A Picture of the Nation

Israel’s Society and Economy in Figures

Cost of Living
Housing
Inequality and Poverty
The Labor Market
The Shadow Economy
The Elderly
Education
Healthcare

The Taub Center was established in 1982 under the leadership and vision of Herbert M. Singer, Henry Taub, and the American Jewish Joint Distribution Committee. The Center is funded by a permanent endowment created by the Henry and Marilyn Taub Foundation, the Herbert M. and Nell Singer Foundation, Jane and John Coleman, the Kolker-Saxon-Hallock Family Foundation, the Milton A. and Roslyn J. Wolf Family Foundation, and the American Jewish Joint Distribution Committee.
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2015

Taub Center for Social Policy Studies in Israel
Jerusalem, May 2015
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The Taub Center is an independent, nonpartisan, socioeconomic research institute based in Jerusalem. The Center conducts quality, impartial research on socioeconomic conditions in Israel, and develops innovative, equitable and practical options for macro public policies that advance the well-being of Israelis. The Center strives to influence public policy through direct communications with policy makers and by enriching the public debate that accompanies the decision making process.

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Foreword

The focus in early 2015 was on Israel’s national elections. As in the run up to the previous elections, social and economic issues were central in many party platforms, from the price of housing and food to the economic status of various population groups within Israeli society.

This issue of A Picture of the Nation provides a comprehensive portrait of the issues that concern the general public in Israel, offering a professional, objective and interdisciplinary perspective. Readers will find a focused yet in-depth survey of familiar topics, such as inequality among different segments of the population, alongside subjects that may be less well-known, like the condition of the elderly and the influence of the shadow economy on Israel’s economy overall.

The figures and information in this booklet represent an “at-a-glance” look at issues that are covered in-depth in other Taub Center publications, all of which are available on the Center’s new website: www.taubcenter.org.il. Readers are invited to visit the site as well as the Center’s Facebook pages to find more evidence-based, reliable information on the issues of society and economy in Israel.
Many Israelis face economic challenges on one level or another, and it is difficult to find a subject that arouses more discussion and debate in the public conversation. What the public feels is borne out by the findings of Taub Center studies: many Israeli households – across sectors and income levels – have difficulties covering their monthly expenditures. This is especially pronounced among Haredi (ultra-Orthodox Jewish) households, where monthly spending exceeds reported income on average by some 25 percent. Among the leading causes of the high cost of living are food and housing prices.
Spending exceeds income in the average household at most income levels

For all income levels except the highest income quintile, spending is higher than income in the average household. This means that a great many households live with an ongoing deficit and must dip into savings or get help from family. The main cause of this deficit is the down payment needed to take out a mortgage. At current prices, households in the first 4 quintiles cannot remain deficit-free when buying an apartment. This does not mean that 80% of households are overdrawn at the bank – some are helped by parents, some continue to rent, and others inherited or bought their homes before the recent sharp rise in prices.

Source: Eitan Regev, Taub Center for Social Policy Studies in Israel
Data: Central Bureau of Statistics, Household Expenditure Survey
Average incomes are lower than spending, especially among Haredim

Income levels of the average household are lower than expenditures across all population groups. While among non-Haredi Jews the gap is only NIS 864, among Haredim (ultra-Orthodox Jews) it reaches NIS 3,209 per month - a level that is one-third higher than their reported household income. This is also high relative to Muslim households, where the gap is NIS 1,919. The size of this gap in reported income and spending may be partially explained by widespread work in the shadow economy. At the same time, it may reflect the inability of the average household, especially Haredim, to finance a home solely from their own income.

* Haredim are ultra-Orthodox Jews

Source: Eitan Regev, Taub Center for Social Policy Studies in Israel

Data: Central Bureau of Statistics, Household Expenditure Survey
Haredim make use of benefits and supports more than households in other sectors

The amount of benefits and supports that Haredi households receive from both private and public sources are about NIS 1,300 higher than in other sectors. Support to Haredi (ultra-Orthodox Jewish) households from the National Insurance Institute (NII) is lower than in other sectors, because the population is relatively young and there are few old-age allowance recipients among them. A significant portion of the disparity between Haredi and non-Haredi households is due to support from private sources. Haredi households receive on average NIS 535 from other households (in Israel and abroad), and NIS 1,331 from institutions in Israel that are not the NII (Ministry of Welfare, yeshivas and the like). Most of these funds come from private sources as well.

MONTHLY HOUSEHOLD BENEFITS AND SUPPORT
by population group and source of support, in shekels, 2011

<table>
<thead>
<tr>
<th>Population Group</th>
<th>Ongoing Support from Individuals Abroad</th>
<th>Ongoing Support from Households in Israel*</th>
<th>Benefits from Other Institutions in Israel**</th>
<th>National Insurance Institute Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Druze</td>
<td>1,555 (49)</td>
<td>1,964 (99)</td>
<td>1,980 (141)</td>
<td>1,390 (13)</td>
</tr>
<tr>
<td>Non-Haredi Jews</td>
<td>1,506 (56)</td>
<td>1,504 (95)</td>
<td>1,772 (55)</td>
<td>1,331 (13)</td>
</tr>
<tr>
<td>Christians</td>
<td>1,993 (141)</td>
<td>1,980 (141)</td>
<td>1,993 (141)</td>
<td>1,390 (13)</td>
</tr>
<tr>
<td>Muslims</td>
<td>3,256 (154)</td>
<td>3,256 (154)</td>
<td>3,256 (154)</td>
<td>1,331 (13)</td>
</tr>
<tr>
<td>Haredim***</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

* Income from individuals in Israel; alimony/child support; other ongoing income
** Ministry of Defense, Ministry of Immigrant Absorption, Ministry of Construction and Housing, Ministry of Social Affairs and Social Services, the Jewish Agency, yeshivas and the like; ongoing scholarships
*** Haredim are ultra-Orthodox Jews

Source: Eitan Regev, Taub Center; Data: Central Bureau of Statistics, Household Expenditure Survey
Haredim rely on higher mortgages than in the past to purchase apartments

The rate of homeownership among Haredim (ultra-Orthodox Jews) is relatively high, whether due to the practice of purchasing a home for young adults before they get married or because of this sector’s common practice of investing in real estate. Over time, though, their ability to purchase apartments has become more limited; their monthly mortgage payments have risen by NIS 900 in the last decade (an increase of 72%) while the average purchase price only rose by 6%, in part due to the move of many Haredi families to cities in Judea and Samaria where housing is relatively cheap. Their greater reliance on mortgages reflects a significant depletion of resources among Haredim. Some Haredim make up the difference by getting mortgages from private charities at a zero interest rate.

