



National Insurance Institute
Research & Planning Administration

Herzliya Conference

**The Future of the Israeli Economy:
Growth and the Reduction of Poverty**

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Poverty in Israel – 2005

Poverty Rate:

20.6% of families (410,700)

35.2% of children (768,800)

Poverty Gap:

33.1% of the poverty line

NIS 1,490 a month on average for a poor family

Trends:

**Expansion of poverty from 2001 to mid-2004.
Findings indicate some stability in 2005.**

The Socio-economic Policy 2002-2005

- The cutbacks in government expenditure on welfare focused on cash benefits, but did not pass over health or education services.
- The cutbacks were most notable in the universal benefits, particularly those paid to families with children.
- The harm to the elderly was relatively limited.
- The policy emphasized work incentives, while eroding its obligation to guarantee a minimum income for subsistence.
- The income tax reform led to a reduction in the progressivity of the tax system.

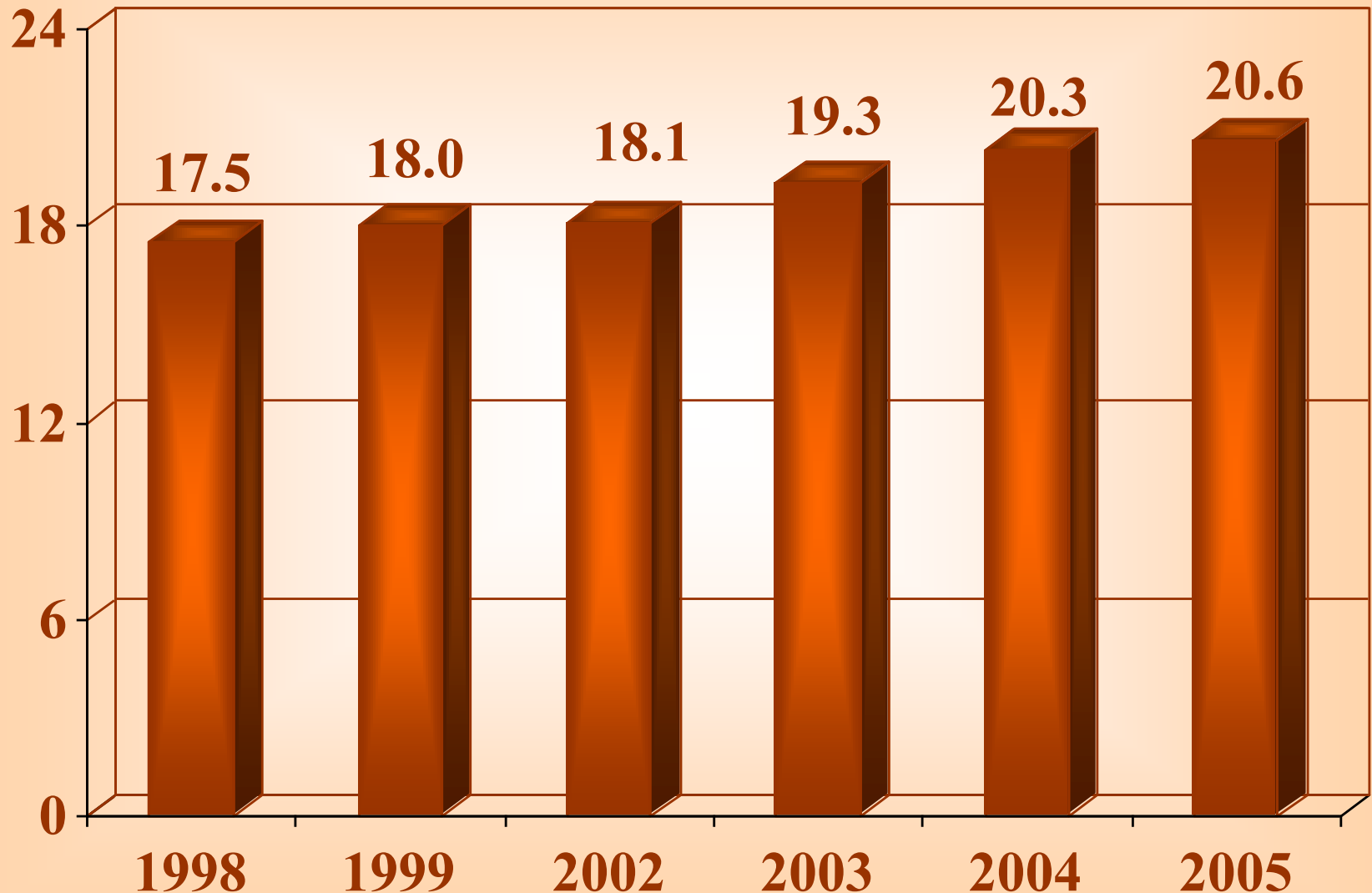
Years of Growth: 2004-2006

- **expansion of employment, rise in real wages and stability in price levels.**
- **the expansion of employment encompassed all branches, particularly personal services and branches paying low wages: commerce, personal services and food services (10% in 2005-2006 as compared to 7% as a general average)**
- **The real rise in wages (4%) was not uniform: in the traditional branches wages did not rise or were eroded by about 1%-2% while in the advances branches wages rose significantly (by 7%-15%).**

