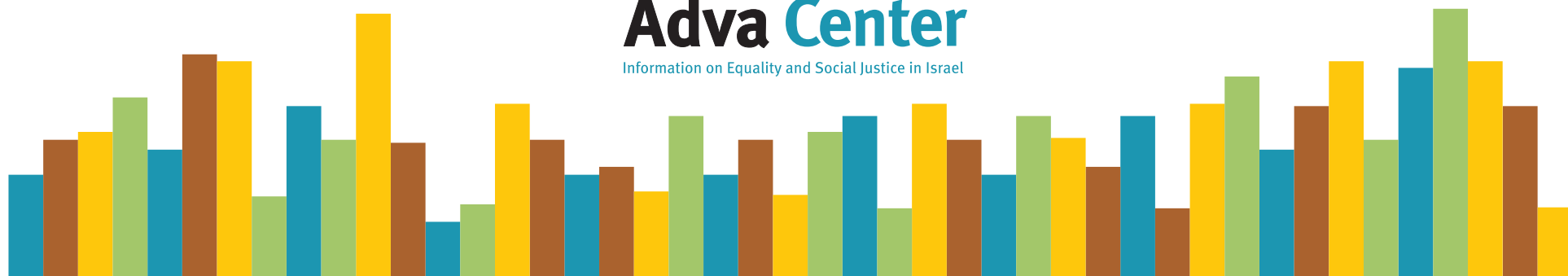


# Israel: A Social Report 2017

January 2018

Shlomo Swirski | Ety Konor-Attias | Aviv Lieberman

מרכז אדוה  
مرکز أدفا  
**Adva Center**  
Information on Equality and Social Justice in Israel



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# Contents

Introduction .....	4
Sources of Household Income .....	6
Wages.....	15
Retirement Savings .....	26
Poverty and Education.....	28
Poverty and Food Security .....	30
The Gini Coefficient.....	31
Schools and Higher Education.....	33
Housing.....	38
Health.....	40
The Government and Inequality.....	45
Endnotes .....	47

# Introduction

**The government would like us “to get used to the fact that the Israeli economy is good.” This means getting used to an economy driven by a small elite group, an economy with unbalanced growth that generously benefits that group. “Getting used to it” means getting used to large segments of Israeli society and its economy being left behind.**

Prime Minister Benjamin Netanyahu proudly talks about “the economic miracle of Israel.”<sup>1</sup> Professor Avi Simchon, the head of Israel’s National Economic Council, declares, “It’s time to get used to the fact that the Israeli economy is doing well.”<sup>2</sup>

Indeed, the Israeli economy can point to growth: Household income is on the rise, the poverty rate has decreased slightly, economic gaps have narrowed somewhat (according to the Gini Index), and enrollment in institutes of higher learning is at a record high.

All these, believes the prime minister, can be directly attributed to the neoliberal policies he instituted as finance minister in the years 2003–2005 and as prime minister since 2009. “We reined in government spending, reduced taxes, reformed the welfare and pension systems...privatized government companies, and created new capital markets... there have been 14 years of growth...while the debt-to-GDP ratio has declined from roughly 100% to 62%.”<sup>3</sup>

Although the government takes pride in its recent years of economic growth resulting from its macroeconomic policies, the context is important – the relative lull in violent Palestinian resistance to ongoing Israeli control, which had in the past often cast a pall on Israeli economic activity.

Although the Israeli economy did experience growth, in recent years much of this growth has stemmed from increased private consumption – car imports, for example – made possible to some extent by the lower interest rates in the wake of the global financial crisis of 2008. The increase in private consumption can be assumed to reflect the demands of the upper income deciles, as they upgrade their standard of living.

From the perspective of lower income households, however, the main positive outcome of greater private consumption has been the expansion of employment opportunities in low-income service jobs such as sales, waitressing, caregiving, security, and the like. This has meant more breadwinners in low income households -- and also more income for these households.

The income pyramid, however, has not fundamentally altered. Although the overall incidence of poverty has slightly tapered, the poverty rate among wage earners has in fact mounted. Indeed, Israel’s poverty rate remains among the highest in the west. And although the Gini Index fell somewhat after climbing for many years, it is still among the highest in the developed world.

