the state of the economy, of the labor market, and of the weaker segments (among them the number of claims for income maintenance), attest to a worsening in the condition of poor people, which was reflected in data for 2008/9.

Some of the data presented below are based on expenditure surveys; these are annual figures that were last updated in 2008. As mentioned above, these data present an essentially different picture from the later data that relates to 2008/9. One should therefore approach the figures with caution, and be aware of their limitations.

One of the data referred to is the index of poverty according to the essential-needs approach, which reflects the ability to consume a basket of essential goods.⁵ This

The increase in poverty in 2008/9 reflects, for the first time, the consequences of the economic crisis.

⁵ The calculation of the index of essential needs is based largely on the work of D. Gottlieb and R. Manor (2005), On the Choice of a Policy-Oriented Poverty Measure, Discussion Paper Series, Monaster Center for Economic Research, Ben-Gurion University of the Negev. See also Box 8.1 in the Bank of Israel's 2006 report.

Table 8.1
Main Poverty Indicators, 2002 to 2008/9^a

	2002	2003	2004	2005	2006	2007	2007/8 ^a	2008	2008/9 ^a
A. Poverty indices									
Relative index ^b									(percent)
Number of poor ('000)	1,317	1,422	1,529	1,626	1,644	1,625	1,626	1,646	1,702
Incidence of poverty (individuals)	21.1	22.4	23.6	24.7	24.5	23.8	23.6	23.7	24.3
Incidence of poverty (families)	18.1	19.3	20.3	20.6	20.0	19.9	20.0	19.9	20.2
Income gap ^c	29.7	30.5	33.3	33.1	33.8	34.3	34.8	34.2	34.3
SEN index ^d	0.090	0.097	0.111	0.114	0.115	0.113	0.114	0.113	0.116
Share of poor whose consumption is below the poverty line	52.5	53.1	56.6	56.5	60.4	58.8	.	62.4	.
Incidence of poverty according to basic index ^b —individuals	.	28.3	28.2	24.5	25.7	23.6	.	21.8	.
Incidence of poverty according to fixed needs ^b —individuals	16.7	17.7	18.1	18.0	17.1	14.8	14.9	14.7	15.5
Incidence of poverty according to fixed index (measured according to the CPI of the lowest quintile)—individuals	16.8	17.7	18.0	18.0	17.2	14.9	14.9	15.1	16.0
Change in real income of family in lowest quintile ^e	.	-1.1	-3.0	4.1	5.5	2.6	1.2	0.1	-2.4
Change in per capita GDP	-2.6	-0.3	3.2	3.3	3.4	3.4	.	2.2	-1.1
Change in median real income per capita	-6.3	0.6	2.8	3.7	4.4	4.6	.	-0.6	-1.6
Gini index	0.368	0.368	0.380	0.388	0.392	0.383	0.386	0.385	0.385
B. Incidence of poverty in selected groups									
Children	29.6	30.8	33.2	35.2	35.8	34.2	34.3	34.0	35.0
Aged 65+	20.3	24.3	25.4	25.4	22.7	24.1	22.9	22.7	22.1
Arabs	49.5	50.9	51.6	55.4	57.6	54.5	53.7	53.1	53.3
Ultra-orthodox ^f	50.5	48.1	57.4	63.1	57.2	56.3	59.7	60.4	59.0
Members of households with one earner	25.1	27.0	31.3	34.5	35.9	36.5	36.6	35.6	36.4
Members of households with two or more earners	3.0	3.7	3.8	3.8	4.2	3.8	3.8	4.3	4.8

Table 8.1 (Cont.)
Main Poverty Indicators, 2002 to 2008/9^a

	2002	2003	2004	2005	2006	2007	2007/8	2008	2008/9 ⁻
C. Policy Indices									
Incidence of poverty before transfer payments and direct taxes ^g —individuals	32.1	32.8	32.3	32.5	32.0	31.2	30.8	31.5	32.2
Contribution of policy (transfer payments and direct taxes) to the reduction of the incidence of poverty among individuals ^h	34.3	31.7	26.8	24.1	23.3	23.7	23.5	24.9	24.5
Share of welfare expenditure in GDP ⁱ	28.6	27.8	26.3	25.4	24.8	24.7	24.9	24.9	25.1
Welfare expenditure per capita (NIS '000, at 2009 prices)	25.4	24.4	23.9	23.7	24	24.7	24.7	24.7	24.7
Share of transfer payments to households in GDP ^{i,j}	10	9.5	8.7	8.3	8	7.7	7.8	7.8	8
Transfer payments per capita (NIS '000, at 2009 prices) ^{i,j}	8.9	8.3	7.9	7.7	7.8	7.6	7.7	7.7	7.9

^a The data in the column 2007/8 are based on a survey carried out between July 2007 and June 2008, and those in the column 2008/9 are based on a survey carried out between July 2008 and June 2009.

^b The relative poverty line is calculated as half the median monetary income. The basic needs poverty line is calculated from a combination of the Canadian (MBS) approach and the American (NAS) one. It includes expenditure on food, housing, education, transport and personal items. According to this approach, a household is considered poor if its income from all sources, after taxes and essential health and work-related family expenditure, is below the poverty line. The absolute poverty line is calculated relative to its real level in 1997.

^c Average gap between the poverty line and the income of poor families.

^d The Sen index combines the incidence of poverty, the income gap, and inequality among the poor.

^e The quintiles are determined according to the equivalised disposable income per capita, so that each quintile contains 20 percent of the families, in accordance with the definition of the government's target. The rate of change in 2008/9 is calculated relative to the equivalent period a year earlier—July 2007 to June 2008.

^f There is a difficulty in identifying the ultra-orthodox in the Income Survey. They are identified here as families in which the last educational institute attended by a member of the family was a talmudic college.

^g Transfer payments from individuals and from abroad are not deducted from disposable income; hence the above data differ from data published by the National Insurance Institute.

^h The contribution of policy is calculated as the percentage difference between the incidence of poverty after deducting transfer payments and direct taxes and the incidence of poverty including them.

ⁱ The data in the column 2007/8 relate to the year 2008, and in the column 2008/9, to the year 2009.

^j Transfer payments minus actual pension payments to public sector retirees.

SOURCE: Based on Central Bureau of Statistics Income Surveys and Expenditure Surveys.

The share of the poor consuming below the poverty line has increased continually during the decade, which attests to the growth of the “hard core” of the weak populations.

index fell in 2008 and reached 21.8 percent, a continuation of a declining trend since 2003 (Figure 8.1 and Table 8.1). As opposed to this, the share of poor people consuming below the poverty line (according to the relative approach) grew significantly—from 59 percent in 2007 to 62 percent in 2008. In the absence of panel surveys tracing individuals over time, it is customary to view consumption below the poverty line as an indicator of persistent poverty.⁶ The rate of poor people consuming below the poverty line has shown an increasing trend over the decade, parallel to a similar rise in the incidence of poverty, while the rate of poor people consuming above the poverty line has remained

stable throughout the period (Figure 8.2). This figure may indicate that the rise in the incidence of poverty reflects a rise in the “hard core” of the weak populations—among whom poverty is severe and persistent.

The Gini index calculated on disposable income increased slightly in 2008/9, a continuation of its rise in previous years. At the same time it is important to point out that the Gini index calculated on economic income decreased slightly, a continuation of its decrease in previous years. While these developments express a reduction of inequality arising directly from work, they point, on the other hand, to a decline in the level of progressiveness of government policy (Figure 8.3).

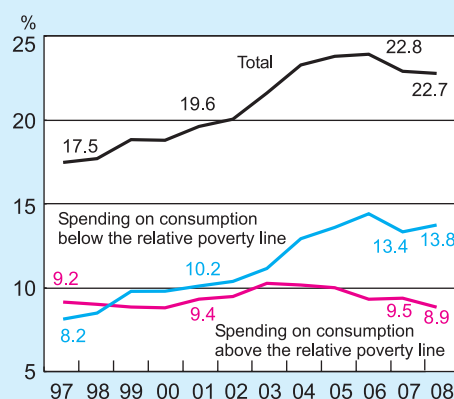
The increasing level of inequality and the decreasing contribution of direct policy (transfer payments and direct taxes) for reducing it, characterizes most OECD countries in the past two decades.⁷ However, the level of inequality in Israel, as measured by the Gini index and other indices, is among the highest in the developed countries.

Among the other indices of inequality is the ratio between the incomes of the upper deciles to those of the lower deciles. Variations of this index all show that inequality in Israel is very high by international standards. Thus, for example, the overall income of the 90th percentile in 2008/9 was 5.5 times higher than that of the 10th percentile;

⁶ The assumption underlying this view is that individuals tend to smoothen their consumption: if the decrease in income is temporary, they will not reduce their expenditure drastically, but rather will use their savings and/or loans in order to moderate the setback in consumption. When the decline in income is ongoing, they will reduce consumption at a similar rate to the rate of decrease in income.

⁷ “Growing unequal? Income distribution and poverty in OECD countries.” OECD (2008). In the past decade the rise in inequality in OECD countries has been halted (according to the average Gini index of 30 OECD countries for the first five years of the decade). In Israel, however, as in the United States, inequality continued to rise. See: OECD Review of Labour Market and Social Policies, Israel, OECD (2010).