**REAL CHANGE IN MORTGAGE PAYMENTS AND APARTMENT PRICES**

by population group, 2003-2012

<table>
<thead>
<tr>
<th></th>
<th>Non-Haredi Jews</th>
<th>Haredim*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real change in monthly mortgage payments</td>
<td>6%</td>
<td>72%</td>
</tr>
<tr>
<td>Real change in apartment prices</td>
<td>31%</td>
<td>34%</td>
</tr>
</tbody>
</table>

* Haredim are ultra-Orthodox Jews

Source: Eitan Regev, Taub Center for Social Policy Studies in Israel
Data: Central Bureau of Statistics, *Household Expenditure Survey*
Food prices in Israel have risen significantly relative to OECD countries

The rise in food prices plays a substantial role in the high cost of living in Israel. Between 2005 and 2011, food prices rose significantly, and most food groups became more expensive than in other OECD countries. For example, the prices of dairy products in Israel were only 6% higher than the OECD average in 2005, while in 2011, they were 51% higher. In the same years, bread, grains and baked goods, which were 19% cheaper than in the OECD in 2005, became about 26% more expensive.

*The difference between prices in Israel and the average OECD price

**Other foods: instant food mixes, prepared meals (frozen or dried), granola, baking aids, baby food, deliveries of prepared food, chewing gum, milk and soy desserts, dried beans and legumes, coffee and tea, sauces, spices, meat and cheese substitutes

Source: Dov Chernichovsky and Eitan Regev, Taub Center
Data: OECD
Import rates of foods are very low

The food industry in Israel is quite monopolistic, and most of the food that is sold is produced by a small number of companies. At the beginning of the 1990s, imports were gradually introduced into the Israeli market. The program led to a significant rise in the import of items like shoes, clothing and furniture, but food products have been and continue to be imported at low rates. Today, imported food represents only 16% of private expenditure on food. Impediments to importing food and low import rates mean that local manufacturers have little competition and are able to charge high prices for many food items.

Source: Eitan Regev, Taub Center for Social Policy Studies in Israel
Data: Central Bureau of Statistics
Imports are relatively low in food groups with high levels of consumption

Most of the private expenditure on food in Israel is in the categories of bread products, meat products, fresh fruit, milk products and soft drinks. The import rate of these goods is very low. In contrast, those food groups with higher import rates, like sugar products and fish, represent a small part of private food spending. The low rates of import for these main expenditure categories means that the level of competition in the local food market is low and contributes to the high cost of food in Israel.

Source: Eitan Regev, Taub Center for Social Policy Studies in Israel
Data: Central Bureau of Statistics
Housing prices play a key role in the cost of living, since a relatively large share of a household’s expenditure is devoted to either rent or mortgage payments. An in-depth study conducted by the Taub Center showed the factors that contributed to the sharp rise in housing prices over the past few years, among them a limited building supply caused by over-centralization and complex bureaucracy that impede planning processes. In addition, the low interest rates and the low taxation levels for income from rental properties have increased the demand for investment properties, and the high prices are pushing young people out of the buyer’s market.
Housing prices rose sharply in just a few years

Housing prices in Israel were frozen and actually declined in real terms (relative to the Consumer Price Index), for many years in the early 2000s. In 2007, the change in the trend began, and in 2008, there was a rapid rise in housing prices. Rental prices also rose during this period, albeit at a slower rate.

* Data are for January of each year

Source: Noam Gruber, Taub Center for Social Policy Studies in Israel
Data: Central Bureau of Statistics, Household Expenditure Survey
More people are buying properties as investments, especially high earners

The primary reason for the rise in housing prices is the low interest rates caused by the worldwide recession. Money was diverted from financial assets to real estate, and lenient tax regulations on rental income (as opposed to tax on capital investments) also contributed to the trend.

Between 2006 and 2012, the number of Israelis owning 2 or more apartments (i.e., investing in real estate) rose four-fold from 2.1% to 8.1%. This rise was across all income groups, although the wealthy set the tone, with real estate investment in the top income quintile rising from 6% in 2006 to 22% in 2012, twice as much as in other income groups. Supply did not match demand, leading to a sharp rise in prices.

Ownership Rate of Two or More Apartments
by household income quintiles*, 2003-2012

* Head of household aged 25 and over
Source: Noam Gruber, Taub Center for Social Policy Studies in Israel
Data: Central Bureau of Statistics, Household Expenditure Survey
Households in the highest income quintile invest in real estate more than all other income groups combined

The highest quintile is responsible for 53.5% of real estate investments. Their average investment stands at over NIS 6,000 per month – a sum greater than the average expenditure of the 4 other quintiles combined. Of this sum, about NIS 4,500 is invested in buying residential apartments, about NIS 500 in renovating existing properties, and just under NIS 1,000 goes to buying investment apartments (more than the combined investment of the other 4 quintiles). The highest quintile’s investment in real estate is 3 times higher than that of the 4th quintile, which invests about NIS 2,000 per month.

Average Monthly Household Investment in Real Estate*
by income quintiles and investment type, in shekels, 2011

<table>
<thead>
<tr>
<th>Income quintiles</th>
<th>Bottom quintile</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Top quintile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in existing apartment</td>
<td>586</td>
<td>963</td>
<td>1,665</td>
<td>2,014</td>
<td>6,008</td>
</tr>
<tr>
<td>Net purchase of an apartment for use by others or as an investment</td>
<td>146</td>
<td>286</td>
<td>280</td>
<td>337</td>
<td>522</td>
</tr>
<tr>
<td>Purchase of an apartment to live in</td>
<td>346</td>
<td>458</td>
<td>1,173</td>
<td>1,298</td>
<td>4,490</td>
</tr>
</tbody>
</table>

* Averages include households that did not invest in real estate in 2011

Source: Eitan Regev, Taub Center for Social Policy Studies in Israel
Data: Central Bureau of Statistics, Household Expenditure Survey
Complex bureaucracy means new construction in Israel takes an average of 13 years

One of the reasons for the slow rise in housing supply is Israel’s lengthy building process. Construction takes 13 years, with 11 of those years taken up with bureaucratic processes and only 2 years dedicated to actual building. In comparison, in most EU countries building licenses take 8-12 weeks to receive, which means that the process in Israel takes 50 times longer than in most European countries. Studies show that when supply and demand for housing grow in parallel, the chances for a real estate bubble are mitigated.