**Part one of this annual Adva Center publication examines trends in income inequality through two lenses – household income and individual wages.**

**Part two presents data about inequality in schools, higher education, housing, and health.**

The government prides itself on taking a back seat in matters concerning economic entrepreneurship, in the belief that the business sector alone can handle these matters. The business sector, spearheaded by the high-tech industry (which itself enjoys massive government investment), however, is not delivering the goods. Business is hardly living up to its portrayal as “the engine that drives the economy.” As noted by the Innovation Authority in the Ministry of Economy, “Israel has become a global focus of innovation over recent decades; however, the prospering high-tech sector has largely remained insulated and the majority of the economy has yet to gain from its benefits.”<sup>4</sup> Indeed, high tech alone cannot be expected to pull the entire economy forward: The three hundred R&D centers that the multi-nationals established in Israel are primarily interested in “milking” the ability of Israelis in these fields; the present educated labor force is enough for them, and they have no incentive to expand the “start-up nation” beyond greater Tel Aviv.

As noted, the government takes pride in cutting expenses. Tax policies favor the large holding and investment groups and high wage earners, leaving less money in the government kitty for economic development of the periphery, upgrading schools and higher education, or ensuring an effective social safety net. Civilian expenditures in Israel are among the

lowest among OECD member countries. Although government debt did shrink and interest payments have eased, this has come at the price of reduced social spending, i.e., Israelis now have to pay a premium for private services that should be public, leading to widening gaps between those who can afford them and those who cannot.

Most troubling, however, is that while enrollment in higher education has indeed risen over the past two decades, the number of undergraduates has stabilized in recent years, according to the Council for Higher Education, and “these trends are expected to continue in the coming years.”<sup>5</sup>

“Getting used to the fact that the Israeli economy is doing well,” as noted by the economic advisor to the prime minister, means getting used to an economy driven by a small group, an economy with unbalanced growth that generously benefits that group. “Getting used to it” means getting used to large segments of Israeli society and its economy being left behind.

# SOURCES OF HOUSEHOLD INCOME

# Capital Income of Rich Households Grew; Welfare Income of Poor Households Diminished

Between 2000 and 2016, wages played an increasingly large role in the income of each of the six lower income deciles, particularly the two lowest; in the bottom decile, the proportion of wages rose from 31.7% to 49.9% of household income, and in the second decile, from 47.9% to 64.0%. This increase, although affected to some extent by wage increases<sup>6</sup> such as a higher minimum wage, the "negative income tax," and programs to encourage employment, is primarily a reflection of the larger number of breadwinners in these lower income households.

Economic inequality in Israeli society is patently evident even before the *amount* of household income is calculated, just by looking at the four sources of household income for salaried employees, the self-employed, and the unemployed:

(1) work (wages); (2) capital; (3) pensions; (4) government allowances and income support.

In most households, the main (and often only) source of income is the salary from a job. Other households, however, enjoy considerable income not from wages, but from capital, such as rental income from leased properties, interest on savings and bonds, or stock dividends. The main source of income for a third group of households is government allowances and income support, while some households largely depend on pension payments.

## Income from wages

Of these four income sources, the largest is wages. In 2016, wage income constituted an average 78.4% of the income of all households; sixteen years earlier, in 2000, the proportion was almost identical – 79%.

This average obscures the fact that for a significant number of Israelis, wages constitute a much smaller portion of household income: In 2016, wages comprised only half (49.9%) the household income in the lowest decile; 64.0% in the second

decile, and 70.1% in the third decile. And wages comprised over 80% of household income in deciles 6 through 9.

Between 2000 and 2016, wages played an increasingly large role in the income of each of the six lower deciles, particularly the two lowest; in the bottom decile, the proportion of wages rose from 31.7% to 49.9% of household income, and in the second decile, from 47.9% to 64.0%. This increase, although affected to some extent by wage increases<sup>7</sup> such as a higher minimum wage, the "negative income tax," and programs to encourage employment, is primarily a reflection of the larger number of breadwinners in these lower income households, as we shall see below.

## Income from capital

In the top decile, wages contributed 78.3% to household income. The reason for this relatively low figure, compared to the other high income deciles, is not because of low salaries, of course, but because this decile enjoys relatively more income from pension payments and capital earnings – rental properties in Israel and abroad, interest on savings or bonds, and stock dividends. In 2000, capital income constituted 4.4% of the household income in the top decile, and this rose to 5.5% in 2016.