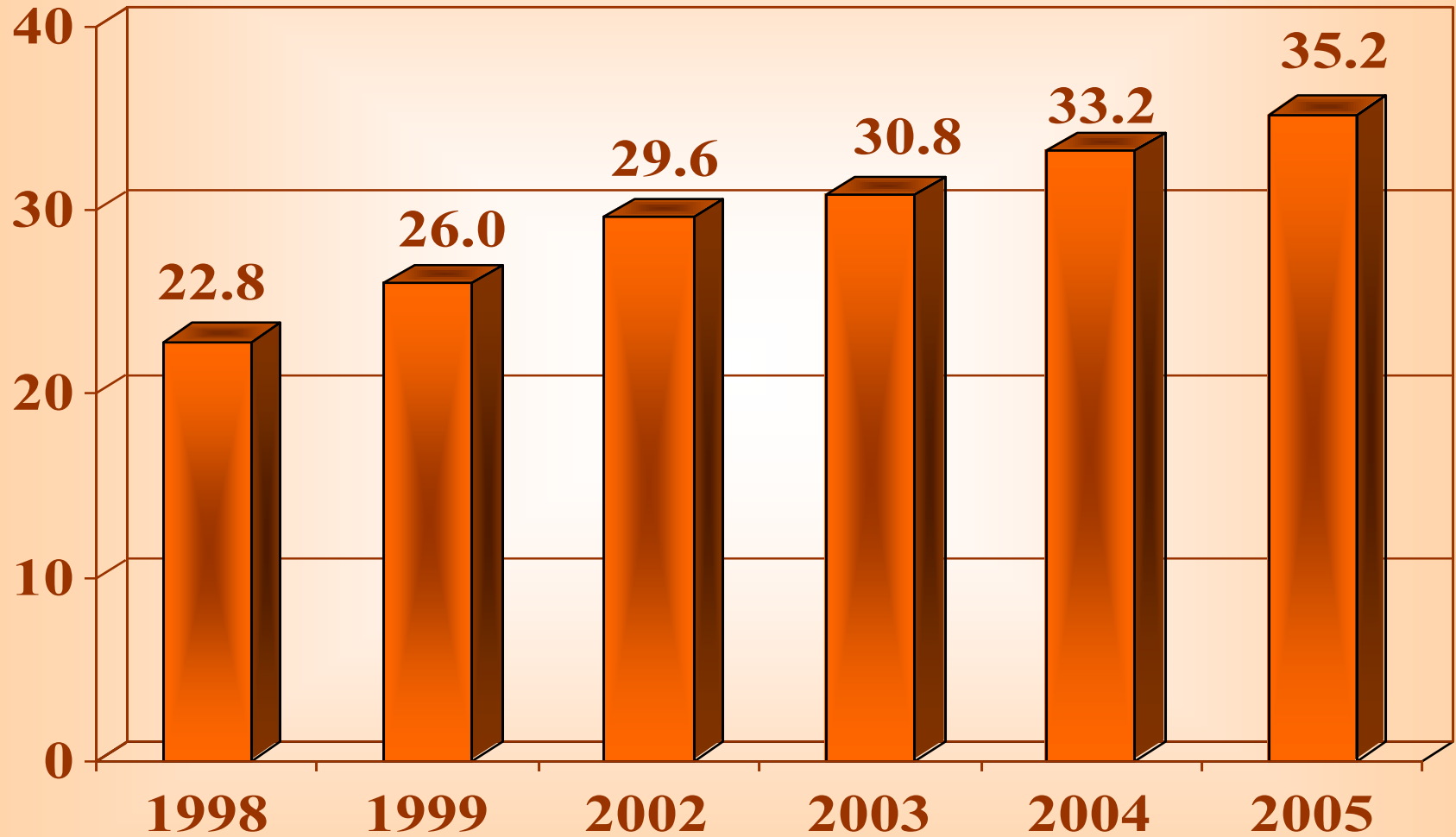
Social Policy: 2005-2006

- **buds of rehabilitation and improvement**
- **increasing benefits to the elderly in 2005-2006 and increasing child allowances to small families (only) in 2006**
