

Why is Poverty Widespread in Israel?

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Summary

Why is Poverty Widespread in Israel?

Rampant poverty in Israel poses a grave threat to Israeli society and to the Israeli economy. It is therefore imperative to contend with this predicament. That is precisely why the 14th Annual Economic Forum, the Caesarea Forum 2006, held a session on the issue of poverty. Prior to the forum, a research team, headed by Dr. Momi Dahan, studied the topic and formulated recommendations on how to reduce poverty rates in Israel. The team examined the reasons for poverty, assuming that solutions could be found only after determining the causes of poverty. The team's recommendations were presented at the forum, and discussion centered on ways to alleviate poverty.

Dr. Momi Dahan, the Israel Democracy Institute; School of Public Policy, the Hebrew University: When poverty rates are measured in Israel by the standards used in most developed countries, it is evident that there has been a major increase in the number of poor and severity of poverty. Within a relatively brief period, the percentage of poor children, in the population of children, rose from 20% to 34%. Moreover, the average income of the poor has dropped further below the poverty line. Internationally, Israel is ranked high on scales of poverty in the general population, among children and among the elderly.

The research team asked the following questions: Why has the poverty rate in Israel risen in recent years? And why is Israel's poverty rate relatively high in comparison with other countries? To help answer these questions, the team considered

* Translated by Naomi Shmueli.

poverty among several subgroups in Israel: immigrants, the elderly, haredi (ultra-Orthodox) Jews, and Israeli Arabs.

Israel's immigration rate is unique, and Israel has absorbed immigrants at unprecedented rates in recent years. When examining the impact of immigration on poverty, it is surprising to find that the poverty rate among immigrants who came to Israel in the 1990s is lower than in the general population. The massive wave of immigration in the 1990s is, therefore, not the cause of Israel's high poverty rate.

The severity of poverty increases among the elderly as the population ages. This usually indicates a malfunctioning pension system. Israel's situation is distinctive in that many elderly people immigrated to Israel at a relatively late age. There are significant differences in poverty rates between the elderly that immigrated to Israel when they were older and those who immigrated when younger: generally those who came to Israel when they were older rely primarily on National Insurance Institute old-age stipends.

Another reason for the sharp increase in poverty rates among the recently retired is that the pension system in Israel does not provide adequately for workers with low levels of education. Employees with the lowest wages receive very low pensions; thus levels of poverty substantially increase when these employees reach retirement age. Several research team members suggest an alternative based on three components: instituting mandatory pensions, increasing old-age stipends, and linking old-age stipends to the average salary.

The haredi sector is another important subgroup in Israel. The distinctive haredi way of life translates into low participation rates of haredi men in the labor market, large families, and an educational system that does not always correspond to the needs of today's labor market. These features are the cause of high poverty rates in this population; more than half of the haredi population lives below the poverty line. Nevertheless,

even if the haredi population is excluded from the statistics, Israel still has a high level of poverty.

The Israeli Arab population also impacts the Israeli economy. Poverty rates in this population, even among families with the same number of children as the average Jewish family, are much higher than in the Jewish population. Half of the Israeli Arabs live below the poverty line. Fewer economic opportunities are available to the Arab population. The research team examined the extent to which the cultural choices of this population lead to a high poverty rate. The birthrate among Muslim women living in Israel, and the extent of these women's participation in the workforce, are closer to levels in neighboring Muslim countries than to levels of the Jewish population. There are also discrepancies between the Arab and Jewish populations in terms of education. In the Arab educational system there are a higher number of students per class, fewer school hours available per student, and teachers are less qualified compared to the Jewish educational system. Despite the fact that some Arab Israelis manage to acquire the same level of education as the Jewish population, the poverty rate among educated Arabs is higher than among Jews with the same levels of education. In summary, the inferior economic position of Israeli Arabs is a major cause of the high poverty rates in Israel.

To explain Israel's high ranking relative to other countries' poverty rates, the research team examined the changes that have occurred in the family, the government, and the labor market. The team compared the situation in Israel to that of other countries.

The research team reached two conclusions. First, the relatively large size of families in Israel is one of the major causes of increasing poverty. In contrast, single-parent households in Israel are not as poor as in other countries, and more importantly, there are proportionally less single-parent households than in other countries. Second, the status of the

poorly-educated working population and their deteriorating job opportunities is a major factor in the rise in poverty in Israel in comparison with other countries. The poverty rate in households with two unemployed providers is 65%, after taking into account all benefits. In households with one employed provider, the poverty rate is 20.8%, similar to the average poverty rate across Israel. The poverty rate among households with (at least) two employed providers is substantially lower and in 2004 was 3.3%.

There are several reasons for the low status of workers with minimal levels of education in the labor market:

1. The impact of globalization and the subsequent decrease in prices.
2. Labor laws in Israel are not sufficiently enforced.*
3. Weaker enforcement of the minimum wage law in Israel compared to its enforcement in other Organization for Economic Cooperation and Development (OECD) countries.
4. Increasing numbers of foreign workers.
5. Inadequate employee training.

The research team recommends the following steps:

1. Substantially reducing the number of foreign workers in Israel in order to strengthen the status of workers with low-level education.
2. More strictly enforcing labor laws.
3. Increasing eligibility for unemployment payments to include those who cannot find work for a prolonged period of time.

* Labor laws refer to determining rights and obligations of employers and employees, more specifically, protecting the worker's economic existence and dignity.

4. Increasing child allowances so that they include the first three children in order to improve the income of weaker sectors.