DURATION OF THE CONSTRUCTION PROCESS IN ISRAEL
by stages, in years

- Building time
- Building permits*
- Marketing**
- Development plans
- District committee license
- Feasibility studies and plan preparation for district committee

* Permit from the local committee
** Tender publication and decision regarding the winner

Source: Noam Gruber, Taub Center for Social Policy Studies in Israel
Data: Bank of Israel
Crowding in Israeli homes is among the highest in the developed world.

Crowding, as measured by the number of rooms per person, is much higher relative to other countries with greater populations (Korea and Holland) or with similar populations (Belgium and Japan).

* For those countries without data from 2011, the most recent data available was used.

Source: Noam Gruber, Taub Center for Social Policy Studies in Israel
Data: Bank of Israel
The youngest and oldest households devote the greatest share of income to rent

Since 2008, there has been a sharp rise in the share of household income spent on rent, indicating a greater economic burden on households. Those most hurt were the youngest and the oldest renters, who lost about 5% of their disposable income from 2008 to 2011. Overall, the portion of income spent on household rental payments returned to the 2003 level by 2011. Nevertheless, this measure does not reflect the compromises that renting households often make regarding the size, location or quality of their apartment due to the costs of rental properties.

Source: Noam Gruber, Taub Center for Social Policy Studies in Israel
Data: Central Bureau of Statistics, Household Expenditure Survey
Government rent subsidies went down by 15 percentage points in the last 7 years

One of the results of the sharp increase in housing prices is that the relative level of rental assistance has also eroded. Even though the absolute amount of rent subsidy has actually slightly increased (an annual average of about 0.3%), the sharp rise in rent means that the amount of the subsidy within the total amount paid on rent has fallen behind from about 40% of the average rent in 2005 to 25% of the average rent in 2012.

**Average Rent Assistance**
as percent of average rental price, 2005-2012

Source: Sagit Azary-Viesel and Haya Stier, Taub Center
Data: Ministry of Construction and Housing; Budget Department, Ministry of Finance
INEQUALITY AND POVERTY

Changes in the labor market alongside demographic developments and policy changes in government transfer allowances have led to a rise over time in the poverty and inequality rates among households in Israel. Even though the past few years have seen a degree of moderation with even a slight easing in these measures, both poverty and income inequality in Israel are among the highest in the Western world. These inequalities are evident in homeownership rates, in capital investment levels, as well as in patterns of food consumption.
Inequality among households in Israel is almost the highest in the OECD

Disposable income inequality in Israel (i.e., income inequality after accounting for taxes, allowances and benefits) has narrowed slightly in the past few years, but it still remains among the highest in the developed world. Possible reasons are demographic differences between Israel and other countries, high income disparities in Israel’s labor market, and lower effectiveness of the economic safety net relative to other countries.

* Calculated using the National Insurance Institute method
** Not including those countries for which there is no data for 2010

Source: Haim Bleikh, Taub Center for Social Policy Studies in Israel

Data: Luxembourg Income Study (OECD); Central Bureau of Statistics (Israel)
Poverty rates have declined slightly in the past few years but remain among the highest in the developed world.

About one-fifth of households in Israel are below the poverty line after taking the effect of the welfare system and taxes into account. More recently, the rise in the poverty rate has been more moderate with even a slight reduction relative to the years with the highest levels, though levels are still high when compared to other OECD countries.

*Calculated using the National Insurance Institute method

**Not including those countries for which there is no data for 2010. No data are available for Israel 1994.

Source: Haim Bleikh, Taub Center for Social Policy Studies in Israel

Data: Luxembourg Income Study (OECD); Central Bureau of Statistics (Israel)
Inequality among households is seen also in the real estate market. The highest income quintile benefits from two-thirds of the income from rental properties generated by all households. The average rental income of households in the highest quintile stands at NIS 1,500 per month (double the income from rent among the other 4 quintiles). Since the number of renters is higher in the lower quintiles, this serves to worsen income inequality as rent money passes from the lower socioeconomic groups to the higher ones.

Source: Eitan Regev, Taub Center for Social Policy Studies in Israel
Data: Central Bureau of Statistics
Food expenditures vary greatly depending on income level

In the area of food expenditures, there are substantial differences among households of varying income levels. When comparing the expenditures of the highest quintile to the lowest, the highest quintile spends 113% more on fruit and vegetables, 113% more on eggs and dairy products, and 73% more on bread, grains and baked goods. Not surprisingly, those in the highest quintile also tend to spend relatively more money on eating out, while among the lower quintiles (1-3), this expenditure is fairly low.

* Expenditure on alcoholic beverages (in shekels): top quintile (32); 4th quintile (18); 3rd quintile (13); 2nd quintile (9); bottom quintile (9); ** Expenditure on vegetable oils and fats (in shekels): top quintile (19); 4th quintile (17); 3rd quintile (18); 2nd quintile (18); bottom quintile (14)

Source: Dov Chernichovsky and Eitan Regev, Taub Center

Data: Central Bureau of Statistics, Household Expenditure Survey

A Picture of the Nation 2015

Inequality and Poverty
The two lowest deciles spend less on food than what is considered to be the normative expenditure

The average monthly per person expenditure on food in the 3rd to 5th deciles is about NIS 660. The stability of this figure shows that households subjectively view this level as a normative expenditure on food – that is, a greater level of spending is considered a luxury while a lower amount indicates an insufficient amount of food which is expressed either in less food or food of a lower quality. Monthly spending by the 2nd decile on food is NIS 99 lower per month than the normative expenditure, while the lowest decile spends an amount that is NIS 192 less per person than the normative amount.

* The normative expenditure range is defined as the lowest group of income deciles with minimal differences in food expenditures

Source: Dov Chernichovsky and Eitan Regev, Taub Center
Data: Central Bureau of Statistics, Household Expenditure Survey
The lower income deciles consume less milk, eggs, fruit, and vegetables

The two lowest deciles, which are located below the poverty line, have to forego expenditure on dairy products and eggs; the average household expenditure on this food group in the 2nd decile is NIS 22 lower than the normative expenditure (22%), and the expenditure of the lowest decile is NIS 29 lower (29%). An even more significant concession is made on fruit and vegetables (not shown in this figure). In this food category, the 2nd decile was short NIS 25 (18%) to reach normative spending, while the lowest decile was short NIS 48 (35% of the normative expenditure).