- **increasing the minimum wage**
- **decreasing the burden of national insurance contributions on low-wage and medium-wage employees**

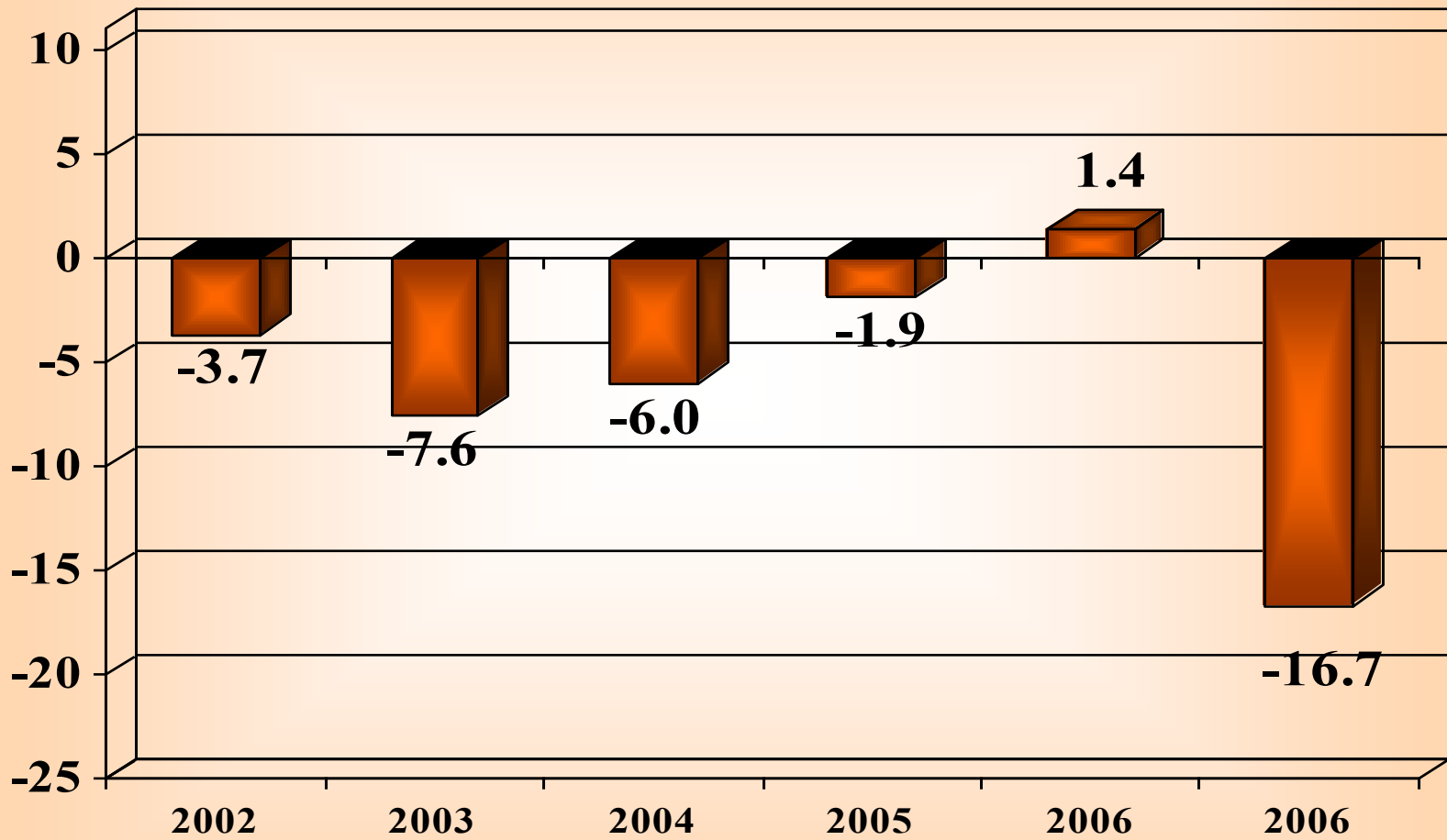
Poverty Among Families 1998-2005 (percentages)