**Note: The figures on capital income, like those for household income, derive from responses to the Household Income and Expenditures Survey, not from the State Revenues Administration or other government sources. Disparities between the two sources, particularly for the highest decile, have shown State Revenues figures higher for capital income than revenues reported by survey respondents.**

Capital income is affected by fluctuations in the stock market or rental prices and other factors. In 2015, the proportion of income derived from capital was 10.9%, but this dropped to 5.5% in 2016 in reaction to various factors, including declines in the stock market.<sup>8</sup>

How does capital income grow? One example relates to the rent paid to apartment owners. The primary beneficiaries of this are the wealthy stratum known as “the investors,” who annually acquired between a quarter to a third of all new apartments constructed in Israel within the past decade (in recent months this dropped to 15–20%). According to Adva’s calculations based on the *Household Income and Expenditures Survey*, 71% of all private rental monies paid in Israel in 2015 went to the three highest deciles; the top decile alone collected some 45% of the total rent payments that year.<sup>9</sup> Note that among the top two deciles, ownership of two or more apartments escalated from 7.9% in 2007 to 29.1% in 2016.<sup>10</sup>

### **Income from allowances and income support**

Households in the lowest deciles have the least income from either wages or capital, and are compelled to rely heavily on government allowances and income support. In 2016, these payments comprised almost half the income of the poorest households, a third of the income of households in the second income decile, and a quarter of the income of households

in the third income decile. For the four highest deciles, government support varied between 9.8% of income in the seventh decile and 5.6% in the top decile.

Over the past two decades, the most marked change with regard to allowances and income support is their decline. In 2000, they had constituted 14.0% of the average income of all households, and this dropped to 11.3% in 2016. This change reflects the sharp cuts in the National Insurance Institute allowances during the Second Intifada, 2002–2003.

Most affected by the cuts were those in the six lowest deciles: In the bottom decile, for example, allowances and income support fell from 66.6% to 48.5% of all household income; while in the second decile, they declined from 50.4% to 33.7%.

### **Income from retirement funds**

In 2016, income from pensions and provident funds contributed a very small portion to the income of those in the two lowest deciles – 0.5% and 1.3%, respectively. Pension coverage is still limited, despite pension payments now being mandatory.

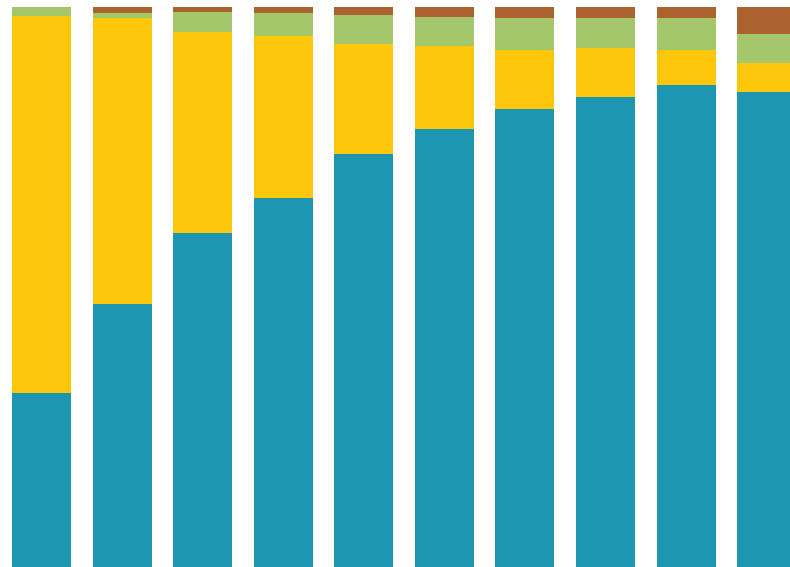
Retirement funds comprise a significantly larger portion of the income of households in the highest deciles, ranging between 6.2% in the sixth decile to 10.6% in the top decile.



### Components of Household Income: Wages, Allowances, Retirement Funds, and Capital

Percentage of each component in the gross income of households  
By net income decile per standard person