* The normative expenditure range is defined as the lowest group of income deciles with minimal differences in food expenditures

Source: Dov Chernichovsky and Eitan Regev, Taub Center
Data: Central Bureau of Statistics, Household Expenditure Survey
The Labor Market

Inequalities are also apparent in wages in Israel. Although wage gaps in Israel have shown a continuous downward trend, they are still among the highest of all OECD countries. Most of the disparity is between workers at the medium-wage level and those at the higher-wage levels, while workers in low-wage occupations have actually experienced a relatively high rise in their wages compared to the median wage, apparently due to an increase in the minimum wage. Other developments in the labor market are linked to the relation between education and employment. Over the years, the rates of educated workers have risen in Israel, as has the value of education in the marketplace. Nevertheless, trends in returns on education are mixed, with an increase in returns for those occupations characterized by lower wages and a decline in returns for those employed in high-wage occupations.
Income disparities in Israel are among the highest in the West

In 2011, the gross monthly wages of a salaried full-time employee in the 90th income percentile was almost 5 times that of a worker in the 10th percentile. Only the US had such a large disparity, and in the Scandinavian countries, the difference was half that of Israel’s. While wage gaps are declining, analysis shows that wage increases are mostly in the lower part of the distribution; the gap has narrowed between workers in the lower- and middle-wage groups, while the gap between the middle- (50th percentile) and higher-wage earners (90th percentile) is still high – and higher than other countries.

Source: Ayal Kimhi and Kyrill Shraberman, Taub Center
Data: Central Bureau of Statistics, Income Survey; OECD
Wage gaps are narrowing with a rise in the wages of low-earning workers

Between 1997 and 2011, low-earning workers’ wages grew more relative to the median wage. Wages of those in the highest income decile grew at a similar rate as those at the median, while wages of those in the 6th to 8th deciles did not manage to keep pace with the median. As a result, wage gaps grew between workers in the mid to high deciles and those with the highest wages, and narrowed between those with low wages.

Looking at time periods shows that the majority of the gap narrowed in Israel during the recession of 2001-2003, when the highest wages declined relative to the median and the wages of the lowest decile rose relative to the median.

Source: Ayal Kimhi and Kyrill Shraberman, Taub Center
Data: Central Bureau of Statistics, Income Survey
Rise in work-hours for young, academic workers relative to high school graduates

Between 1997 and the middle of the 2000s, there was a significant rise in the number of work-hours for those with at least 16 years of schooling relative to those with no more than 12 years of schooling. The rise was primarily among younger workers (those with 0-10 years of experience) and was especially sharp among women.

The relative rise in work-hours of those with an academic education was primarily due to their relative increase out of all workers over time, as well as due to the fact that the employment rate of those with an academic degree is substantially higher than those without a degree.

* Numbers on the vertical axis show in percentages the greater number of work-hours of those with 16+ years of schooling versus those with 0-12 years of schooling

Source: Ayal Kimhi and Kyrill Shraberman, Taub Center
Data: Central Bureau of Statistics, Labor Force Survey
Returns on higher education are on the rise

From 1997 to 2011, there was a moderate wage increase for those with higher education relative to those with no more than a high school education. This is because at the same time as there was a rise in the supply of educated workers, there was an increase in the demand for these workers. As such, the wage gap in their favor has not narrowed.

The wage gap among men is greater and rose substantially more than among women. A possible explanation is the greater rise in the supply of educated women in the labor force. Another possible explanation is that demand for educated workers rose in the occupations dominated by men.

Source: Ayal Kimhi and Kyrill Shraberman, Taub Center
Data: Central Bureau of Statistics, *Income Survey*
Returns on higher education lessened among those in high-wage occupations

The wages of workers with at least 16 years of schooling in high-wage professions declined in fixed prices between 1997 and 2011 while the wages of workers with the same level of education in lower-wage occupations increased.

Nevertheless, the overall return on higher education among workers increased over the period, as there was a rise in the share of workers in high-wage occupations – primarily managers, associate professionals and technicians, and clerks.

### Changes in Hourly Wage Between 1997 and 2011

*by occupation and years of schooling, in fixed prices*

<table>
<thead>
<tr>
<th>Years of Schooling</th>
<th>Low-wage occupations</th>
<th>High-wage occupations</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-12 yrs</td>
<td>-1%</td>
<td>+1%</td>
</tr>
<tr>
<td>13-15 yrs</td>
<td>+6%</td>
<td>-1%</td>
</tr>
<tr>
<td>16+ yrs</td>
<td>+4%</td>
<td>-9%</td>
</tr>
</tbody>
</table>

*Skilled workers, agents, sales and service workers, unskilled workers

**Managers, academic professionals, associate professionals and technicians, and clerical workers

Source: Ayal Kimhi and Kyrill Shraberman, Taub Center
Data: Central Bureau of Statistics, *Income Survey*
Changes in supply and demand of workers affect wages

Between 1997 and 2011, the share of certain occupations in the labor market, including managers, academic professionals, and sales and service workers, grew. At the same time, wages rose for agents and workers in sales and services, indicating a rise in demand over supply in this group. In contrast, the wages of academic professionals declined, which shows a greater supply than demand. As a rule, there was a rise in wages in those occupations with medium/low wages, like skilled workers and agents, and a decline in the wages of high- and medium-wage occupations, like academic professionals and clerks, respectively. As a result, wage gaps narrowed among employed workers in the market.

Source: Ayal Kimhi and Kyrill Shraberman, Taub Center
Data: Central Bureau of Statistics, Labor Force and Income Survey
The Shadow Economy

When discussing possible reasons for the growth of the government budget, it is important to consider the shadow economy. The dimensions of the shadow economy in Israel are especially high relative to other developed countries and by minimizing this phenomenon – whether by easing the bureaucratic burden involved in paying taxes or by influencing societal norms – the state could increase public spending and decrease tax levels at the same time.
The scale of the shadow economy in Israel is high relative to other advanced countries

The size of Israel’s shadow economy is estimated at 20% of the GDP, which is approximately NIS 200 billion. Were it possible to lower this rate by about 10%, to the levels of other advanced countries like the US, Japan and Britain, Israel’s GDP would be about NIS 100 billion higher, and tax income to the state would be approximately NIS 40 billion higher – an amount equivalent to the country’s education budget.

Source: Noam Gruber, Taub Center for Social Policy Studies in Israel
Data: Buehn, Andreas and Friedrich Schneider (2012), *Shadow Economies Around the World: Novel Insights, Accepted Knowledge, and New Estimates*
Relative to the OECD countries, the tax burden on small businesses in Israel is high.

A central factor in the shadow economy is the tax rate on the self-employed and small businesses, where the ability to hide income is greatest. Some of the OECD countries give tax breaks to small businesses. In contrast, the overall tax rate in Israel (composed of VAT, corporate tax and dividend tax for shareholders) stands at almost 58%, a relatively high rate.