Poverty Among Children 1998-2005 (percentages)



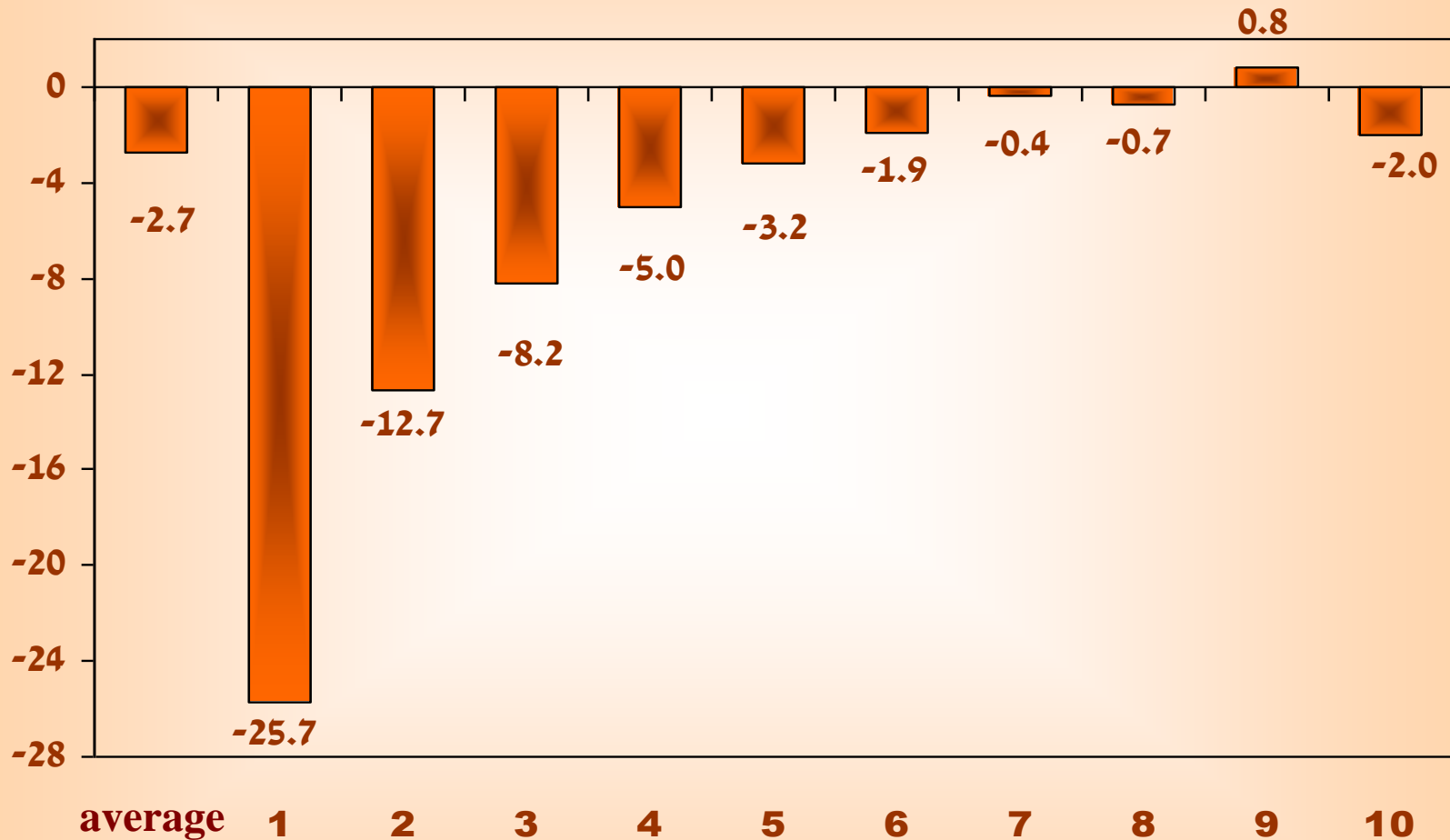
The Real Change in the Scope of NII Benefit* Payments per Capita: 2002-2006