Figure 8.2
Incidence of Poverty among
Individuals,^a by Spending on
Consumption, 1997–2008

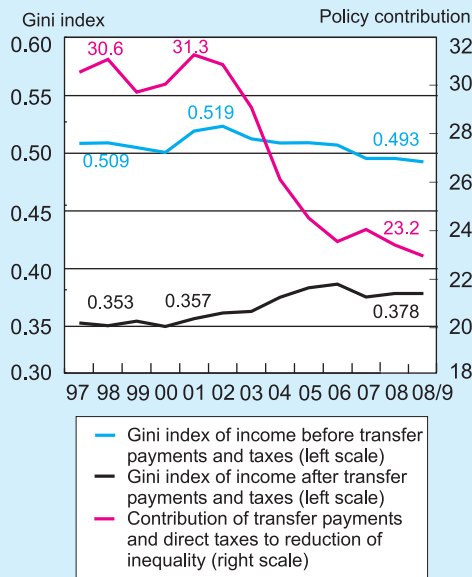


^a Not including Arabs of Jerusalem.

SOURCE: Based on Central Bureau of Statistics' Income and Expenditure Surveys.

The inequality arising directly from wages has lessened, but the progressiveness of government policy has decreased. The level of inequality in Israel is very high relative to OECD countries.

Figure 8.3
Inequality and the Effect of
Transfer Payments and Direct
Taxes^{a,b} 1997-2008/9^c



^a Not including the Arabs of Jerusalem.

^b After deducting transfer payments by individuals and transfer payments from abroad from disposable income.

^c The data are based on a survey conducted between July 2008 and June 2009.

SOURCE: Based on Central Bureau of Statistics Income surveys.

in OECD countries the ratio in the mid-2000s was approximately 4.

The rise in the incidence of relative poverty in 2008/9 took place despite the lowering of the poverty line—in accordance with the decline in the equivalised median income per capita—by 1.6 percent. This fact reflects the relative worsening in the situation of the weaker segments, whose rate of income fall was more rapid. The average income of families in the lowest quintile fell by 2.4 percent in real terms during this period.⁸

An analysis of the contributions to the change in the incidence of relative poverty of individuals (Figure 8.4) enables us to separate two major influences acting to change the year-to-year incidence of poverty—the influence arising from the real change of the poverty line relative to the previous year, and the influence that reflects the change in the distribution of incomes.⁹

This analysis shows that in 2008/9 the

trend reversed itself: the fall in the relative-poverty line worked in the direction of reducing the incidence of poverty, while the distribution of incomes worked to increase it. Between 2005 and 2007 we witnessed an opposite trend: a trickling down of growth to the incomes of the weaker segments worked gradually to reduce the incidence of poverty, but its influence was offset (completely in 2005 and partly in 2006–07) by the influence of the rise of the relative poverty line in these years. In 2008, the two influences were ostensibly relatively smaller than in the past: on average in 2008 the distribution of incomes remained virtually unchanged, and its influence on poverty was negligible. The median income, and in its wake the poverty line according to the relative approach, fell at a relatively moderate rate, 0.6 percent, and their influence

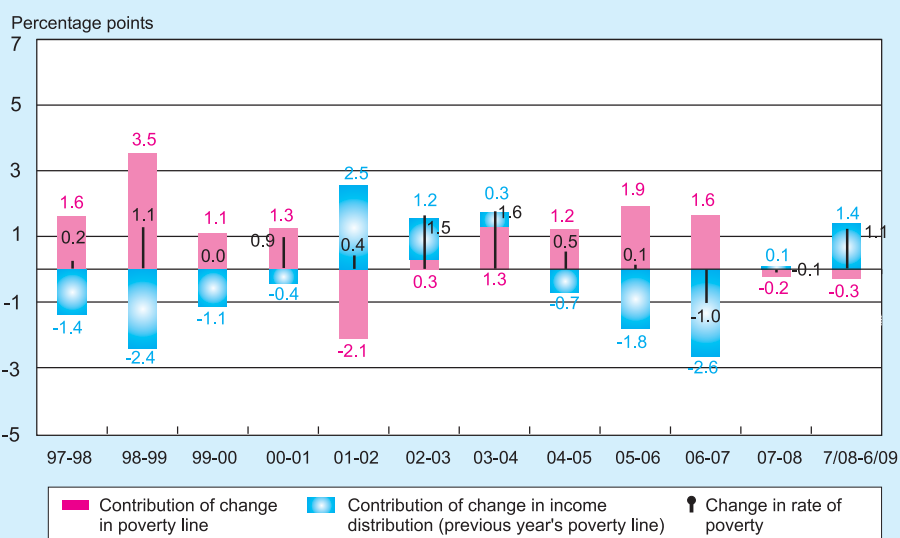
The incidence of poverty rose despite the real fall in the poverty line. The relative situation of the weaker segments worsened.

⁸ This is an underestimation of the decline in purchasing power of the poor, because it is based on the general consumer price index. It should be pointed out that in 2008/9 the consumption goods of the lowest quintile increased in price by 4.7 percent, a significantly higher rate than the rise in the consumer price index.

⁹ The change in the year-to-year incidence of poverty includes three components—the influence of the change in the poverty line, the influence of the distribution of incomes, and a component that combines the two influences. The size of the combined component is negligible, and was therefore consolidated here with the influence of the change in the poverty line.

on the incidence of poverty was also limited. These developments show that in 2008 the gradual improvement that began to appear in the relative situation of the weaker segments was checked, and in 2008/9, their relative situation worsened, most probably as a result of the turnabout in activity.

Figure 8.4
Contribution to Changes in Rate of Poverty among Individuals,^{a,b}
1997–June 2008



^a The contribution of a change in the poverty line to the rate of poverty is calculated here as the difference between the total change in the rate of poverty and the change that stems from a shift in the distribution of income relative to the previous year's real poverty line.

^b Data do not include Arabs of Jerusalem.

SOURCE: Based on Central Bureau of Statistics Income Surveys.

In 2007 the government adopted two social-economic targets—an employment target, according to which the employment rate among the prime age population (25–64) would increase to 71.7 percent, and a poverty reduction target, according to which the real income of families in the lowest quintile should grow at an average rate that is 10 percent higher than the rate of growth of GDP per capita. Furthermore, as an integral part of the poverty reduction target, it was decided that the share of income from work out of the overall income of the lowest quintile should increase by 2 percentage points, to 45 percent. This decision was designed to ensure that the poverty target would be achieved by integration in suitable employment, and not by increasing allowances. In the 2009–10 budget it was decided, due to the economic crisis and its effect on the economy and on employment, that the deadline for achieving the targets would be extended to 2013.¹⁰

¹⁰ For further details on the social targets and the guiding considerations in setting them, see “Report of the Committee to Formulate Targets for Social-economic Policy in Israel for 2008–10”, August 2007. Regarding the extension of the period for achieving the target and the proposed policy to do so, see the report on the major provisions of the budget 2009–2010, Ministry of Finance.

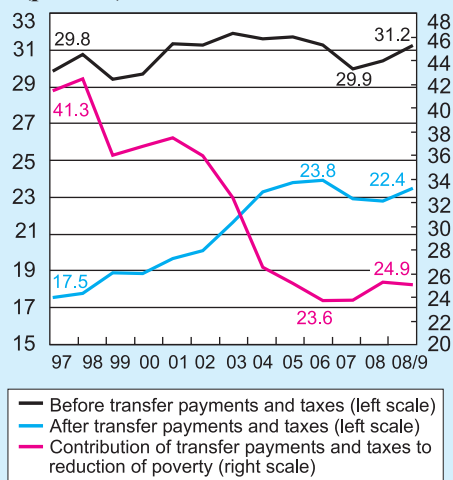
In 2008, as we have mentioned, no improvement took place in the condition of the weaker segments, and the standard per capita disposable income remained virtually unchanged. In this respect the trend of improvement evident in the previous two years, with the rise in real income of the lowest quintile following several years of decline, was checked. At the same time per capita GDP grew by 2.1 percent. The significance of this is that were this the mandatory objective for 2008, it would not have been

achieved.¹¹ The share of income from work of a family in the lowest quintile in its overall income reached about 50 percent in 2008. In this respect, the part of the goal relating to the composition of income was achieved. This part of the goal was already achieved in 2006, and then also in 2007.

The direct contribution of government policy to reducing poverty by means of transfer payments and direct taxes decreased greatly during the past decade. In 2008/9 as well there was no significant improvement in this regard. In 2008/9 direct policy managed to extricate about a quarter of the poor from poverty, while towards the end of the 1990s direct policy contributed to extricating more than 40 percent (Table 8.1 and Figure 8.5).¹² This trend reflects the choice of government policy to focus on cutting allowances as a means of budgetary saving, one of whose additional goals was to encourage the supply of labor, without significant support on the demand side, or by steps

The contribution of direct government intervention by means of transfer payments and direct taxes for reducing poverty lessened significantly in the past decade. In comparison with OECD countries the contribution of policy in Israel is very small.

Figure 8.5
Incidence of Relative Poverty among Individuals and the Effect of Transfer Payments and Direct Taxes, ^{a,b} 1997 to 2008/9^c
(percent)



^a Not including Arabs of Jerusalem.

^b Transfer payments from individuals and from abroad have not been deducted from disposable income; this causes a difference between data in the figure above and those of the National Insurance Institute.

^c The data are based on a survey conducted between July 2008 and June 2009.

SOURCE: Based on Central Bureau of Statistics Income Surveys.