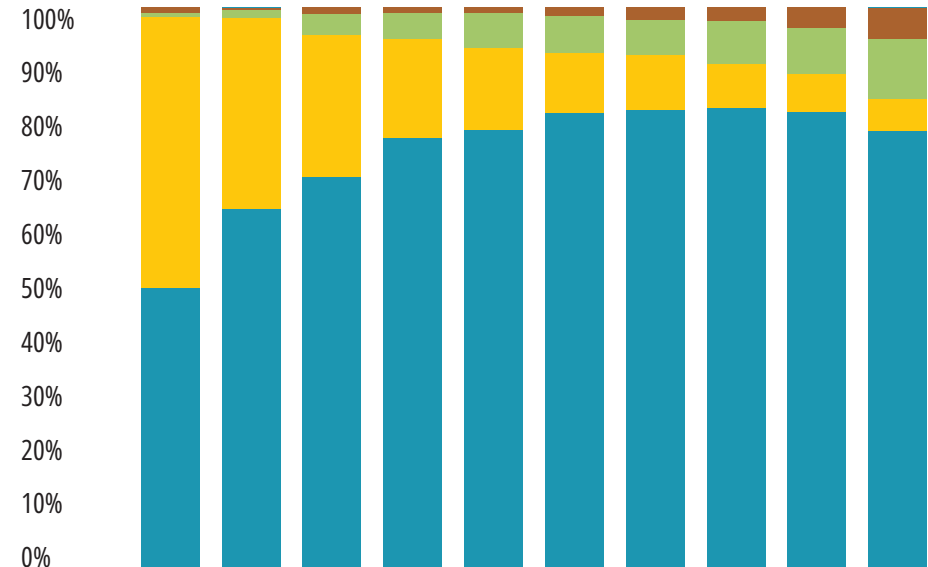
2000



### Components of Household Income: Wages, Allowances, Retirement Funds, and Capital

Percentage of each component in the gross income of households  
By net income decile per standard person

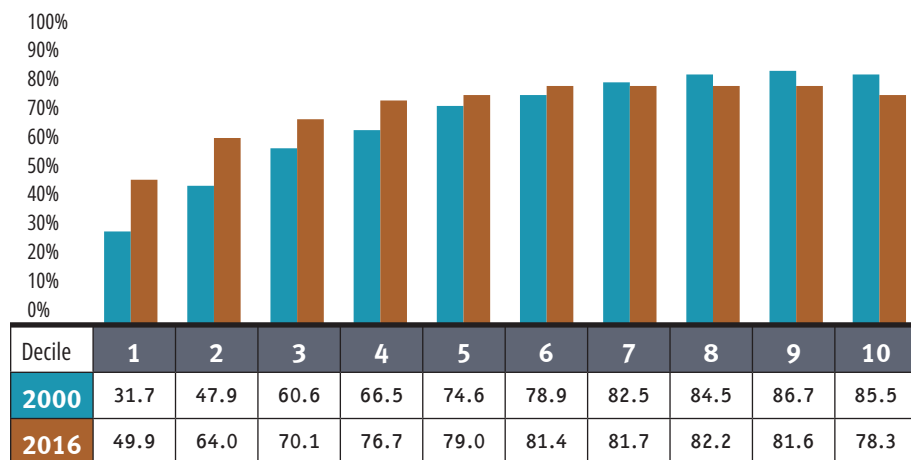
2016



1	2	3	4	5	6	7	8	9	10	Decile	1	2	3	4	5	6	7	8	9	10
--	0.4	0.4	0.8	1.1	1.0	1.5	1.4	1.6	4.4	From capital	1.1	0.9	1.3	1.3	1.3	1.8	2.3	2.7	3.5	5.5
0.7	1.3	3.6	4.2	5.0	5.4	5.6	5.4	5.8	5.1	From pensions and provident funds	0.5	1.3	3.7	4.5	5.9	6.2	6.2	7.5	8.4	10.6
66.6	50.4	35.4	28.5	19.2	14.8	10.3	8.6	5.8	5.0	From allowances and income support	48.5	33.7	25.0	17.6	13.8	10.6	9.8	7.6	6.5	5.6
31.7	47.9	60.6	66.5	74.6	78.9	82.5	84.5	86.7	85.5	From wages	49.9	64.0	70.1	76.7	79.0	81.4	81.7	82.2	81.6	78.3