* NII = National Insurance Institute. Not including administrative expenditure

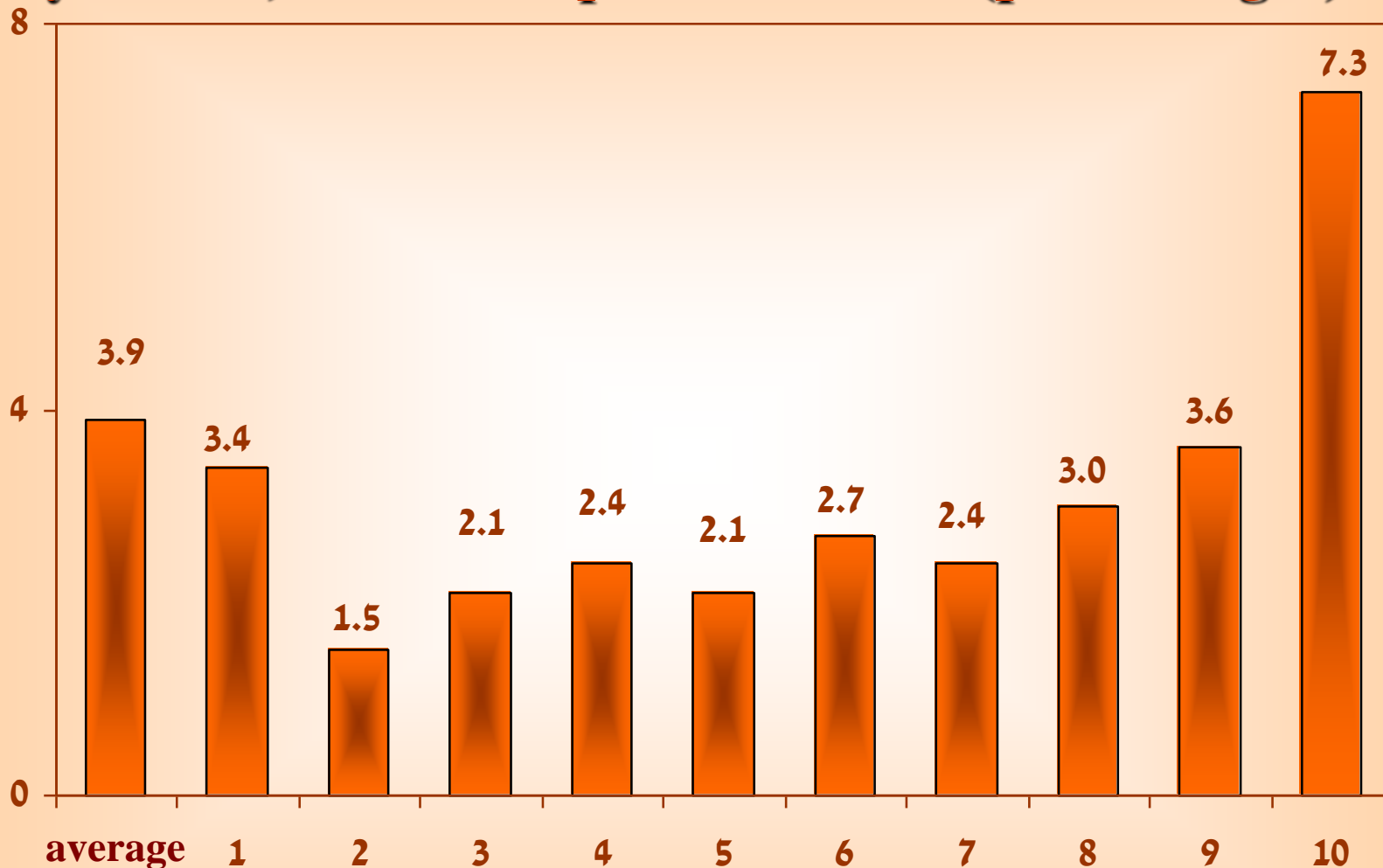
compared to 2001

The Real Change in Net Income per Standard Person, by Decile, 2004 Compared to 2001 (percentages)*



* Not including East Jerusalem.