¹¹ It is important to bear in mind that compliance with the goal will be examined on a cumulative basis. In the report of the committee for formulating goals, it is emphasized that: "from the triennial goal, an average annual path is derived, but the intention is not strictly to comply with this average each and every year; rather, it is the trend that is important and the prospect of meeting the long-term goal." An analysis of developments in previous years shows that the goal of reducing poverty would have been achieved on average for 2006-2007, but not for each year separately. In any event, according to the definition of the goal, the years 2006 and 2007 are not included in the period of the calculation.

¹² The influence of the taxation and allowances system on labor market behavior and on the poverty line, and therefore, on the incidence of poverty according to the economic incomes, was not taken into account here.

For comparative purposes, the contribution of direct policy to reducing poverty in OECD countries was 60 percent on average, but in many of the countries the contribution of policy has decreased to some extent in the past decade.

that would increase the earning power of people who were encouraged to enter the labor market. The policy steps taken in these areas (such as Earned Income Tax Credit (EITC), “lights to employment” and improving enforcement) were limited in their scope and influence (see below).

Parallel to the decline in the contribution of direct government policy in reducing poverty, its progressiveness, and therefore its contribution to reducing income gaps, also decreased substantially. The rate of government intervention—the scope of transfer payments less direct taxes relative to disposable income—is progressive: high in the lower-income quintiles, and negative in the upper-income quintiles. The rate of intervention in the lowest quintile has stabilized in recent years, following a substantial decline over the decade—a decline that reflected the considerable cutbacks in allowances at the start of the decade. The cutback in allowances had a further influence on the rate of government intervention—in its contribution to raising the participation and employment rates of the weaker populations, both of which later tended to reduce the rate of government intervention—both directly, by raising income from work, which reduces the government’s share in the overall income, and indirectly, by reducing allowance payments. At the same time, since 2002 the rate of government intervention in the disposable income of the upper quintiles has decreased continually, except for a temporary increase in 2007¹³ (Table 8.2).

Beyond direct government policy for reducing poverty by means of transfer payments, policymakers have at their disposal other means for dealing with poverty, the leading one being policy measures for increasing employment rates. These steps

Table 8.2
Share of Government Intervention^a in Disposable Income, 2002-2008/9^b

Quintile	(percent)							
	2002	2003	2004	2005	2006	2007	2008	2008/9
Lowest	56.5	53.5	49.1	47.2	45.6	42.6	42.5	42.4
2	29.5	29.7	27.4	27.5	25.9	23.7	24.1	24.6
3	4.5	5.7	5.5	3.9	5.0	3.5	4.4	5.7
4	-10.6	-9.4	-10.1	-8.8	-7.6	-9.0	-7.2	-5.8
Highest	-38.6	-33.0	-31.3	-28.9	-27.8	-29.9	-27.4	-24.7

^a Government transfer payments *minus* direct taxes.

^b Data based on a survey carried out between July 2008 and June 2009.

SOURCE: Based on Central Bureau of Statistics Income Surveys.

¹³ The decline of direct government intervention in the incomes of the upper quintiles reflects a long-term reduction in the rate of statutory taxation, the fruits of which were enjoyed mainly by the upper income earners. The temporary increase in 2007 took place despite the reduction in the statutory tax rate; possibly it reflected a change in the composition of incomes of the upper quintiles—an increase in the weight of incomes from work and a decrease in the weight of other incomes, the tax on which is lower. An analysis according to types of income does indeed point to this change.

are meant to be more effective in the long run, because they deal with the major reasons for people being located below the poverty line—a small number of breadwinners¹⁴ in conjunction with low earning power and a high birthrate. The average rate of employment in Israel is significantly lower than the average in OECD countries, particularly among poorly educated men, and this is one of the major reasons for the higher incidence of poverty in Israel. It is, however, important to bear in mind that being employed indeed improves the chances of extricating oneself from poverty, but does not guarantee this: poverty among workers is increasing, and most of the poor live in households with at least one breadwinner. Worthy of mention is that perseverance in work is also no guarantee of improvement in the economic condition of workers at the bottom of the wage scale. According to administrative data of the Tax Authority, a large proportion of workers at the lower wage levels did not obtain significant salary increases for many years. These facts emphasize the need to strengthen the means of support of the weak workers at the same time as strictly implementing and enforcing the labor laws and reducing temporary employment arrangements whose aim is to limit the employer's responsibility towards his employees.¹⁵

The steps for encouraging employment include several measures whose aim is to increase individuals' earning power (integrating them in work and increasing the earnings from work) through active policy in the labor market, enforcing the labor laws, and reducing the number of foreign workers who compete with the poorly educated workers. The various programs should be shaped in accord with the needs of the target populations, such as programs focusing on the ultra-Orthodox sector or the Arab population. In the long term it is important to improve education and make it more efficient as a tool for increasing social mobility and reducing the gaps. In recent years several policy steps have been taken to encourage participation and employment (most in conjunction with NGOs or at their initiative), but their scale is very limited and the expenditure on them very low by international standards.¹⁶ The overall expenditure on active policy in the labor market in 2009 was only about 0.2 percent of GDP.¹⁷ At the same time, legislative activity on labor and wages has accelerated over the past two years, and several important laws have been enacted. However, the enforcement of the labor laws is unsatisfactory despite the efforts to intensify enforcement and despite

In recent years several policy steps have been taken to encourage participation and employment, but their scope is very limited, and the expenditure on them is very low by international standards

¹⁴ Karnit Flug and Nitsa (Kalinier) Kasir (2003). "Poverty and Employment and the Gulf Between Them", *Israel Economic Review* 1, 55-80.

¹⁵ This is one of the recommendations of the OECD in its report on the labor market and welfare policy in Israel. OECD Review of the Labor Market and Social Policies, Israel. OECD (2010).

¹⁶ For details of programs operated by the Ministry of Industry, Trade and Labor for supporting employment and employers, see: "Ministry of Industry, Trade and Labor: Guide to Tools for Assisting Employment and Businesses 2010".

¹⁷ The average expenditure on active policy in the labor market in OECD countries in 2007 was 0.56 percent of GDP, almost three times higher than in Israel.

the legislative process.¹⁸ Besides this, the intensified legislative activity regarding elementary rights (for example, the right to sit while working, or the right to go to the toilet) also expresses the erosion of normative employer-employee relationships: the need for the legislator's intervention in determining rules of this kind seems to point to a worsening of the employees' situation.

The "Lights to Employment" program contributed to reducing the number of allowance recipients in the areas in which it operated, and in increasing the participants' rate of employment and the volume of employment.

One of the major programs designed to deal with the problem of poverty by encouraging employment is the "Lights to Employment" program that was being run in four localities—Nazareth, Jerusalem, Ashkelon (and Sderot) and Hadera—since August 2007.¹⁹ As a result of disagreements about the efficacy of the program, it was only extended by four months, to the end of April 2010. The findings of the research accompanying the program show that it contributed significantly to reducing the numbers of recipients of income support allowances in the areas in which it operated, to increasing the rate of employment and the volume of employment of the participants, as well as raising their salaries. At the same time, on average the program did not affect the overall incomes of the participating households, because the rise in income from work was fully offset by the decrease in the income support benefit. One group participating in the program whose income was positively affected, was a group that included 18 percent of the families in the program who did not have any income from work at the time of joining the program, and eight months later at least one of the spouses was working. The overall income of these families increased by 48 percent—from NIS 1,920 on average to NIS 2,827 on average. Despite the above increase, however, the overall average income was substantially below the poverty line, even for a household of only two people.²⁰ The "Lights to Employment," like

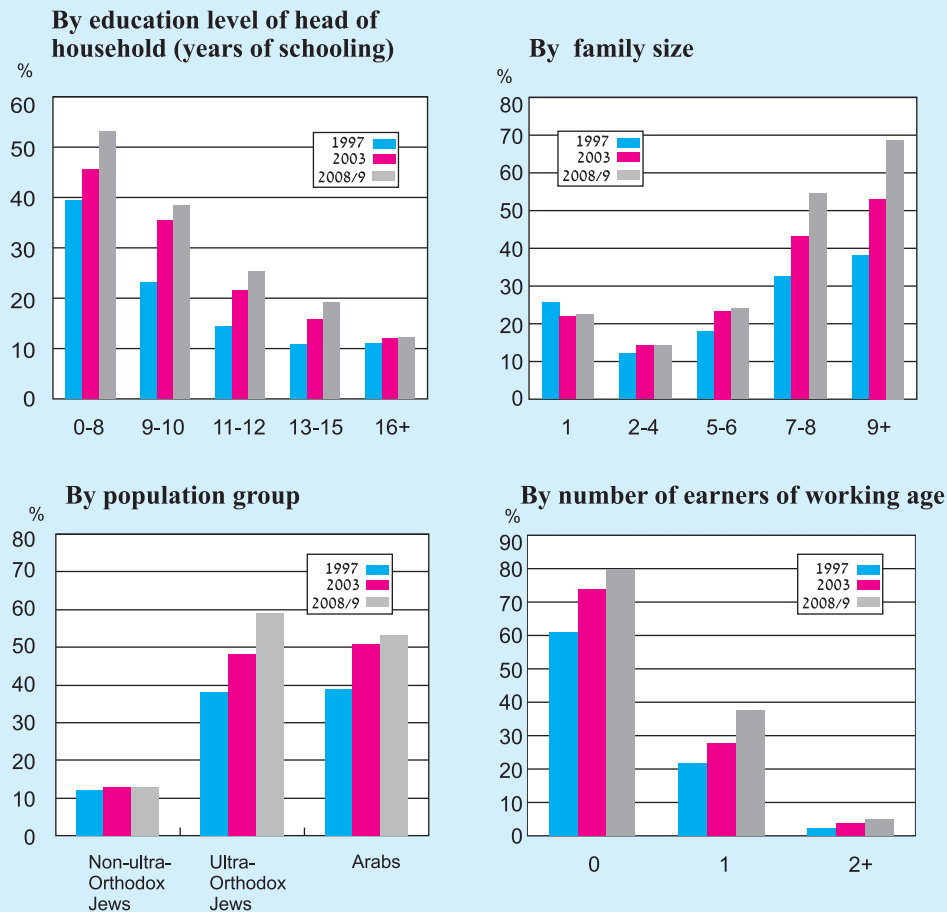
¹⁸ In June 2007 the recommendations of the steering committee for the enforcement of labor laws was published. The State Comptroller's Report for 2007, however, found that these were not fully implemented. Granted that in the wake of the committee's findings and the State Comptrollers Report, the number of inspectors and the number of enforcement activities was increased, they are still relatively few. The OECD Report (referred to in Footnote 15) also points out that the enforcement of labor laws in Israel is weak: Even after increasing the number of inspectors, their number is still six times lower than the standard determined by the ILO for developed countries. Even if we include the students hired to reinforce the enforcement system, the number of inspectors is low—about a quarter of the ILO standard.