## Wage Earnings out of Total Gross Household Income, 2000 and 2016

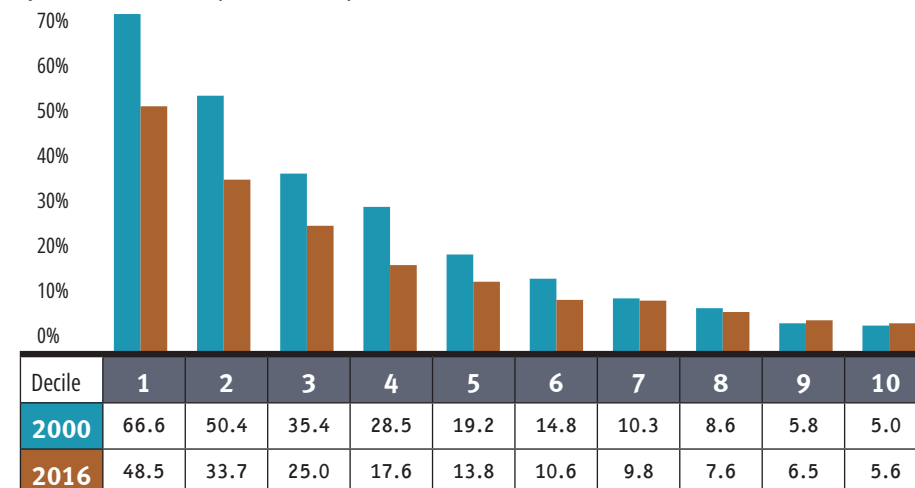
By net income decile per standard person



Sources: CBS, Household Expenditures Survey 2000. Data for 2016 courtesy of the Consumption Department of CBS, November 2017.

## Capital Earnings out of Total Gross Household Income, 2000 and 2016

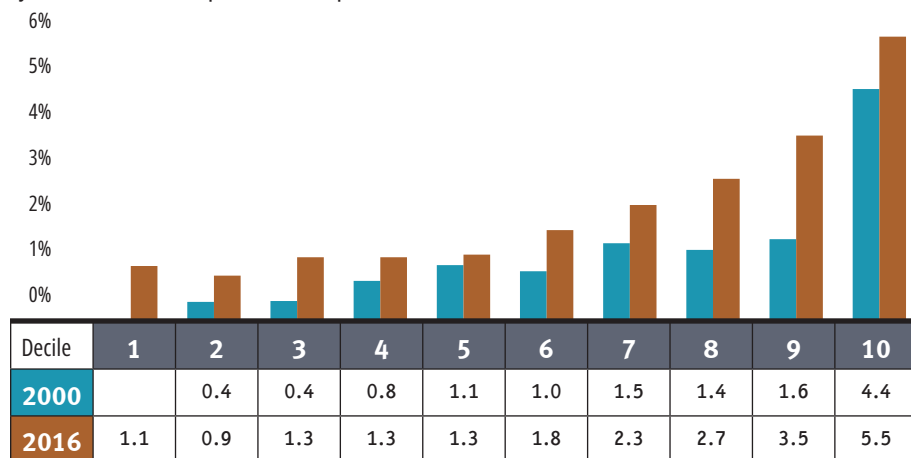
By net income decile per standard person



Sources: CBS, Household Expenditures Survey 2000. Data for 2016 courtesy of the Consumption Department of CBS, November 2017.

## Allowances and Income Support out of Total Gross Household Income, 2000 and 2016

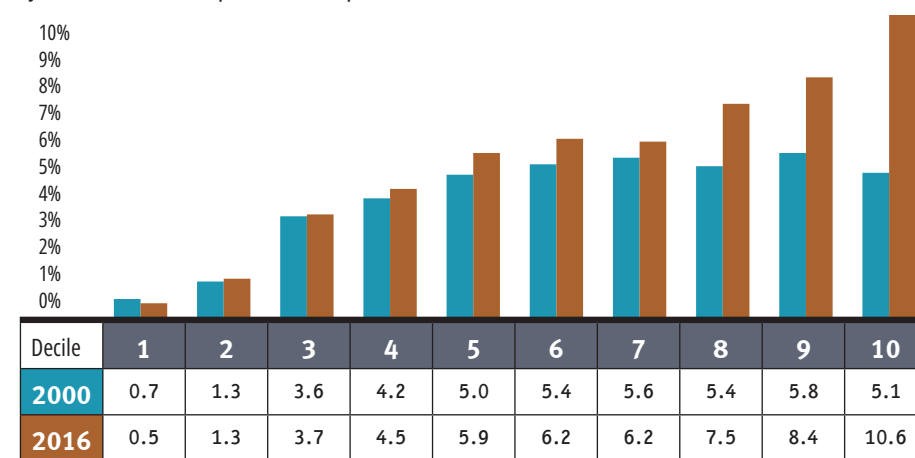
By net income decile per standard person



Sources: CBS, Household Expenditures Survey 2000. Data for 2016 courtesy of the Consumption Department of CBS, November 2017.

## Retirement Fund Earnings out of Total Gross Household Income, 2000 and 2016

By net income decile per standard person



Sources: CBS, Household Expenditures Survey 2000. Data for 2016 courtesy of the Consumption Department of CBS, November 2017.

