

OECD (2011), *Divided We Stand: Why Inequality Keeps Rising*

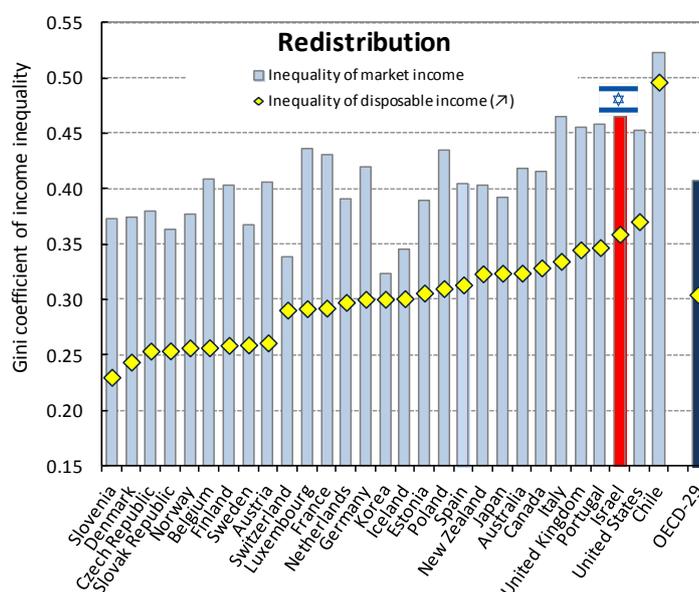
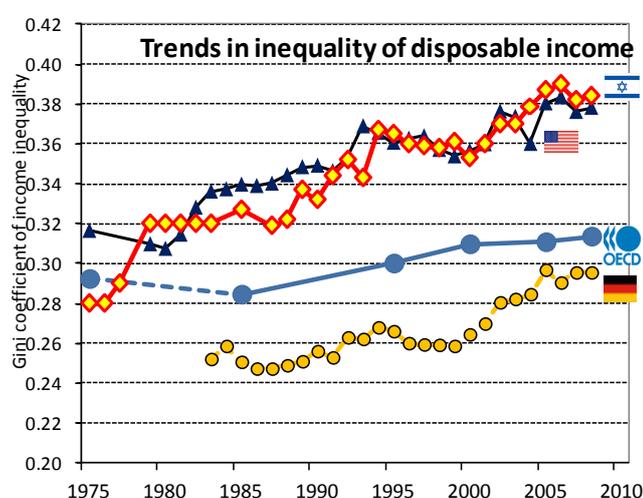
www.oecd.org/els/social/inequality

COUNTRY NOTE: ISRAEL

Income inequality in Israel has risen sharply over the past 30 years. The periods of steepest rise were the late 1980s to early 1990s and then since 2000. Since the early 1990s, the level of inequality is very similar to and even slightly exceeds that of the United States.

The average income of the top 10% of working-age Israelis in 2008 was NIS 207 000 (57 700 USD), about 13 times higher than that of the bottom 10%, who had an average income of NIS 15 500 (4 300 USD). This is up from a ratio of 10 to 1 in 2000 and 9 to 1 in the mid 1980s.

In 2008, income taxes and cash benefits together reduce inequality by some 23% - close to the OECD average. [Figure6.1]



Notes: The Gini coefficient ranges from 0 (when all people have identical incomes) to 1 (when the richest person has all the income). Market incomes are labour earnings, capital incomes and savings. Disposable income is market income plus social transfers less income taxes. Incomes are adjusted for household size. Data in the right-hand panel refer to the working-age population. Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>

Key findings:

- Since 1985, real household incomes grew by 2.3% per year on average – but by 2.8% for the richest 10% of Israelis, and only by 0.8% for the poorest 10%. Since 1995, real incomes of the bottom 10% even shrank (by 1%) while those of the top 10% continued to increase by 2.4%.
- The rise in inequality was largely driven by widening pay gaps. Inequality of earnings for full-timers, part-timers and also self-employed increased by some 10 per cent.
- Together with the US, Israel is the only country where annual hours among lower-wage workers *increased* (rather than decreased) by almost 20% over the past two decades [Table4.A1.2]. This trend partially offset the rising wage gap and led to a more moderate increase in overall annual earnings inequality.
- An important element of rising market inequality in Israel is the development of capital income. Over the past 10 years, shares of wages and self-employment income in total income fell, but shares of capital income increased. There is a shift from earnings to capital income, especially for higher-income persons. That said, the contribution of capital income to total income inequality remained small, at slightly below 10%.

- Societal changes, such as more single-parent families and people living alone, and people marrying within the same earnings classes, contributed to rising household earnings inequality. But growing disparities in men's earnings as well as declining employment rates among men remain the main drivers, explaining each some 40% of the inequality increase. At the same time, higher employment rates for women helped reduced inequality by a considerable amount and offset the rise caused by the other factors by half. Only in the Netherlands was the effect of women's increased employment stronger.
- The Israeli tax-benefit system reduced inequality by 23% in 2008 – down from over 30% in the mid-1990s and 29% in 2000. The roles of both income taxes and cash benefits has become steadily weaker since the mid-1990s, and that was related to decreases in the size of these instruments rather than lower progressivity.

Key policy recommendations for OECD countries from *Divided We Stand*

- Employment is the most promising way of tackling inequality. The biggest challenge is creating more and better jobs that offer good career prospects and a real chance to people to escape poverty.
- Investing in human capital is key. This must begin from early childhood and be sustained through compulsory education. Once the transition from school to work has been accomplished, there must be sufficient incentives for workers and employers to invest in skills throughout the working life.
- Reforming tax and benefit policies is the most direct instrument for increasing redistributive effects. Large and persistent losses in low-income groups following recessions underline the importance of government transfers and well-conceived income-support policies.
- The growing share of income going to top earners means that this group now has a greater capacity to pay taxes. In this context governments may re-examine the redistributive role of taxation to ensure that wealthier individuals contribute their fair share of the tax burden.
- The provision of freely accessible and high-quality public services, such as education, health, and family care, is important.

The roles of globalisation, technological progress and regulatory reforms

Divided we Stand also looks into the impact of global developments on rising wage dispersion and employment trends over the past quarter century up to the 2008-09 financial crisis. For the OECD area as a whole, the following key findings emerge:

- Globalisation, i.e. the rapid trade and foreign direct investment integration that occurred in all OECD countries over the past quarter century did not – per se – play a major role in driving growing wage dispersion. However, globalisation pressure affected domestic policy and institutional reforms (see below).
- Technological progress led to higher wage differentials: advances in information and communication technologies in particular have been more beneficial for workers with higher skills.
- Regulatory reforms and changes in labour market institutions increased employment opportunities but also contributed to greater wage inequality. More people, and in particular many low-paid workers, were brought into employment. But one of the consequences of more low-paid people in work is a widening distribution of wages.
- The rise in the supply of skilled workers provided a sizeable counterweight to offset the increase in wage inequality resulting from technological progress, regulatory reforms and institutional changes. The upskilling of the labour force also had a significant positive impact on employment growth.