¹⁹ "Lights to Employment" replaced the "Mehalev" program that ran from August 2005 to July 2007. The main characteristics of the programs are similar, but in the wake of the recommendations of the Ya'ari Committee several changes were introduced in "Lights to Employment". The major change was to reorganize the monetary incentives for the operators of the program by emphasizing placement in work and length of the employment, and reducing the incentive to cancel allowances if the cancellation is not accompanied by work placement. Furthermore, the program was expanded into other locations, and four population groups of people with special needs who are entitled to special care were identified. People aged 45 and above were released from the obligation to participate in the program, and are entitled to participate in it on a voluntary basis.

²⁰ For a summary of the research on "Lights to Employment" see: Myers-JDC-Brookdale Institute and the National Insurance Institute, Bureau of Research and Planning (2009): "Evaluation of the Lights to Employment Program: Inventory of Entitled People Referred to the Program," June 2009.

its predecessor, “Mehalev,” was run by private bodies only, which made it difficult to examine the administrative effectiveness in comparison with alternative options.²¹

Figure 8.6
Rate of Relative Poverty (Individuals) by group, 1997, 2003 and 2008/9^a



^a The data are based on a survey conducted between July 2008 and June 2009.

SOURCE: Based on Central Bureau of Statistics Income Surveys.

The challenge facing economic policy in dealing with the problem of poverty is emphasized by the characteristics of the poor in Israel. The incidence of poverty is particularly high among Arabs and the ultra-Orthodox. The intensity of poverty among them, as measured by the poverty gap, is relatively high (Table 8.3). These are population groups whose rate of poverty grew far more in the past decade (Figure

The incidence of poverty is particularly high among the ultra-Orthodox and Arabs—two population groups characterized by low rates of employment and a high birthrate.

²¹ For details see: The Knesset Research and Information Center (2009): “The Appropriate Administrative Structure of the Employment Centers Operating as Part of the Pilot Program for Integrating Benefit Recipients in the Labor Market.”

Table 8.3**Indices of Relative Poverty among Individuals, by Various Characteristics and by Selected Segments of the Population^a**

	Poverty indices				Distribution			
	1997		2008/9 ^b		1997		2008/9 ^b	
	Rate of poverty	Income gap ^c	Rate of poverty	Income gap ^c	percentage of			
					the poor	the population	the poor	the population
Total	18	26	24	34				
percent								
Years of education								
Up to 8	39	23	53	36	35	16	20	9
9–10	23	24	38	33	16	12	15	9
11–12	14	26	25	35	26	33	33	32
13–15	11	30	19	34	11	18	18	23
16+	11	30	12	33	12	20	13	26
Family size								
1 person	26	23	22	25	7	5	5	6
2–4 persons	12	27	14	33	31	47	29	50
5–6 persons	18	27	24	33	33	33	30	30
7–8 persons	33	26	54	36	18	10	21	9
9 or more persons	38	21	69	40	11	5	14	5
Number of wage earners^d								
0	61	32	79	50	15	4	33	10
1	22	23	37	28	43	36	50	32
2+	10	20	5	20	29	51	10	49
Householder aged 65+	27	21	22	23	13	9	8	8
Population group								
Ultra-orthodox ^e	38	30	59	39	11	5	18	7
Arabs	39	26	53	36	38	18	44	20
Non-ultra-Orthodox Jews	12	25	13	30	51	77	39	73
Single-parent families	34	24	37	38	8	4	7	4
Immigrants (since 1990)	16	24	17	29	11	12	12	16

^a Including Arabs of Jerusalem.^b Data based on a survey carried out between July 2008 and June 2009.^c Average gap between the poverty line and the income of poor families.^d In households where the head of the household is less than 65 years old.^e There is a difficulty in identifying the ultra-Orthodox in the Income Survey. They are identified here as families in which the last educational institute attended by a member of the family was a talmudic college.

SOURCE: Based on Central Bureau of Statistics Income Surveys.

Table 8.4**Rate of Employment and Average Wage, by Segments of the Population,^a Selected Years**

	1997	2003	2005	2006	2007	2008	2008/9 ^b
Rate of employment	Men						
Total population	62.9	59.1	60.8	61.7	63.2	64.0	
Arabs	64.7	55.5	55.4	56.5	58.3	60.3	
Ultra-orthodox ^c	24.4	21.1	23.4	24.6	23.9	25.0	
Non-ultra-Orthodox Jews	65.3	63.3	65.6	66.8	68.6	68.9	
0–10 years of education	56.3	46.7	45.9	46.6	47.7	49.1	
11–12 years of education	59.4	53.7	56.0	57.3	58.7	59.0	
Average wage							
Total population	6,639	8,428	8,611	8,740	9,263	9,578	9,484
Arabs	4,125	5,338	5,348	5,221	5,759	5,723	5,789
Ultra-Orthodox ^c	5,280	6,333	5,932	6,368	6,582	7,002	6,305
Non-ultra-Orthodox Jews	7,189	9,055	9,304	9,528	10,085	10,491	10,381
0–10 years of education	4,197	5,166	5,221	5,249	5,664	5,709	5,596
11–12 years of education	5,566	6,634	6,487	6,561	7,032	7,078	7,027
Rate of employment	Women						
Total population	47.8	50.1	52.1	53.0	54.4	55.3	
Arabs	16.8	16.5	15.9	16.7	18.4	19.7	
Ultra-Orthodox ^a	40.5	41.8	44.4	45.2	46.7	47.5	
Non-ultra-Orthodox Jews	54.8	57.8	60.8	62.0	63.4	64.4	
0–10 years of education	21.3	19.3	21.0	20.8	21.3	21.8	
11–12 years of education	46.0	44.9	44.9	45.1	46.3	47.8	
Average wage							
Total population	4,067	5,247	5,441	5,549	5,957	6,118	6,135
Arabs	2,985	4,089	4,105	3,846	4,351	4,167	4,121
Ultra-Orthodox ^c	2,908	4,165	3,681	3,875	4,279	4,215	4,233
Non-ultra-Orthodox Jews	4,166	5,364	5,585	5,726	6,154	6,343	6,296
0–10 years of education	2,444	3,167	2,971	3,240	3,515	3,349	3,452
11–12 years of education	3,311	4,139	4,074	4,172	4,467	4,661	4,594

^a Aged 15–65 years.^b Data based on a survey carried out between July 2008 and June 2009.^c There is a difficulty in identifying the ultra-orthodox in the Labor force Survey and the Income Survey. They are identified here as families in which the last educational institute attended by a member of the family was a talmudic college. This definition may create a bias towards people with a lower tendency to participate in the labor force.

SOURCE: Based on Central Bureau of Statistics Labor Force and Income Surveys.

8.6), and their share among the poor is double their share in the general population (Table 8.3). The high rates of poverty in these populations results from the combined effect of the low number of breadwinners and the large household size.

The rise in the incidence of poverty among these populations is also expressed in a substantial increase in the incidence of poverty among children, an increasing number of whom live in ultra-Orthodox and Arab households. A focused policy for reducing poverty by increasing employment in these populations will need to overcome many barriers—some that are shared by the two populations and some that are unique: little education, or education that does not improve the individual's earning ability; religious or cultural restrictions regarding the nature of places of work; cultural gaps and a lack of knowledge of the labor market, arising from the closed community life, from discrimination in the labor market, etc.

In 2008/9 the incidence of poverty among the ultra-Orthodox grew substantially (Table 8.1), despite the rise in the rates of employment and average salaries. The relative probability of an ultra-Orthodox individual being poor grew (after controlling for the influence of other factors, including education and family size). It should be mentioned that the identification of ultra-Orthodox people in the income surveys of the Central Bureau of Statistics is according to the education of one family member in a post-high school yeshiva as the last institution of learning. This method of identification could bias the sample in the direction of people who tend to participate less in the labor market (because an ultra-Orthodox person who chooses to study in another type of institute of learning in order to acquire a profession, will not be considered ultra-Orthodox). There also seems to be a growing gap in recent years between the findings emerging from the income surveys and those based on the social survey in which the ultra-Orthodox are identified by a direct question.