### Effective Tax Rate for Small Businesses

<table>
<thead>
<tr>
<th>Country</th>
<th>VAT/Sales tax</th>
<th>Corporate tax</th>
<th>Dividend tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>25.0%</td>
<td>18.8%</td>
<td>23.6%</td>
</tr>
<tr>
<td>Ireland</td>
<td>23.0%</td>
<td>9.6%</td>
<td>32.3%</td>
</tr>
<tr>
<td>Portugal</td>
<td>23.0%</td>
<td>24.3%</td>
<td>14.8%</td>
</tr>
<tr>
<td>France*</td>
<td>19.6%</td>
<td>12.1%</td>
<td>30.1%</td>
</tr>
<tr>
<td>Norway</td>
<td>25.0%</td>
<td>21.0%</td>
<td>15.1%</td>
</tr>
<tr>
<td>Sweden</td>
<td>25.0%</td>
<td>16.5%</td>
<td>17.6%</td>
</tr>
<tr>
<td>Germany</td>
<td>19.0%</td>
<td>24.3%</td>
<td>14.9%</td>
</tr>
<tr>
<td>Israel</td>
<td>18.0%</td>
<td>21.7%</td>
<td>16.1%</td>
</tr>
<tr>
<td>Belgium*</td>
<td>21.0%</td>
<td>19.8%</td>
<td>14.8%</td>
</tr>
<tr>
<td>UK*</td>
<td>20.0%</td>
<td>16.0%</td>
<td>19.6%</td>
</tr>
<tr>
<td>Finland</td>
<td>24.0%</td>
<td>18.6%</td>
<td>12.0%</td>
</tr>
<tr>
<td>Austria</td>
<td>20.0%</td>
<td>20.0%</td>
<td>15.0%</td>
</tr>
<tr>
<td>Italy</td>
<td>21.0%</td>
<td>21.7%</td>
<td>11.5%</td>
</tr>
<tr>
<td>Spain*</td>
<td>21.0%</td>
<td>15.8%</td>
<td>17.1%</td>
</tr>
<tr>
<td>Canada</td>
<td>5.0%</td>
<td>24.8%</td>
<td>23.7%</td>
</tr>
<tr>
<td>Netherlands*</td>
<td>21.0%</td>
<td>15.8%</td>
<td>15.8%</td>
</tr>
<tr>
<td>Iceland</td>
<td>25.5%</td>
<td>14.9%</td>
<td>11.9%</td>
</tr>
<tr>
<td>Australia</td>
<td>10.0%</td>
<td>27.0%</td>
<td>14.9%</td>
</tr>
<tr>
<td>OECD average</td>
<td>18.7%</td>
<td>18.3%</td>
<td>14.6%</td>
</tr>
<tr>
<td>Chile</td>
<td>19.0%</td>
<td>16.2%</td>
<td>16.2%</td>
</tr>
<tr>
<td>Luxembourg*</td>
<td>15.0%</td>
<td>24.0%</td>
<td>12.2%</td>
</tr>
<tr>
<td>Slovenia</td>
<td>20.0%</td>
<td>13.6%</td>
<td>16.8%</td>
</tr>
<tr>
<td>USA* **</td>
<td>8.6%</td>
<td>18.3%</td>
<td>21.9%</td>
</tr>
<tr>
<td>Poland</td>
<td>23.0%</td>
<td>14.6%</td>
<td>11.9%</td>
</tr>
<tr>
<td>Greece</td>
<td>23.0%</td>
<td>20.0%</td>
<td>5.7%</td>
</tr>
<tr>
<td>Korea*</td>
<td>10.0%</td>
<td>9.9%</td>
<td>28.4%</td>
</tr>
<tr>
<td>Turkey</td>
<td>18.0%</td>
<td>16.4%</td>
<td>11.5%</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>21.0%</td>
<td>15.0%</td>
<td>9.6%</td>
</tr>
<tr>
<td>Hungary*</td>
<td>27.0%</td>
<td>7.6%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Slovakia</td>
<td>20.0%</td>
<td>18.4%</td>
<td>5.9%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>15.0%</td>
<td>23.8%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>8.0%</td>
<td>19.5%</td>
<td>14.5%</td>
</tr>
<tr>
<td>Mexico</td>
<td>16.0%</td>
<td>25.2%</td>
<td>41.2%</td>
</tr>
<tr>
<td>Estonia</td>
<td>20.0%</td>
<td>16.8%</td>
<td>36.8%</td>
</tr>
<tr>
<td>Japan*</td>
<td>5.0%</td>
<td>21.3%</td>
<td>7.3%</td>
</tr>
</tbody>
</table>

* Calculations include preferential tax for small businesses
** Average of all the states

Source: Noam Gruber, Taub Center for Social Policy Studies in Israel
Data: OECD

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A Picture of the Nation 2015

35

The Shadow Economy
Time spent on tax reporting in Israel is long relative to other countries

Bureaucratic reporting requirements reflect another aspect of the tax burden. The weight of this burden is especially high relative to the profits earned by small businesses and the self-employed. In Israel, tax reporting takes on average 235 hours annually, close to an hour for every work day. This is a high price for small businesses, and could possibly lead many of them to hide income.

Relation between time needed to file corporate tax reports and size of shadow economy

Shadow economy as share of GDP (2007)

Source: Noam Gruber, Taub Center for Social Policy Studies in Israel
Data: World Bank; Buehn and Schneider (2012)
Tax breaks are biased toward large companies

Hiding of income by small businesses in Israel is frequently seen as legitimate, as their tax rates are often higher than those of large companies. In fact, under the Encouragement of Capital Investments Law, large companies have lower tax rates, which can be as low as one-fifth of the normal tax rate.

In Israel, as in most OECD countries, small businesses are big business – 55% of employees in the labor market are employed by small to medium businesses (up to 100 workers). Nevertheless, the ability of large businesses to bargain directly with the government on the terms of their taxation gives them a significant advantage over small businesses with limited bargaining power.