# The Low Income Deciles: More Breadwinners Offset a Shrinking Social Safety Net

**Between 2000 and 2016, the number of breadwinners grew by 58% in the bottom income decile, 73% in the second income decile, 45% in the third income decile, and 35% in the fourth income decile. In contrast, the ninth and tenth income deciles showed an increase of just 7% and 5%, respectively.<sup>11</sup>**

Work force participation has expanded over the past two decades as households gained more breadwinners, particularly households low on the income ladder. Between 2000 and 2016, the number of breadwinners grew by 58% in the bottom decile, 73% in the second decile, 45% in the third decile, and 35% in the fourth decile. In contrast, the ninth and tenth deciles showed an increase of just 7% and 5%, respectively.<sup>12</sup> (These percentages are of all households in Israel.)

For persons aged 65 or older, employment soared between 2000 and 2015 – from two to four times more – for both women and men, in most deciles.<sup>13</sup> Employment among Israelis aged 55–64, both women and men, is among the highest in OECD countries.<sup>14</sup>

Two main factors underlie the increased number of breadwinners: The first relates to the deep cuts to social security during the years of the second Intifada under the rallying cry of then Finance Minister, Benjamin Netanyahu, “Let them go out and work.” Income support, child allowances, and unemployment benefits were all slashed during this period. To compensate for the low wages and to incentivize working, the government instituted a “negative income tax,” known today as a Work Grant.<sup>15</sup>

The second reason for the larger pool of breadwinners was the hike in the eligibility age for pensions and old-age allowances in 2004 – raised to 62 for women and 67 for men.

Motivated by an extreme neoliberalism, the government takes pride in the “success” of its policies: Fewer now rely exclusively on government allowances, while more have entered the job market. From the perspective of the newly employed (or those continuing to work) – or at least some of them – there is also the positive aspect of being in employment or remaining on the job, as earning a living is usually more lucrative and also perceived by society as more respectable than living on government allowances.

Nevertheless, the new situation raises questions, particularly since the decisions to cut social security and raise the eligibility age for pensions and old age allowances were not based on social concerns, but on class and budget considerations. And note that while the allowances for low-income families were reduced, high-income families were enjoying significantly more income thanks to the new tax cuts. Although having more breadwinners did raise household income somewhat, it has not been enough to significantly alter the distribution of income. Many of the new breadwinners found low-paying jobs on a part-time basis, and data from the

*Job Vacancy Survey*, which the CBS began conducting in 2013, indicate that most of the available employment was in low-paying service jobs such as sales, waitressing, caregiving, security, and the like.<sup>16</sup>

Having more breadwinners, however, did not significantly upgrade household income in the lower deciles; indeed, the poverty rate actually rose among working families, even those with two breadwinners.<sup>17</sup>

Moreover, the general poverty rate, which had been 17% prior to the budget cuts, soared to some 20% following the cuts, and remained higher than it had been before – in 2016, it was 18.6%. And, as will be seen later in this report, poverty is no longer the exclusive purview of the poorly educated, but has also increased in households headed by persons with academic degrees.<sup>18</sup>

Furthermore, the Work Grant allocated by the government for low-income earners hardly provides compensation: According to Bank of Israel publications, only 70% of those eligible are currently recipients of this grant; although this has risen over the years, it is still lower than the approximately 90% of eligible Israelis who receive social security allowances. Moreover, for those earning the minimum wage, the Work Grant adds no more than 5% to their annual income, and the money arrives in installments unrelated to when it was earned. It should also be noted that, in practice, the Work Grant serves to subsidize employers who pay inadequate wages, thereby legitimizing a norm of low wages.<sup>19</sup>

This new reality undermines the life quality of a great many new breadwinners: women and men who will spend their lives at jobs feeling burnt out; single mothers whose childcare costs take a large bite out of their income; Arab women expected to care for the children and the elderly – important jobs that are not considered “work” – who are now forced to enter the formal job market; elderly men who cannot find work in their field of expertise and have to take jobs requiring a different skill set; and the like.