The incidence of poverty among Arabs greatly decreased in 2007 and 2008, following a continuous increase for more than a decade. The decrease in the incidence of poverty is an expression of a rise in the rate of employment since 2006—both among Arab males and Arab females, while their average salary rose in 2007 and fell slightly in 2008 (Table 8.4). Their relative probability of being employed (after controlling for the influence of other factors) rose slightly, after a continuous declining trend, and their relative probability of being poor fell slightly.

At the same time, even after these changes, the incidence of poverty among Arabs is very high (more than half are poor), and their relative probability of being poor is four times greater than non-ultra-Orthodox Jews. The direct impact of welfare policy on this population is particularly small: the direct contribution of transfer payments and taxes to reducing the incidence of poverty among them was only about 12 percent in 2008/9, and the effect of this direct contribution was to reduce the incidence of poverty by only about 7 percentage points.

From an analysis of the extent of poverty according to additional characteristics (Table 8.3 and Figure 8.6) we conclude, as expected, that the incidence of poverty and its intensity are influenced to a large extent by education—in accordance with the

influence of education on earning ability—by the number of earners and by the size of the household. Among single-parent families as well, the incidence of poverty is relatively high. The incidence of poverty among the elderly has decreased in recent years, and is lower than the average incidence of poverty in the population as a whole, probably because of fewer people in the household. Among new immigrants the incidence of poverty is lower than that in the general population, but higher than among non-ultra-Orthodox Jews.

A comparison over the past decade shows that the incidence of poverty rose mainly in those populations in which it was high initially (Figure 8.6). These populations, as mentioned, are characterized by low rates of employment, as a result of which they were influenced less by the upturn in the business cycle and relatively later than other populations. Their reliance on transfer payments, and particularly on child allowances, was the major factor for the sharp rise in the rate of poverty among them, when the transfer payments were cut at the beginning of the decade.

The working poor

Welfare policy in recent years has focused on providing incentives for people to enter the labor market (particularly by significantly cutting allowances). Participation in the labor market, however, does not guarantee an escape from poverty. Most of the poor live in households with at least one earner, and the incidence of poverty among families in which at least one breadwinner works full-time stood in 2008 at 16.2 percent. Moreover, the extent of poverty among people living in households with at least one breadwinner (hereinafter: the working poor) expanded consistently over the past decade.

Most of the poor—more than 60 percent—live in households with a least one breadwinner.

An analysis of employment characteristics, salaries and poverty in 2008 (Table 8.5) shows that more than 60 percent of the poor live in households that have at least one breadwinner. About half of the working poor (in all types of employment) are Arabs, and approximately a further 12 percent are ultra-Orthodox. The phenomenon of working poor is focused on households with a single breadwinner, and among these—in households in which the single breadwinner works full-time. Poverty among households with a single breadwinner working full-time is particularly characteristic of Arab households, about two-thirds of which are poor, and these are about half of all the poor in the population. Hence, the major efforts to reduce poverty in the Arab population should focus on: (a) increasing the earning power of the workers by means of education and professional training, as well as by specific steps to prevent discrimination and to remove the unique barriers hindering the Arab population; and (b) raising the rates of participation and the employment of Arab women. Among the ultra-Orthodox population, the share of working poor is lower—most of the working poor live in households with a single breadwinner who works part-time, and only ten percent of the ultra-Orthodox poor live in households with a full-time breadwinner.

Table 8.5
Characteristics of Employment, Wages and Poverty,^{a,b} 2008/9, in Households Whose Head is Aged 25–64^c

	Total	Arabs	Ultra-Orthodox Jews ^d	Non ultra-Orthodox Jews
Total	6,020,638	1,223,977	432,811	4,364,670
Proportion of population	100.0	20.3	7.2	72.5
Number of poor	1,414,855	651,227	253,130	510,498
Proportion of all poor	100.0	46.0	17.9	36.1
Total number in households with at least one wage earner	5,359,856	1,005,142	289,367	4,066,167
Proportion of population	89.0	82.1	66.9	93.2
Incidence of poverty	16.6	44.4	40.6	8.1
Proportion of the poor in this group	63.1	68.5	46.4	64.4
Head of household self-employed	691,481	146,393	29,197	515,891
Proportion of population	11.5	12.0	6.7	11.8
Incidence of poverty	17.8	35.2	39.2	11.7
Proportion of the poor in this group	8.7	7.9	4.5	11.8
Head of household employee				
One wage earner (not employed full-time)	1,988,864	306,653	175,484	1,507,547
Incidence of poverty	18.1	34.8	45.2	11.5
Proportion of the poor in this group	25.4	16.4	31.3	34.0
Proportion earning less than minimum wage ^e	31.6	44.5	23.0	30.4
Average hourly wage among the poor	27.5	32.7	34.7	23.7
Average hourly wage among other employees	53.1	39.7	53.3	54.5
Average number of children per poor household	2.6	3.2	4.3	1.8
Average number of children in other households	1.2	1.9	2.2	1.1
One wage earner (in full-time employment)	2,506,808	581,914	113,571	1,812,143
Incidence of poverty	20.3	54.4	32.5	8.5
Proportion of the poor in this group	35.9	48.6	14.6	30.3
Proportion earning less than minimum wage ^e	15.6	18.0	14.5	15.2
Average hourly wage among the poor	22.7	23.5	24.6	20.9
Average hourly wage among other employees	52.8	37.5	49.5	54.7
Average number of children per poor household	3.0	3.2	4.4	2.4
Average number of children in other households	1.1	1.8	2.1	1.0
Two wage earners (one in full-time employment)	480,263	74,920	27,829	377,514
Incidence of poverty	8.2	8.2	23.3	7.1
Proportion of the poor in this group	2.8	0.9	2.6	5.2
Proportion earning less than minimum wage ^e	52.8	44.9	18.1	55.8
Average hourly wage among the poor ^f	28.4	26.8	37.0	27.2
Average hourly wage among other employees	54.6	53.6	60.8	54.3
Average number of children per poor household ^f	2.2	2.4	3.7	2.0
Average number of children in other households	1.4	2.4	2.5	1.2

cont.

Table 8.5 (Cont.)
Characteristics of Employment, Wages and Poverty,^{a,b} 2008/9, in Households whose Head is Aged 25–64^c

	Total	Arabs	Ultra-Orthodox Jews ^d	Non ultra-Orthodox Jews
Two wage earners (both in full-time employment)	1,484,153	157,145	25,450	1,301,558
Incidence of poverty	2.5	14.7	5.6	0.9
Proportion of the poor in this group	2.6	3.5	0.6	2.4
Proportion earning less than minimum wage ^e	8.2	20.2	8.4	7.2
Average hourly wage among the poor ^f	16.8	17.3	30.9	14.6
Average hourly wage among other employees	53.1	34.7	44.8	54.5
Average number of children per poor household ^f	3.4	3.7	4.8	2.8
Average number of children in other households	1.2	1.6	2.5	1.2

^a The average wage, and classification as self-employed or employee, Arab or ultra-orthodox, are determined based on the head of the household. The table does not show data relating to households whose head is both self-employed and an employee, as their number is small.

^b Percent, unless stated otherwise.

^c The head of the household is the main wage earner in the household, i.e., the one working the most hours per week (including members of The professional army). If a household has more than one member that satisfies this criterion, or if the household has no wage earner, the interviewee determines who is the head of the household.

^d There is a difficulty in identifying the ultra-orthodox in the Income Survey. They are identified here as families in which the last educational institute attended by a member of the family was a talmudic college. This definition may create a bias towards people with a lower tendency to participate in the labor force.

^e Those whose average hourly wage is less than 95 percent of the minimum hourly wage.

^f Due to the small number of observations, these data are not statistically significant.

SOURCE: Based on the Central Bureau of Statistics Income Survey.

In the OECD too, most of the poor are in the category of the working poor, but the average incidence of poverty among working households, 7.7 percent in the mid-2000s, was far lower than in Israel. In the OECD, too, the incidence of poverty among households with children was higher than households without children. The salient characteristic of the working poor in these countries was the relatively small work input—reduced working hours or working only some months of the year. Against this, the correlation between low wage and poverty was relatively low: only a small proportion of the workers at the bottom of the wage scale (the lowest quintile of hourly wage) were poor, and among the working poor only slightly more than half earned a very low wage. These facts are particularly pertinent for determining the appropriate policy to deal with the phenomenon of the working poor, especially in view of the characteristics of the recent crisis, which expressed itself in a reduction of working hours.²²

The growth in the number of working poor against the background of policy measures that encouraged the weaker segments to join the labor force, raises the

²² “In-Work Poverty: What Can Governments Do?” OECD Policy Brief, September 2009. OECD (2009).

question of whether the situation of the workers indeed worsened; in other words, whether they became poorer—or is it a change in the composition of employment, so that the non-working poor who relied on allowances, and with the cut in allowances, had no alternative but to go out to work, thereby raising the incidence of poverty among the workers, even if their personal situation remained unchanged. In the absence of panel surveys, which follow individuals over time, we cannot answer this question directly. However, examination of the composition of employment over the decade could give an indication of the extent of the importance of changes in the employment composition.