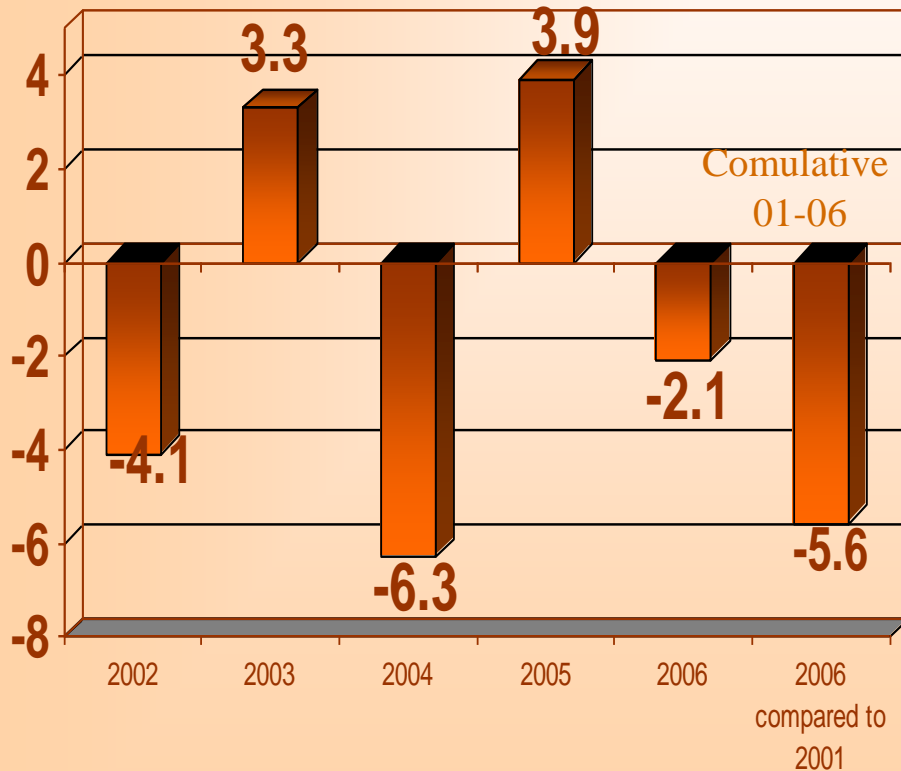
The Real Change in Net Income per Standard Person, by Decile, 2005 Compared to 2004 (percentages)*



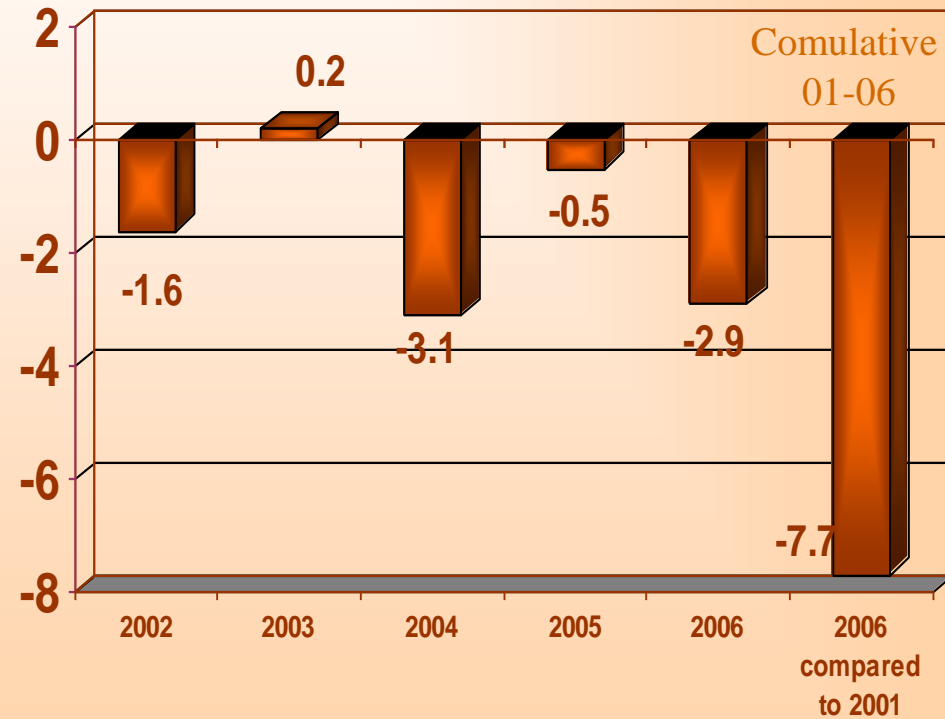
* Not including East Jerusalem.