**Effective Corporate Tax Rate for Companies with Preferential Status*  
by company income decile, 2011**

* According to Encouragement of Capital Investments Law

Source: Noam Gruber, Taub Center for Social Policy Studies in Israel
Data: Ben-Naim, Galit and Tamir Gedalia (2013), Report of the State Revenue Division 2011-2012, Chapter 9, Ministry of Finance
Instituting mandatory reporting could lower tax evasion

Those OECD countries that have mandatory tax reporting, that is, every citizen has to file tax reports, have smaller shadow economies as a percent of GDP, as well as lower tax collection costs (as a share of total tax collected). Mandatory reporting has also been recommended in Israel by several government committees: Ben-Shahar (1975), Sheshinski (1988), Ben-Bassat (2000), and Arbeli (2013). However, these recommendations have not been adopted. Today’s easy technological tools make the possibilities of instituting general tax reporting relatively low cost, both for the state and the citizen.
The Elderly

Retirement-age individuals are among the most vulnerable members of society, as they leave the labor force and increase their dependence on government allowances and subsidies. There have been some positive trends in old-age allowances in Israel, like a rise in the share of those entitled to pension benefits and an increase in old-age allowance levels relative to the average wage in the market. Nevertheless, the poverty rate among the elderly is still high, especially among those households with no income from pension savings.
Old-age benefits rose in real terms, but declined relative to per capita GDP

The level of old-age allowances has remained stable since 1995 (in real terms), and in the past few years has even risen slightly. In contrast, when the average allowance is measured as a percent of per capita GDP, the trend since 2002 has been the opposite; the level of the allowance has declined from 27.1% of per capita GDP to 24% in 2012. If per capita GDP is considered a measure of standard of living, the old-age allowance has not managed to bring the elderly to the population’s average standard of living, and since 2002, the condition of the elderly has worsened.

Source: Sagit Azary-Viesel and Haya Stier, Taub Center
Data: National Insurance Institute, Central Bureau of Statistics
The budget of the Service for the Elderly Department is only partially utilized

The Service for the Elderly Department provides personal and social services to the elderly in the community and in day care centers. Between 2005 and 2012, the unit had an annual budget of approximately NIS 400-500 million (in the original budget and the amended budget, after changes and additions), yet there is a consistent gap of tens of percent between the budget designated for the unit and the budget that is actually used. In effect, this means that the elderly population did not receive all of the services that they might have been entitled to receive. The budget utilization rate has been low for many years, although there has been some improvement lately.

MINISTRY OF SOCIAL AFFAIRS BUDGET FOR THE SERVICE FOR THE ELDERLY, 2005-2012
in 2012 million shekels, by type of budget

Original budget
Amended budget
Final budget

Source: Sagit Azary-Viesel and Haya Stier, Taub Center
Data: Budget Department, Ministry of Finance
The situation of the poor has worsened, though less in households with older members than in younger households.

One of the measures of poverty is depth of poverty – that is, how far below the poverty line is the household income of a poor family. In households with elderly members, the depth of poverty is less than in families without elderly members (i.e., they are closer to the poverty line), a fact likely due to their receipt of government allowances and the smaller size of the average elderly household. Likewise, over time, the condition of poor households without elderly members has worsened more substantially than those households with elderly members.

The graph shows the gap between average income of poor households and the poverty line, in percent, by household composition, 1997-2011.

* Data for 2000-2001 do not include residents of East Jerusalem

Source: Haya Stier and Haim Bleikh, Taub Center
Data: Central Bureau of Statistics
Employment pensions improve the economic situation of households with retirement-age members. Among those entitled to income from a pension, the poverty rates are consistently much lower, and stand at about 1-2%. In contrast, in households with retirement-age members who do not have income from a pension, the poverty rates are much higher – around 35% of the overall population and reaching a high of about 75% among Arab Israelis.

* Data for 2000-2001 do not include residents of East Jerusalem

Source: Haya Stier and Haim Bleikh, Taub Center
Data: Central Bureau of Statistics
Living with younger family members helps lower poverty among the elderly

One way for the elderly to deal with economic, physical and social difficulties is to live with working-age family members. As of the past few years, approximately 20% of households headed by a working-age person have retirement-age members. Such “extended family households” are characterized by lower rates of poverty than both households headed by retirement-age individuals and younger households without any retirement-age members.

**Source:** Haya Stier and Haim Bleikh, Taub Center
Data: Central Bureau of Statistics
EDUCATION

Over the past few years, there have been several positive trends in the education system in Israel and among them an increase in the Ministry of Education budget. Nevertheless, in many areas there is still room for improvement. Despite budget increases, the education budget remains low relative to other developed countries and overcrowding in classrooms is among the highest in the West.

An apparent trend in the education system is a decline in the number of pupils taking the matriculation (bagrut) exams at the highest level of math (5 units). This is an especially worrying development given that new research by the Taub Center shows that the level of math studied in high school has an impact on labor market achievement.
The portion of the education budget within the total government budget has risen substantially

In the past few years there has been a substantial rise in the proportion of the education budget within the total government budget. The main reason for this is the new labor agreement with teachers that fundamentally changed working conditions and raised wages. These agreements made it possible for the Ministry of Education to implement important processes like increasing the number of teaching hours and lowering the number of pupils per class.

* Original budget data without amendments or final expenditure data

Source: Yulia Cogan and Nachum Blass, Taub Center
Data: Ministry of Finance
Spending per pupil remains low relative to other developed countries

Despite the real rise in the Ministry of Education budget, which increased at a faster rate than the overall spending on education in OECD countries, the rate of increase was not enough to keep Israel’s per pupil expenditure on par with the OECD average. While the number of pupils in Israel rose in 2010 relative to 1995, in the OECD it decreased. As such, the gap between per pupil expenditure in Israel and the OECD average has continued to widen. (In Israel, most of the budget increase began in 2013-2014 and the data is not yet available; it could show a distinctly different picture.) The gaps are especially pronounced until 2010, which was before the new wage agreements and implementation of the Trajtenberg Committee recommendations.

*Does not include higher education

Source: Yulia Cogan and Nachum Blass, Taub Center
Data: OECD
The growth in the share of Haredi and Arab Israeli children in preschool has stopped

Between 2000 and 2010, the share of Haredi (ultra-Orthodox Jews) and Arab Israeli pupils in preschools grew, while the portion of state Jewish-education declined. Since 2010, there has been a change in this trend. The growth in the number of Arab Israeli pupils has completely stopped and the rate of growth in Haredi pupils has slowed down substantially. In 2013, another change was also apparent: the percent of pupils in Haredi education declined somewhat (from 25% to 23% in one year), and the relative size of state Jewish-education rose from 37.7% to 40%. These changes have significance for the education system, since the Haredi and Arab Israeli populations are considered weaker in educational achievement terms and are in need of additional resources.