In order to examine the changes in the composition of employment, we will focus on a group of households in which the head of the household is aged 25-64, and where there is one earner working full-time. We chose this group for three reasons: first, because a large proportion of working poor are in this group; second, because the incidence of poverty among these households grew significantly during the decade; and third, because the work input in this group is quite high—which implies that in order to reduce the incidence of poverty in this group, a policy of encouraging employment is insufficient; rather, policy should focus on improving earning power.

One of the salient developments in recent years is the rise in the proportion of Arabs in this group and the fall in the proportion of non-ultra-Orthodox Jews. This compositional change could explain part of the rise in the incidence of the average poverty in the group, because among the Arabs the incidence of poverty is higher. As opposed to this, changes in the composition within the groups are ostensibly supposed to reduce the rate of poverty, because the weight of educated people grew (both among non-ultra-Orthodox Jews and among Arabs) as did that of demographic groups in which the incidence of poverty is relatively low. At the same time, the incidence of in-group poverty grew in all groups.

The two major factors associated with poverty among workers are part-time work and large household size. The influence of these two factors has intensified in recent years, following the cut in allowances.

The factors responsible for poverty among workers are diverse, but two are particularly pronounced—large household size and low earning power. These factors are common to ultra-Orthodox and Arab households, as well as to non-ultra-Orthodox Jewish households. The low earning power is reflected in a low level of education or education that does not match the demands of the labor market, in professions characterized by low salaries, and in employment in sectors in which the average wage is relatively low. All these are expressed in the low wage that working poor receive, about half or even less than the wage of other workers in the same groups (Table 8.5). Besides these factors, the low salaries of the working poor are influenced also by the lax enforcement of the labor laws: the working poor, whose status in the labor market is unstable and vulnerable, find it difficult to protect their rights. This is expressed, among other things, by the high proportion of working poor who earn less than the minimum wage, and emphasizes the important role of labor law enforcement.

Estimating the relative probability of being poor among people living in working households shows that the two most dominant factors associated with poverty among workers are part-time work and the size of the households. (Thus, for example, the relative probability of a person in a household with five or six children being poor was 18 times higher in 2008 than a similar person living in a household without children.) The influence of these two dominant factors has even grown significantly in recent years, apparently as a result of the cut in allowances, because the higher the allowances, the greater their contribution to extricating low-income earners and large families from poverty. The probability of being poor is also relatively greater among Arabs (beyond the influence of family size) and among people living in households in which the head of the household has 8 or fewer years of education. As opposed to these, independent work, an additional breadwinner in the household, and higher education are factors greatly reducing the probability of poverty.

One of the primary policy measures designed to deal with the problem of poverty among workers is EITC. EITC has a substantial positive effect on the welfare of working individuals: it improves the economic situation of households with workers earning low wages, and could extricate them from poverty. Research worldwide shows that EITC contributes greatly to reducing poverty among workers' households. It also increases the level of earned income, and therefore—the incentive to work and not to rely on allowances. Most research evidence confirms that EITC has a positive effect on the rate of participation (even though the question of whether and to what extent this influence is offset by reducing working hours remains in dispute). In any event, the effect of EITC on employment is clearly not negative. An added value for reducing poverty and increasing employment is the effect on the children of the grant recipients.²³

In October 2008 a system of earned income tax credits (EITC) was introduced in several localities in which the “Lights to Employment” program was operating.²⁴ The program enables low-paid workers to obtain a salary addition of up to NIS 840 a month (per family), according to their salary, the number of children in their household, and the number of breadwinners and their ages.²⁵ The benefit is given directly to the worker without the employer's intervention. The Tax Authority notified potential recipients (on the basis of their incomes in 2007) and encouraged them to request the grant if they indeed met the criteria. According to findings from the first year of

In October 2008 a system of EITC was introduced in several localities, and is expected to improve the welfare of low-income earners. At the same time, the partial geographical dispersion and the relatively small amount of the grant could moderate its positive influences.

²³ For further details of the implications of EITC on poverty, participation and hours of work, see: Box 5.4: Bank of Israel Report for 2006, “How the increase in the minimum wage and earned income tax credits affect the poverty of workers.”

²⁴ The program was meant to be extended nationally already by 2010 (on the basis of 2009 incomes), but this was postponed to 2012 (on the basis of 2011 incomes). However, single-parents of children up to age two would be able to enjoy the fruits of the program already in 2010 throughout the country.

²⁵ An international comparison with countries that operate a similar negative income tax system to Israel's, shows that in Israel the net monetary benefit given as part of the EITC is relatively small. See: Bank of Israel (2008), “Earned income tax credit from an international perspective,” *Economic Developments in Recent Months*, 122, Part 2. For the OECD findings, see OECD (2010). OECD Review of Labor Market and Social Policies, Israel.

operation of the program,²⁶ about 45 percent of potentially eligible people realized their right to the grant on the basis of their incomes in 2007. This rate is higher than similar programs in the world in their initial stages of operation. The findings show that the program is geared to very-low-income earners: about 65 percent of the grant amount was directed to workers in the lower third of equivalised per capita income from salaried work, and the average wage of entitled workers in 2007 was about 42 percent of the average wage of workers with similar characteristics living in the designated areas. Most of those entitled to the grant were workers well integrated in the labor market—a large proportion had been continuously employed in 2002–2006, and had worked on average about 10 months each year. Despite their employment record, their salaries had not risen significantly and had remained low over the years. This fact, alongside the high number of workers who had not worked for the full period, points to the difficulty that workers at the bottom of the salary scale have in maintaining stable employment and improving their economic and employment status. We should point out that the entitlement structure is relatively complicated, and is affected by many variables (family status, age, income and spouse's income), and that the income grant is obtained only about a year following the end of the tax year on the basis of which the grant is paid. The partial geographical dispersion and the relatively small amount of the grant could moderate the positive influences of the program.

2. INTEGRATING PEOPLE WITH DISABILITIES IN THE WORKPLACE

The economic condition of the recipients of general disability allowances is problematic: their rate of employment and their wages are low.

In 2008 there were in Israel about 195,000 recipients of a general disability allowance,²⁷ which constituted about 4.6 percent of the population of the age entitled to an allowance.²⁸ The economic condition of disability allowance recipients is problematic: their rate of employment is very low, the number of working hours of those among them who are employed is limited, and their wages are low. A large proportion of disability allowance recipients earn even less than the minimum wage (Table 8.6). The percentage of disability allowance recipients with higher education is low, a relatively high proportion work in professions that do not require significant human capital, and only a small proportion work in academic or free professions. All these factors are expressed also in the incidence of poverty among disability allowance recipients, which is significantly higher than in the population in general. The concerns of disabled people was examined by the Laron Committee, whose conclusions were published in 2005 and some of which were implemented recently (see below).

²⁶ Bank of Israel (2010): "First Year of Implementation the Earned Income Tax Credit." *Recent Economic Developments*, 126, September to December 2009.

²⁷ According to National Insurance Institute data (The National Insurance Institute, Annual Review 2008), the disabled population is only a small part of the population of disabled, as will be detailed below. This population does not include IDF disabled veterans and recipients of an allowance for a disabled child, both of whom are entitled to an allowance by virtue of the stipulations of other laws.

²⁸ The age of entitlement to an allowance is from age 18 until pension age.

In the past two decades the number of disability allowance recipients has grown rapidly, significantly faster than the rate of population growth. As mentioned, the incidence of poverty among households of prime-age (25–64 years old) recipients of the allowance is higher than in the general population, but its development in recent years is similar to the development of the incidence of poverty in the general population. Changes in the criteria for obtaining a disability allowance as well as demographic and economic changes, such as the wave of immigration at the beginning of the 1990s, the rise in the proportion of elderly people in the population, and the rise in the rate of unemployment (which may push people with disabilities outside the labor force) could explain part of the growth in the numbers of disability allowance recipients in some of the years. But it seems that these factors are neither able to explain the full intensity of the development, nor its unbroken continuity over two decades. Furthermore, data on the composition of the disability allowance recipients by type and severity of disability, shows that they did not change significantly in those years.²⁹ Possibly part of the increase in the number of disability allowance recipients, is a result of an increase in the realization of the right to obtain an allowance, which reflects a change in the attitude to receiving it, or other changes. However, the absence of long-term data regarding the population of the disability allowance recipients does not allow us to indicate with certainty what the reasons are for the substantial growth in their numbers, or to examine other hypotheses.

Disability allowance recipients are only a small proportion of the disabled. According to the social survey data, in 2007 there were about 680,000 prime-age disabled in Israel. Approximately a third of them reported that their disability greatly disturbed their daily functioning.³⁰ Similar to the number of disability allowance recipients, the growth in the number of disabled was more rapid than the population growth. The number of prime-age disabled increased by about 22 percent between 2002 and 2007, compared with about a 14 percent increase in the prime-age general population. The rapid rise in the number of disabled could explain part of the rise in the number of disability allowance recipients, but not all of it, because the number of the latter rose faster.

The rate of employment among the disabled is very low (about 40.7 percent as compared with 64.8 percent in the overall population),³¹ and, as expected, the rate is lower among those whose disability disturbs them greatly (about 27 percent). Special

According to the social survey, there were in 2007 about 680,000 prime age handicapped people living in Israel.