## Breadwinners per Household, 2000 and 2016

All households \* By net income decile per standard person

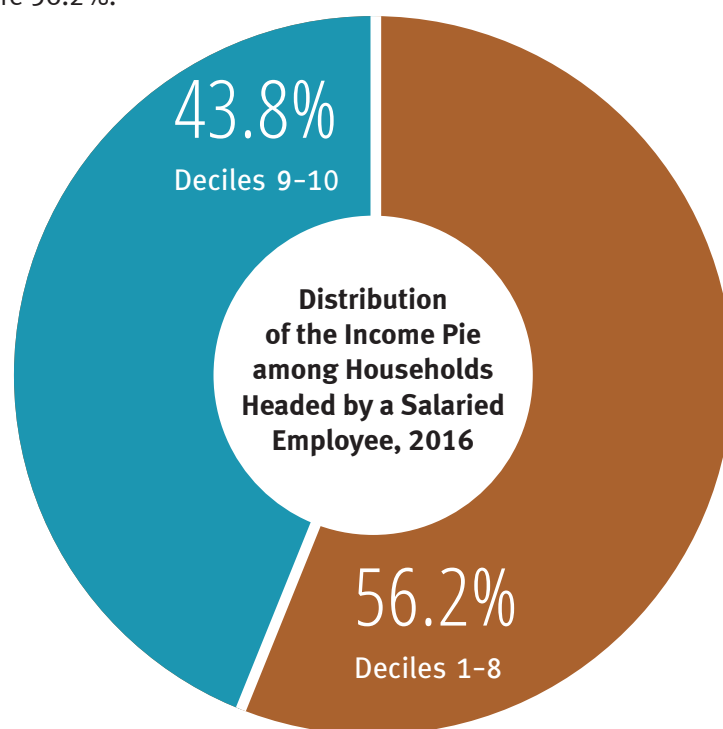
Decile	Number of breadwinners		Percentage change
	2000	2016	2016–2000
1	0.40	0.63	58%
2	0.55	0.95	73%
3	0.84	1.22	45%
4	1.09	1.47	35%
5	1.26	1.65	31%
6	1.43	1.72	20%
7	1.57	1.84	17%
8	1.55	1.90	23%
9	1.70	1.82	7%
10	1.63	1.72	5%

Sources: Adva Center analysis of CBS, *Household Expenditures Survey 2000*; data for 2016 courtesy of the Consumption Department of CBS, November 2017.

# Gross Income of Households Headed by an Employee, 2016

In 2016, the average gross income of a household in the top decile was NIS 58,846 – twelve times that of a household in the lowest decile, which was NIS 4,898.

The two highest deciles together enjoy 43.8% of the entire income pie of households headed by salaried employees; the remaining eight deciles combined share 56.2%.



## Average Gross Monthly Income of Households Headed by a Salaried Employee, 2016

In NIS at current prices

Decile	Gross income in NIS	Share of each decile in the income pie
1	4,898	2.3%
2	7,862	3.7%
3	10,406	4.8%
4	13,107	6.1%
5	15,712	7.3%
6	18,819	8.8%
7	22,605	10.5%
8	27,440	12.8%
9	35,345	16.4%
10	58,846	27.4%

Source: Adva Center analysis of data courtesy of the Consumption Department of CBS, November 2017.

# More Income for Households Headed By a Salaried Employee, 2000–2016

Since 2012, the gross income of households in all deciles increased between 10% and 17%.

Since 2012, the gross income of all households headed by a salaried employee increased by 10–17%. This follows a “lost” decade – 2000 to 2011 – during which the gross income of households headed by a salaried employee remained unchanged or increased only marginally.

One key reason for the higher income of employee-headed households was the additional breadwinners, who were particularly significant for income deciles 2–5. Increases were also evident in the high income deciles, in the wake of higher salaries in high-tech jobs as well as more capital income.<sup>20</sup>

Several increases to the minimum wage were significant factors in the higher gross income of the lower-income deciles. This began in March 2015, when it was NIS 4,650, and reached NIS 5,300 in December 2017.

## Gross Income of Households Headed by a Salaried Employee, 2000–2016

In NIS at 2016 prices

Decile	Previous classification		New classification		Percentage change	
	2000	2011	2012	2016	2011–2000	2012–2016
1	4,102	4,204	4,259	4,898	2.5%	15.0%
2	6,599	6,512	7,042	7,862	-1.3%	11.6%
3	8,479	8,371	9,167	10,406	-1.3%	13.5%
4	10,357	10,376	11,207	13,107	0.2%	17.0%
5	12,370	12,632	13,463	15,712	2.1%	16.7%
6	14,722	15,183	16,110	18,819	3.1%	16.8%
7	17,776	18,172	19,332	22,605	2.2%	16.9%
8	21,997	22,351	23,814	27,440	1.6%	15.2%
9	28,573	28,403	31,007	35,345	-0.6%	14.0%
10	48,650	46,707	53,469	58,846	-4.0%	10.1%

Source: Adva Center analysis of CBS, *Income Surveys*, various years; *Household Income and Expenditures Survey*, various years.