### DISTRIBUTION OF PUPILS IN PRESCHOOL BY SECTOR, 2000-2013

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Haredi*</td>
<td>20.5%</td>
<td>23.9%</td>
<td>24.8%</td>
<td>25.0%</td>
<td>23.2%</td>
</tr>
<tr>
<td>Arab Israeli</td>
<td>13.2%</td>
<td>16.9%</td>
<td>16.4%</td>
<td>15.2%</td>
<td>15.0%</td>
</tr>
<tr>
<td>Bedouin</td>
<td>3.3%</td>
<td>5.4%</td>
<td>4.4%</td>
<td>4.4%</td>
<td>4.1%</td>
</tr>
<tr>
<td>State-religious</td>
<td>16.9%</td>
<td>14.8%</td>
<td>15.4%</td>
<td>15.6%</td>
<td>15.8%</td>
</tr>
<tr>
<td>Jewish state-education</td>
<td>43.5%</td>
<td>36.6%</td>
<td>36.9%</td>
<td>37.7%</td>
<td>40.0%</td>
</tr>
</tbody>
</table>

* Haredi education is the ultra-Orthodox Jewish education system

Source: Nachum Blass and Haim Bleikh, Taub Center
Data: Ministry of Education
The rise in the bagrut qualification rate continues

The rate of those who qualify on the matriculation (bagrut) exams has risen substantially over the past few years: from 46.3% in the 2006-2007 school year to 49.8% in the 2011-2012 school year. In 2013 (which does not appear in the figure), the percentage of pupils qualifying for the bagrut rose to 53.4% of the age cohort – the highest level since the establishment of the state. The improvement in the bagrut qualification rate was concentrated among non-Haredi Hebrew speakers and Arabic speakers, while among Haredim, there has been almost no change in the past few years.

* Does not include East Jerusalem; ** Haredim are ultra-Orthodox Jews

Source: Nachum Blass, Taub Center for Social Policy Studies in Israel
Data: Ministry of Education

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**Distribution of 12th Grade Age Cohort**
by population group and bagrut status

<table>
<thead>
<tr>
<th>Year</th>
<th>Hebrew speakers non-Haredim**</th>
<th>Hebrew speakers Haredim**</th>
<th>Arabic speakers*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>59.1% 28.8% 12.2%</td>
<td>66.6% 21.2% 12.2%</td>
<td>25.8% 38.6% 42.4%</td>
</tr>
<tr>
<td>2012</td>
<td>35.5% 32.9% 12.7%</td>
<td>42.4% 13.6% 8.8%</td>
<td>78.5% 8.2% 8.8%</td>
</tr>
</tbody>
</table>

The vertical axis shows the total number of 18-year-olds within each population group.
The percentages reflect the share of each bagrut classification within each population group.

- Green: Did not take bagrut exams
- Red: Failed bagrut exams
- Blue: Passed bagrut exams
The share of outstanding pupils rose slightly and the share of weak pupils declined, the reverse of the OECD trend

The international PISA exams test pupil achievement in various countries at different points in time. Between 2006 and 2012, the share of outstanding pupils on the Israeli exam rose slightly, and the share of weak pupils (whose scores fell in the lowest two levels) declined by nearly 7 percentage points. In contrast, in the OECD countries, there was a slight decrease in the share of outstanding pupils and the share of weak pupils decreased by only 2 percentage points. Despite these improvements, the share of weak pupils in Israel remains high relative to the OECD average.

### Share of Outstanding and Weak Pupils on PISA Exams

<table>
<thead>
<tr>
<th></th>
<th>% outstanding pupils</th>
<th>% weak pupils</th>
</tr>
</thead>
<tbody>
<tr>
<td>OECD</td>
<td>8.9% 8.4%</td>
<td>19.8% 17.8%</td>
</tr>
<tr>
<td>Israel</td>
<td>5.2% 5.8%</td>
<td>36.1% 28.9%</td>
</tr>
</tbody>
</table>

Source: Nachum Blass, Taub Center for Social Policy Studies in Israel
Data: PISA
Overcrowding in classrooms has declined somewhat but remains high relative to other developed countries.

Crowding in Israeli classes is considered especially high and has even led to a demand by the public to lower the number of pupils per class in the coming year. The Ministry of Education, which promised in the teacher wage agreements to lower this number, has succeeded in reducing the average number of pupils per class but only partially. Since 2008, the number of classes has grown more than the number of pupils. Nevertheless, classes in Israel are still extremely crowded relative to the average in other countries: 28 pupils in a high school class versus the OECD average of 21.

Source: Nachum Blass, Taub Center for Social Policy Studies in Israel
Data: Central Bureau of Statistics

### Change in the Number of Classes and Pupils

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Primary</th>
<th>Lower Secondary</th>
<th>Upper Secondary</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of classes</td>
<td>11%</td>
<td>16%</td>
<td>18%</td>
</tr>
<tr>
<td>No. of pupils</td>
<td>16%</td>
<td>6%</td>
<td>10%</td>
</tr>
<tr>
<td>Average pupils per class</td>
<td>-4%</td>
<td>-11%</td>
<td>-5%</td>
</tr>
</tbody>
</table>

Source: Nachum Blass, Taub Center for Social Policy Studies in Israel
Data: Central Bureau of Statistics
The number of pupils studying higher level math is declining

In the past few years, there has been a substantial decline in the number of pupils taking the matriculation (bagrut) math test at the highest level of 5 units – from about 20% in the middle of the previous decade to only 13% in 2011. This is partially explained by the rise in the share of Haredi (ultra-Orthodox Jews) and Arab Israeli pupils (primarily Bedouin and pupils in East Jerusalem) who take the bagrut exams at the lower number of units of study.

Source: Nachum Blass, Taub Center for Social Policy Studies in Israel
Data: State Comptroller’s Report 2014
The level of math studies in high school has an influence on wages

The average wage of those who studied math at 5 units is substantially higher than the wages of those who studied at lower levels, even when controlling for test scores. Some of the difference comes from the academic field of study or the chosen profession – those who studied 5 units of math tend to study and work in areas that are considered more prestigious, like computer sciences and engineering. Nevertheless, the level of study has a direct impact on wages even when controlling for relevant factors – particularly socioeconomic characteristics and bagrut scores on other subjects that could be indicative of other variables like cognitive skills, learning ability and motivation.