²⁹ This fact implies that the substantial growth in the number of disabled people is probably not a result of change in the extent of thoroughness devoted to examining the criteria for obtaining the allowance, or of the shift by other allowance recipients to the disability allowance system. Additional data supporting this hypothesis is that the rate of claims for general disability allowances that were rejected by the National Insurance Institute kept increasing from 1995—a fact that could illuminate that the thoroughness about meeting the criteria did not become more lax. The growth in the number of claims in these years also points to a rise in attempts to stand up for one's rights. At the same time, data limitations do not allow us to unequivocally refute the possibility of an easing in the criteria or in their implementation.

³⁰ A disabled person is one who responded in the social survey of the Central Bureau of Statistics that he suffers from a health, physical or mental problem, and that this problem disturbs or greatly disturbs his daily functioning.

³¹ Average rate of employment in 2002–2007.

Table 8.6
Economic Characteristics of Recipients of Disability Allowances, 2008,
Prime Age Individuals (25–64 years)

	Recipients of disability allowance	Total population
Number ('000)	162	3,260
Incidence of poverty (%)	27.3	17.6
Number of employees ('000)	30	2,304
Employment rate (%)	18.4	70.7
Average work hours per month (number)	124	176
Average hourly wage (NIS)	29.8	48.1
Average gross monthly wage (NIS)	4,213	8,534
Share of employed people earning less than minimum wage ^{a,b}	37.3	11.3
Distribution by occupation		
Professional	4.6	14.8
Associate professional and technicians	8.1	15.7
Clerical	18.5	17.6
Services and sales	24.3	18.9
Skilled manufacturing	15.6	16.7
Unskilled	23.7	7.3
Distribution by education		
Up to 8 years	25.7	9
9–12 years	47.5	38.9
13+ years	26.9	52
Distribution by age		
34–25	14.5	32.3
35–44	19	26.2
45–54	27.5	22.5
55–64	38.9	19

^a Employees whose average hourly wage is less than 95 percent of the minimum hourly wage

^b Workers with disabilities may earn an adjusted minimum wage that is below the general minimum wage, in accordance with their abilities.

SOURCE: Based on the Central Bureau of Statistics Income Survey.

surveys of the Council for the Integration of People with Disabilities found that a large proportion of people with disabilities reported that the disability constituted a barrier to employment, and that they were discriminated against when applying for work and in the course of their work.³²

The rapid growth in the number of disabled and of disability allowance recipients points to the great importance of policy to encourage their integration in employment. Beyond the social benefits of a policy of this kind, which will enable disabled to integrate into society and the community as equal, contributing citizens, integrating them in employment, contributes greatly to the economy in realizing their economic potential. The integration of disabled in employment will also lessen the fiscal burden arising from the growth in the number of allowance recipients, and will enable the authorities to grant the allowances to the more severely disabled population that cannot work and that needs greater economic support. Building a database to monitor this population will facilitate, among other things, the shaping of a better economic policy and of estimating its contribution to improving the condition of people with disabilities.

In the past two decades signs are apparent of a change in the nature of the policy for treating people with disabilities—a gradual transition from a charitable approach to a view that assumes that they can make a significant economic and social contribution, and that the emphasis should thus be placed on integrating them in society and in the workplace. Evidence of this process can be seen in the Botzer ruling³³ and in the Equal Rights for Persons with Disabilities Law, which came into force in January 1999.³⁴ The public committee for examining the issue of disabled people and the promotion of their integration in the community (Laron Committee, 2005), constituted a significant breakthrough in this process. The committee's conclusions encompassed a wide range of issues, with an emphasis on integrating people with disabilities in the workplace.³⁵

As part of the implementation of the conclusions of the Laron Committee regarding the integration of people with disabilities in the workplace, the Research and Economic

In the past two decades there are signs of a change in the policy for treating disabled people, from a charitable approach to that of integration in society and in the workplace (Paragraph 5, beginning with the words "in the two").

³² See Michal Alfasi (2009), "Employment of Persons with Disabilities", Council for the Integration of People with Disabilities," Collection of Publications, as well as Michal Alfasi (2009), "Discrimination Against Persons with Disabilities in Their Place of Work and Employers' Attitudes Towards Employing People with Disabilities," Council for the Integration of People with Disabilities, Collection of Publications.

³³ The Botzer ruling (1996) determined that an educational institution must be accessible to people with disabilities. The ruling is regarded as ground-breaking in its view of accessibility as a disabled person's right and not as a charitable act. In this respect the ruling paved the way for further changes, among them the Equal Rights for Persons with Disabilities Law.

³⁴ Equal Rights for Persons with Disabilities Law, 5758–1998. It should be pointed out that the Equal Rights Law was enacted in 1988, but did not in its initial formulation relate to people with disabilities. Only in 1998 was the law amended to include disabled people. In the area of employment the law prohibits worker discrimination and discrimination of job applicants because of their disability, and requires the employer to adapt the workplace to a person with disabilities according to his special needs, and even to institute a policy of affirmative action.

³⁵ Report of the Public Committee for Examining the Situation of Disabled People, and the Promotion of their Integration in the Community (2005).

Administration of the Ministry of Industry, Trade and Labor has established a staff department for the integration of people with disabilities in the labor market. The main functions of the department are: to create and apply tools for encouraging the employment of people with disabilities, to develop and implement programs for the integration of people with disabilities in the workplace, to conduct activities in conjunction with employers to raise awareness of the importance of the integration of people with disabilities in the workplace, to professionally advance people with disabilities, to increase awareness in Israel and elsewhere of the integration of people with disabilities in the workplace, and to promote and implement legislation in this area. The department is also responsible for formulating appropriate minimum-wage regulations and for subsidizing the necessary adaptations in the workplace.³⁶

The implementation of the conclusions of the Laron Committee was also expressed in Amendment 109 of the National Insurance Law, which came into force in August 2009. The major aim of the amendment was to encourage people to participate in the labor force by reducing the deduction from the disability allowance when the disabled person has income from work. The amendment prevents the situation in which overall income (the overall amount of the disability allowance and the income from work) decreases as the income from work increases, a situation that was possible prior to the amendment coming into force, and which constituted an incentive for part-time work. Furthermore, in the wake of the amendment, a disabled person who starts working will not lose the benefits to which he was entitled prior to commencing work.³⁷ Also, disabled people who start working will receive a safety net for three years—if a person ceases to work or his income decreases, he will be entitled to reinstate the payment of his disability allowance, without having to undergo any further eligibility tests.

3. ADDITION OF DENTAL TREATMENT FOR CHILDREN TO THE PUBLIC HEALTH BASKET

Dental care is not included in the basket of public health services. In this respect Israel is different from the developed countries, most of which provide preventive and preservative³⁸ dentistry to children and to other groups, such as the elderly and pregnant women, as part of the basic public health basket. In December 2009 the government decided to allocate NIS 65 million from the budget earmarked for the addition of new medical technologies, to introducing dental treatment for children

³⁶ The Department for the Integration of People with Disabilities in the Labor Market: “Approaches, Guiding Principles and Work Programs for 2010”.

³⁷ Disabled people who receive a disability allowance are entitled to a wide range of supplementary benefits and rights—including an income-tax exemption, discounts on municipal taxes and public transportation, rental assistance, and a discount on purchase tax. The monetary value of the supplementary rights is sometimes greater than the disability allowance.

³⁸ Education and instruction in oral hygiene, routine annual checkup by a dentist, half-yearly checkup by a hygienist, sealing pits and fissures, local application of fluoride, calculus removal, and basic X-rays as needed.

into the public health basket. The estimated budgetary cost of dental treatment for children ranges between NIS 250 and NIS 650 million, depending on the treatments to be given, the age groups entitled to treatment, and the copayments.³⁹ The remainder of the budget is expected to be obtained from independent sources of the Ministry of Health and from an addition to the budget from the Ministry of Finance. The program will therefore increase the net health budget.

Dental care, and especially the basic dental treatments is characterized by need: the financial expenses for the poor and the rich are similar, but many of the poor are forced to forgo the treatments because they cannot afford them (Table 8-8). By forgoing dental services, the weak households cause harm mainly to the children. The addition of preventive and preservative dentistry for children to the public health basket has many other advantages whose budgetary cost is relatively low: (1) The return on preventive and preservative medicine in the area of dental health is very high; (2) Adding the service to the public basket is expected to improve accessibility to dental treatments for the weak populations, especially the children in these populations;⁴⁰ (3) The addition of preventive services for children to the public health basket is likely to reduce the cost of dental treatments for the population as a whole; (4) A large proportion of the children already receive the treatments at present as part of the supplementary medical insurance, so that the addition of the service to the public health basket will release budgets for additional medical technologies.

In Israel, unlike most developed countries, dental-health services are provided largely (97.5 percent) by the business sector.⁴¹ Most of the developed countries provide a large proportion of dental-health services to children and the elderly as part of the public health basket. In Denmark and Norway, dental treatment is provided free of charge to children up to age 18, publicly financed and with a relatively small copayment. In Germany, dental care is included in the basic basket of services, and dental treatment is given by law to children and weak populations. In Great Britain as well, dental treatment is included in the national health basket and publicly financed, but with copayments. In the United States, on the other hand, the system of dental-health care is similar in certain respects to that in Israel by being largely based on private service providers and relatively low public funding. However, even in the United States, a support mechanism exists for the weak populations: dental health services are provided through Medicaid.⁴²

Dental care is characterized by need: the expenses for the poor and the rich are similar. Many of the poor, however, are forced to forgo treatment.

³⁹ The low estimate is based on the addition of preventive treatments only. The high estimate is based on the addition of treatments, including orthodontic treatment. Both estimates assume copayments.