The Real Change* in Expenditure on State-Financed Education and Health, 2001-2006 (percentages)

expenditure per pupil



expenditure per capita



* Deducted in the Civil Public Consumption price Index.

Policy for Reducing Poverty – Guidelines

- **The many causes of poverty require a program that combines a range of interventions in the labor market, in the benefit and tax systems and in social mobility.**
- **Formulating a multi-annual plan that reflects the order of priorities and an obligation to recruit the necessary resources.**
- **Developing an intervention program that is focused on disadvantaged population groups (such as the Arab sector) and developing community initiatives in employment and welfare.**

The Range of Interventions is Meant to Achieve:

- **A dispersion of resources among the various groups of the poor population**
- **The proper balance and work incentives and guaranteed minimum income for subsistence**
- **The desirable mixture of the universal and the selective components of the transfer payments**
- **The desirable blend of in-kind services and cash benefits**

Policy to Reduce Poverty in Israel: Recommendations

- Expanding the social security net**
- Making the labor market more attractive to the low-educated and to those with low earning capacity**
- Increasing investment in education for very young children (3-4)**
- Targeting resources to the Arab population**

I Making the Labor Market More Attractive to the Low Educated

- **Reducing the number of non-Israeli workers**
- **Raising the tax rate on employment of non-Israeli workers**
- **Strengthening enforcement of work laws, including the Minimum Wage Law**
- **Reducing fines on work in the income support system**
- **“Negative income tax” (with the view of supporting families with children)**
- **Expanding subsidies for families with young children on the costs entailed in going out to work**

II Expanding the Social Safety Net

- **Linking benefits to the standard of living**
- **Strengthening support in families with children**
- **Expanding unemployment insurance**
- **Increasing the minimum income for persons of working age whose capacity to earn is limited**
- **Expanding entitlement to income supplement to the elderly**
- **Expanding coverage of occupational pensions, with respect to the role of the universal old-age pension (the first tier)**

Adjustment of Benefits

Introducing a mixed method – prices and wages – as a first stage in returning to adjustment according to wages

- **Adjusting benefits annually in accordance with the rise in prices and half the rise in real wages**
- **Wage rises will be examined in comparison with the last year in which there was an adjustment according to wages as well**
- **The wages in the past 15 years (statutory) grew in real terms by an annual average of 1.3%. The budgetary cost of the adjustment by half the rate is an annual average of NIS 200 million.**

Support for Families with Children

- **Increasing the universal child allowances to NIS 200 per child (about NIS 800 million)**
- **“Negative income tax” for families with children (about NIS 1.5 billion)**
- **A combination of these two policy measures is also recommended**

“Negative Income Tax” – The NII Proposal

- Plan for families with children – cost of about NIS 1.5 billion**
- The credit will be given to each one of the parents on the basis of his wages, but on condition that the wages of both parents will not be above NIS 10,000.**
- The subsidy rate will increase with family size.**
- The maximum credit will be NIS 700 a month, and the average credit – NIS 410 a month**
- Operation by the Income Tax Authority or the NII**

Estimates of the Effects of the Policy of Support for Families with Children on Poverty

	poverty rate
• Current rate	26.2
• After increasing child allowances	25.3
• After Negative income tax	24.4
• After both policy measures	23.3

Increasing Investments on the Education of Young Children

- **Gradually applying the Free Education Law to children aged 3 and 4, at first in low socio-economic localities, and in the long run – universally.**
- **Estimated cost : about NIS 1.5 billion**

The Arab Sector – Combating Discrimination and Encouraging Employment

- **Incentives to industrial areas that will serve a number of villages and settlements**
- **Encouraging small businesses – setting up a Center of Enterprise Cultivation (today there is no structured plan for the Arab sector)**
- **The Center will assist the expansion of family businesses - employing 2-3 workers and constituting a not negligible share of economic activity**

The Arab Sector – Combating Discrimination and Encouraging Employment (cont'd)

- **Incentives to Jewish employers to absorb Arab workers**
- **Integrating educated Arabs in the public sector.**
- **The removal of obstacles will effect the business sector as well.**
- **Developing kindergartens and child care**
- **arrangements for small children in order to**
- **encourage women to go out to work**
- **Vocational training for the low-educated**