**Labor Market Achievements by Math Bagrut Level and Score, 2008**

<table>
<thead>
<tr>
<th>Bagrut score</th>
<th>Bagrut math level</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3</td>
</tr>
<tr>
<td>60 or lower</td>
<td>6,427</td>
</tr>
<tr>
<td>61-70</td>
<td>6,394</td>
</tr>
<tr>
<td>71-80</td>
<td>7,002</td>
</tr>
<tr>
<td>81-90</td>
<td>6,820</td>
</tr>
<tr>
<td>91-100</td>
<td>7,192</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Average monthly income from work (NIS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>60 or lower</td>
</tr>
<tr>
<td>61-70</td>
</tr>
<tr>
<td>71-80</td>
</tr>
<tr>
<td>81-90</td>
</tr>
<tr>
<td>91-100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Average hourly wage for salaried employment (NIS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>60 or lower</td>
</tr>
<tr>
<td>61-70</td>
</tr>
<tr>
<td>71-80</td>
</tr>
<tr>
<td>81-90</td>
</tr>
<tr>
<td>91-100</td>
</tr>
</tbody>
</table>

Source: Ayal Kimhi and Arik Horovitz, Taub Center
Data: Central Bureau of Statistics
HEALTHCARE

The Israeli healthcare system is in serious crisis. Public expenditure on healthcare is low relative to other countries with nationalized, universal healthcare services. Private expenditure comes mostly from patient out-of-pocket payments and not from private insurance, as in other countries. In addition to a shortage in in-patient hospital beds, manpower is shrinking and aging. In some medical specialties and in nursing care, signs of this trend are already being felt, and in other fields, a shortage of manpower is predicted within the next few years.

A recent Taub Center study, the first of its kind, throws light on the methods of budget allocation by the Health Basket Committee, which determines the new technologies included in the health basket of services (i.e., those technologies covered by public health insurance). Currently, the committee leans toward life-extending therapies, although a new study by the Taub Center shows that there are other medical conditions that, while not fatal, impact the quality of life of many Israelis. The budgeting of their treatment in the health basket should be seriously considered.
Public funding of healthcare services in Israel relative to GDP is lower than in other countries in the West

The portion of public healthcare expenditure as a percent of GDP in Israel is declining over time, and the gap is taking Israel further away from both the US and the OECD average even after accounting for the age structure of the countries. This means that relative to resources, Israel devotes a lower portion of its GDP to public funding of healthcare services compared to OECD countries (average) and the US.

PUBLIC HEALTHCARE EXPENDITURE*
as percent of GDP, 1995-2012

* Adjusted for standardized person using Israeli risk adjustment terms (old capitation method) as percent of GDP
** Average for 23 OECD countries (excluding USA)

Source: Dov Chernichovsky and Eitan Regev, Taub Center
Data: Central Bureau of Statistics, OECD
The physician population is aging

In the last 3 decades, there has been a 60% decline in the share of young doctors (35 and under) in the population: 0.96 young doctors per 1,000 people in 1980 versus 0.39 young doctors per 1,000 people in 2012. At the same time, there has been a rise of 95% in the share of older doctors (65 and over) in the population: from 0.58 older doctors per 1,000 people in 1980 to 1.13 in 2012. This trend reflects the fact that the generation of immigrants who represented the majority of physicians in Israel over the past 2 decades is reaching retirement age, and not enough younger doctors are entering the system.

Source: Dov Chernichovsky and Eitan Regev, Taub Center
Data: Central Bureau of Statistics, OECD
Private expenditure on healthcare rose much faster than public spending

The per capita public expenditure on healthcare in Israel grew cumulatively only 20.8% from 1995-2011: from NIS 3,902 to NIS 4,715 (in 2005 prices) – a growth rate of about 1.2% per year. In contrast, private per capita expenditure grew during those years at a rate of 69.5%: from NIS 1,735 to NIS 2,940 – an average rate of growth of 3.4% per annum.

Source: Dov Chernichovsky and Eitan Regev, Taub Center
Data: Central Bureau of Statistics, OECD
Out-of-pocket and private insurance financing of healthcare in Israel are high relative to the OECD

Overall private funding of healthcare in Israel stands at 3% of GDP. The percent of expenditure by private insurance companies is 0.82% of GDP in comparison to 0.45% of GDP in OECD countries and 5.24% in the US. The share of direct out-of-pocket expenditure in Israel is very high at 2.05% of GDP, while in the OECD, it is 1.47% and in the US it is 1.8%. In other words, relative to the OECD, a greater share of health expenditure in Israel is financed by private insurance, yet Israelis’ direct out-of-pocket expenditure is also significantly higher – something that raises doubts regarding the effectiveness of health insurance, both public and private, in lowering out-of-pocket spending.

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**Distribution of Private Healthcare Expenditure**

*as percent of GDP, 2011*

<table>
<thead>
<tr>
<th></th>
<th>Out-of-pocket expenditure</th>
<th>Private insurance</th>
<th>Other**</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>1.80%</td>
<td>1.05%</td>
<td>5.24%</td>
</tr>
<tr>
<td>OECD***</td>
<td>1.47%</td>
<td>0.45%</td>
<td>0.19%</td>
</tr>
<tr>
<td>Israel</td>
<td>2.05%</td>
<td>0.82%</td>
<td>0.13%</td>
</tr>
</tbody>
</table>

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* Adjusted for standardized person using Israeli risk adjustment terms (old capitation method) as percent of regular GDP
** Other: Includes not for profit organizations that contribute to households (not including health funds); corporations (that do not supply health insurance)
*** Average for 20 OECD countries (excluding USA)

Source: Dov Chernichovsky and Eitan Regev, Taub Center
Data: Central Bureau of Statistics, OECD
Health Basket allocations focus on life-extending treatments rather than on improving quality of life

Most of the accepted health measures used in Israel are based on life expectancy; other developed countries use measures that take into account quality of life, function loss and premature death (such as DALYs measures – Disability-Adjusted Life Years indicators). In Israel, the budget handled by the Health Basket Committee, the body that determines the new technology budget, is biased toward life-lengthening treatments at the expense of those that reduce morbidity. For instance, orthopedic issues, which greatly affect quality of life, remain largely unbudgeted by the Health Basket Committee.

DISTRIBUTION OF HEALTH BASKET COMMITTEE BUDGET
as compared to distribution of deaths and disease burden*, by select medical condition**, 2010

* Disease burden is measured via the Disability-Adjusted Life Years (DALYs) indicator, which accounts for both deaths and disability
** Conditions are listed in order of those receiving the highest budget allocation by the Health Basket Committee; not all medical conditions budgeted by the Health Basket Committee appear in this figure.

Source: Dov Chernichovsky and Liora Bowers, Taub Center
Data: Institute of Health Metrics and Evaluation, Global Burden of Disease collaboration
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A Picture of the Nation
Israel’s Society and Economy in Figures

Cost of Living
Housing
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The Labor Market
The Shadow Economy
The Elderly
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Healthcare

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