Professor Robert M. Solow, Nobel Prize Laureate; MIT: What's important is not how many poor families or poor people there are in a given year, but how many of these people are poor over a period of many years. People who are poor for a long period of time form a class of poor people. We must ask ourselves why poverty rates in Israel are so high in comparison with other countries. The answer is income inequality - even before government involvement is examined. Many companies in Israel offer low wages to long-term employees, which is one cause of poverty. The main issues are distribution of education and distribution of income. In addition to family structure, status in the labor market, and government involvement, the structure of industry and professions must be examined.

I am certain that child poverty must be reduced for moral reasons, out of concern for Israel's economic future, and because of the great potential economic and political cost of child poverty perpetuating family poverty. In Israel, families with two incomes have the lowest poverty rate, but someone must take care of the children. In Europe and the United States, it was found that providing adequate daycare was the way to increase the number of two-income households, which usually include women in the workforce.

The accepted way to reduce poverty is to increase the productivity of low-wage earners through education and training; however, academic achievement in Israeli schools is low, even among honor students. Unskilled workers must now be trained in the skills that Israel needs in the future. The educational system and employers must cooperate and form vocational curricula together.

I share Dr. Momi Dahan's concerns for the deterioration of unemployment insurance. This insurance is an integral social welfare benefit and is a macroeconomic stabilizer. All sectors of the population share the common goal of raising the general income level. This objective should be reached by redistributing wages, not by manipulating them, and by regulating the labor market, or by food subsidies.

During the conference, the issue of negative income tax was raised. The problems with this system are well known. I suggest finding other ways to assist people who are unable to work.

MK Avraham Hirschson, Minister of Justice: There are people who claim that if we wait long enough, economic growth will permeate all sectors of the population. I disagree. We cannot wait. We must take immediate action to distribute the benefits of economic growth to every household. I will delineate a plan to reduce social gaps which will include the following principles:

1. Providing nursing services rather than giving compensation to the disabled.
2. Increasing the number of employed citizens in Israel.
3. Opting for local rather than global solutions.
4. Investing in the educational system as a real long term solution.

There are two types of initiatives to reduce poverty: initiatives for populations that can potentially be employed and initiatives for those who cannot work. Assisting all those that are able to work is important, and increasing the rate of participation in the workforce should be one of the government's main objectives. In order to assist weaker sectors, the availability of daycare and afternoon child care facilities for children up to the age of 6 must be increased, and the price of these services

should be reduced. The price of public transportation should also be reduced. More professional training should be made available. Labor laws should be strictly enforced, and the future of employees should be assured. I regard ensuring that all workers have a pension as a central goal for government policy in the coming years. The State of Israel should strive to make certain that every worker has an adequate retirement pension.

Mr. Wahil Karim, Director General, The Arab Businessmen's Club: Key individuals in the market should support leading Arab businessmen in their effort to improve infrastructure and education. Investment in human capital is the only way to enable Arab businessmen to create economic initiatives and boost the entire Arab sector.

It is important to encourage the employment of Arabs and other minorities, especially in government corporations, by creating a system that would require government agencies or companies competing for government contracts to hire minorities, and not only in low-paying positions.

Mr. Ramzi Halabi, Director, Amir-Fan Financial and Organizational Consulting; Lecturer, Tel Aviv University: In the past few years, Arab women have begun to acquire education and professional training. Many of these women want to enter the labor market, but the need for manpower is limited, and suitable jobs are scarce. Employment of women in the Arab sector should be made a priority, and plans to encourage it should be devised. In addition, it is important to develop joint industrial areas for Jews and Arabs, establish Jewish-Arab communities, develop career and academic retraining in the Arab population, and hire more Israeli Arabs to work in government offices.

Several of the speakers at the Economic Forum adamantly asserted that a drastic cut in benefits would cause turbulence among certain groups. Other speakers justified the government's actions and claimed that benefits are not a solution for poverty and inequality. Suggested solutions include subsidies and services that support employment and help people join the workforce; Vocational training to increase competitiveness among unskilled workers; investing in infrastructure; and subsidizing public transportation to allow weaker sectors more mobility. Many speakers maintained that the educational system must be emphasized, and that rather than funds, a structural change of the system is needed.

In order to succeed, a plan for reducing poverty must set quantitative goals. The research team recommended re-linking benefits to the average salary, increasing child allowances, and setting the same allowance for every child. They also suggested increasing the level of guaranteed income and the number of people eligible to receive it, since the elderly poor who receive guaranteed income are among the poorest of the poor.

The research team suggested a way to finance efforts to reduce poverty by drastically decreasing tax credits and decreasing investment incentives. Slowing down the tax reform while raising taxes on deposits into savings incentive match plans and retirement accounts was also recommended. Some of the speakers at the forum claimed that economic growth improves the status of the poor. The government's allocation of funds to weak sectors depends upon its ability to collect taxes, and because tax collection is influenced by growth, it is important for macroeconomic policy to support continuous growth as the main way of combating poverty. Providing benefits to populations that could join the workforce decreases the incentive to work and ultimately decreases growth. A few speakers claimed that while economic growth is important, it

does not close social gaps, solve the problem of low wages, or help alleviate poverty.

In the past decade there has been a sharp drop in the number of people eligible for unemployment compensation. Following several instances of cheating, the criteria for receiving unemployment compensation became stricter. To receive unemployment compensation, the applicant must prove long-term employment prior to unemployment. Because of this change, Israel ranks last among Western countries in the maximum amount of days unemployment compensation can be collected.

Some of the speakers at the Forum claimed that there isn't a shortage of solid proposals and plans to combat poverty in Israel. However, truly dedicated leaders are now needed in order to allocate necessary resources.

Most of the speakers attending the session on poverty at the Annual Economic Forum agreed that more funds need to be invested in education at the preschool level, the position of the Arab population needs to be improved, haredi men must be encouraged to find work, and labor laws must be enforced. Everyone agreed that the high level of poverty is a major threat to Israel and that only a truly dedicated government effort can solve the problem.