⁴⁰ Horev, T and Mann, J (2007). Oral and Dental Health—The Responsibility of the State towards its Citizens. Jerusalem, Taub Center for Social Policy Studies in Israel.

⁴¹ Most of the health funds provide dental treatment for children at a token price through the supplementary insurance scheme. Berg, A., Zusman, S. P., Horev, T. (2000). *Social and Economic Aspects of Dental Care in Israel in the Era of National Health Insurance*. Myers-JDC-Brookdale Institute.

⁴² Medicaid provides basic health services to pregnant women, to families with children in which the overall family income is below the federal poverty line, to disabled people, blind people, and other needy populations.

Table 8.7
Average Per Capita Monetary Expenditure for Dental Services, 2008

(NIS)

	Average expenditure	Quintile of households				
		1	2	3	4	5
Net monthly income from all sources (NIS '000)	5.3	2	3	4	6	12
Expenditure (NIS '000)	4.6	2	3	4	5	8
Health	255	101	166	211	312	508
Dental health	66	27	38	57	68	144
Dental health excluding expenditure on dental insurance	63	27	38	55	64	136
Dental treatment	49	24	34	47	52	91
Othodontic treatment	2.9	1.5	1.2	3.4	3.6	5.1
Mouth and jaw surgery	10	0.5	1.6	3.6	8.1	38.1
Dental X-ray in dental studio	0.7	0.2	0.5	0.8	0.6	1.2
Dental insurance	2.9	0.2	0.7	2.2	3.9	8
Percent covered by dental insurance	7.2	0.9	2.9	7	10.1	16
Number of persons in household	3.3	4.1	5.3	2.3	3	7.2
Number of children in household up to age 18	1.1	2	3.1	9.0	7.0	5.0

^a Income quintiles calculated according to total net income from all sources per standard person.

SOURCE: Based on Central Bureau of Statistics 2008 Household Expenditure Survey. The data are grossed up according to the shares of the different population groups.

The absence of public entitlement to dental care, particularly for weak populations, undermines the equality and efficiency of care.

The absence of public entitlement to dental care, particularly for weak populations, undermines the equality and efficiency of dental care in Israel.⁴³ The recommendations of public committees—Netanyahu (1990), Tal (2000), and Amorai (2002)—for correcting the situation, were not implemented.^{44,45,46} Attempts at legislation, beginning with the original version of the national health insurance law (National Health Insurance Law, 5755-1955), have failed.

The health health funds provide basic dental treatment to children as part of their supplementary health insurance policies (in most of the HMOs up to age 6 or 8). But this only applies to the more expensive clauses of the supplementary insurance that most of the weak population cannot afford. As a result, public funding of dental care

⁴³ Berg, A., Zusman, S. P., Horev, T. (2000). Social and Economic Aspects of Dental Care in Israel in the Era of National Health Insurance. Myers-JDC-Brookdale Institute. Horev, T., and Chernichovsky, D. (1999). An Optimal model for Israel's Dental Care System. Jerusalem, Taub Center for Social Policy Studies in Israel.

⁴⁴ State of Israel (1990). Report of the State Commission of Enquiry into the Operation and Efficiency of the Health Care System in Israel (Netanyahu Committee), Jerusalem.

⁴⁵ State of Israel (2000). Report of the Parliamentary Commission of Enquiry to Examine the Implementation of the National Health Insurance Law (Tal Committee), Jerusalem.

⁴⁶ State of Israel (2002). Report of the Commission to Examine Public Medicine and the Physician's Status (Amorai Committee), Jerusalem.

in Israel covers less than 5 percent of the national expenditure in this area—a very low figure compared with most of the developed countries, and even the United States (5.1 percent).⁴⁷

Private health services are more expensive than public. As a result, the national expenditure on dental care in Israel reached 8.6 percent of national health expenditures in 2005—a significantly higher rate than in the OECD. By comparison: the national expenditure on dental care services in Holland constitutes only 3.8 percent of the overall national health expenditure, in France and Australia about 5 percent, in Denmark 6.5 percent, in Canada 7.5 percent, and in Germany 7.8 percent.

The benefits of preventive medicine (including preventive and preservative dental care) are very high as opposed to its relatively low cost, which reinforces the importance of introducing it into the health basket with an emphasis on children. The Centers for Disease Control and Prevention in the United States report⁴⁸ that routine preventive dental treatments reduce the treatment costs over five consecutive years by 40 percent. Preservative treatments, such as sealing and fluoride treatment are 3.5 times as likely to reduce dental disease. In Israel, Machnes found that the return on preservative dental care among pupils during their years of schooling was at least 9 percent.⁴⁹

The direct financial per capita⁵⁰ expenditure in Israel on medical services in 2008, excluding health tax, was NIS 255 a month, 5.6 percent of total consumption expenditure (Table 8-7). The expenditure on dental care was 26 percent of the overall expenditure of households on medical services—most on basic dental treatments. The gaps in expenditure on dental care among households in general are relatively small, particularly among those who report on this expenditure. As incomes rise, household expenditure rises moderately, but the percentage of households who can afford to pay for treatment rises sharply (Table 8-8).

The basic dental treatments, some of which it is proposed to introduce into the health basket, are the major expenditure item of households for dental care services. The average monthly per capita expenditure on dental treatment in 2008 was NIS 49 (NIS 131 on average per household per month), and a quarter of households reported on expenditure for this item. In this budget item as well the reported household expenditure is relatively constant: the gap between the average expenditure of the upper quintile and that of the lower quintile is relatively small. From this it follows that introducing dental treatment into the public health basket is a very progressive

The benefits of preventive dentistry are very high as opposed to its relatively low cost, which reinforces the importance of introducing it into the health basket.

The dental treatment that is expected to be introduced into the health basket is the households' major expenditure item for dental care services

⁴⁷ Australia (19 percent), Holland (27.4 percent), France (34.5 percent), Denmark (37.6 percent), Germany (62.7 percent), Japan (78.3 percent) and Luxembourg (100 percent).

⁴⁸ Centers for Disease Control and Prevention (2005). "Preventive Dental Interventions Reduce Disease Burden and Save Money".

⁴⁹ The relatively low return measured in Israel reflects the large time gap between the period in which the pupils received the preventive services and dental care education, and the time of inspection—on enlisting in the army. Machnes, Y. (2008). "Inequality and Inefficiency in Dental Health: The Economic Aspect." In Mann, J., and Fisher, R. (Eds.), *Systemic Dentistry*, Of-AI Publishing House.

⁵⁰ The distribution of family size and number of children by quintiles is presented in Table 8-7.

Table 8.8**Proportion of Households Reporting Expenditure on Dental Treatment and Average Monthly Expenditure Per Capita, by Category and by Income Quintiles,^a 2008**

	Quintile of households						Ratio ^b 1:5
	Average	1	2	3	4	5	
Percent reporting on expenditure	(percent)						
Dental health excluding expenditure on dental insurance	27	24	24	25	28	34	1.4
Dental treatment	24	23	22	22	25	29	1.3
Orthodontic treatment	1.6	0.8	1.2	2	2.3	1.7	2.2
Mouth and jaw surgery	1.3	0.2	0.6	1.1	1	3.9	19.8
Dental X-rays in dental studios	2.6	1.2	3	3.3	2.5	3.2	2.8
Average per capita expenditure of reporting households	(Monthly expenditure, in NIS)						
Dental health excluding expenditure on dental insurance	234	111	155	224	228	401	3.6
Dental treatment	203	106	156	217	202	313	3
Orthodontic treatment	184	193	99	172	158	291	1.5
Mouth and jaw surgery	768	263	274	333	838	979	3.7
Dental X-rays in dental studios	26	21	18	25	26	38	1.8

^a Income quintiles calculated according to total net income from all sources per standard person.

^b The figure for the top quintile divided by that for the lowest quintile, an indicator of inequality.

SOURCE: Based on Central Bureau of Statistics 2008 Household Expenditure Survey. The data are grossed up according to the shares of the different population groups.

step. Adding basic dental treatment to the health basket for the population as a whole will cost about NIS 3.3 billion a year (on the basis of present treatment frequency).

When weak households forgo dental care, it is the children who are mainly harmed. The proportion of children up to age 18 of the total number of people in the households of the lowest quintile reaches 50 percent, as opposed to 20 percent in the upper quintile (Table 8-7).

Private dental insurance is not a substitute for public insurance. Only 7 percent of households report on having dental-care insurance. Chernichovsky and Navon⁵¹ found that private insurance has a negative effect on equality, both in terms of access and income protection. For higher-income earners, the insurance safeguards income against dental expenses (particularly mouth rehabilitation), and also improves access to the service. The structure of private insurance covers mainly adults.

⁵¹ Chernichovsky, D., and Navon G. (2010). *Private Expenditure on Dental Care and its Implications for National Insurance in this Area*. Jerusalem, Taub Center for Social Policy Studies in Israel.

The government's decision aroused wide opposition in the Israel Medical Association and the patients' organizations, the fear being that the step would serve as a precedent for cutting the budget designated for expanding the pharmaceutical basket. The opposition to including preservative dental treatments in the basic health basket shows a lack of cost-effectiveness analysis in the discussions of the health basket committee.⁵² The discussions should be viewed against the background of the proved effectiveness of preventive dental care, effectiveness that is achieved at relatively low cost.

⁵² For details of this subject, see the Bank of Israel 2006 Annual Report, Chapter 8.