# WAGES

The wage data presented here are derived from two sources – the Central Bureau of Statistics (CBS) and the National Insurance Institute. Data from the two sources sometimes differ.

- CBS figures are based on the Household Income and Expenditures Surveys, carried out annually on a sample of 8,903 households (in 2016).
- National Insurance Institute figures are based on employer reports. The reporting population includes all adult Israelis to whom the National Insurance Law and the National Health Law apply.
- According to data from the National Insurance Institute, the average monthly wage of employees in 2015 was NIS 10,418; the parallel CBS figure is NIS 9,503.
- Figures from the National Insurance Institute are updated later than CBS, as evident in the figures presented below.

# Large Gaps Continue Between Economic Growth and Wages

**Wages increased at a significantly slower rate than economic growth. This means that economic growth does not necessarily translate into wage increases, and certainly not at the same pace.**

Since the end of the Second Intifada, which catalyzed a severe economic crisis, the Israeli economy has renewed its economic growth.

Real wages have also increased, though at a slower pace than GDP per capita.

Many politicians and economists link the two, believing that higher wages – which reduce inequality – are the product of economic growth. Hence, their solution to the inequality gap is to encourage more and more economic growth.<sup>21</sup>

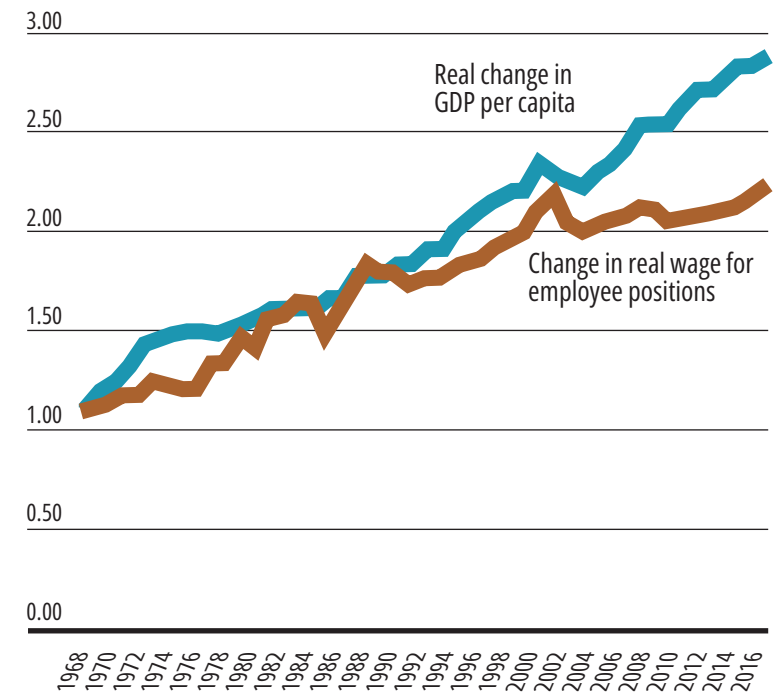
This is not enough.

For the past three decades, economic growth – the rise in GDP per capita – has been unrelated to the average wage. Figures from the National Insurance Institute<sup>22</sup> shown in the graph below tell the story: During the two decades between 1968 and 1989, GDP per capita growth was indeed paralleled by a concomitant rise in real wages for Israelis. In the early 1990s, however, the two began to follow different trajectories, with GDP per capita outstripping the average wage. The gap remained constant for several years, until it widened significantly during the Second Intifada, with GDP per capita accelerating at a much faster pace than the real wage. The gap between GDP per capita and real wages showed greatest divergence in 2013–2014, and has remained wide ever since.

Thus, economic growth does not automatically translate into higher wages. Profits from growth can flow more rapidly into

### GDP per Capita and Real Wages, 1968–2016

Index: 1968=1



Source: Analysis by the Department of Economic Research, Research and Planning Administration, National Insurance Institute, on behalf of the Adva Center, November 2017.

the pockets of the wealthy than into the pocket of the average worker. Indeed, the share of workers in the national income pie has diminished over the last few decades, while the share of employers has grown.<sup>23</sup>



# High Salaries: The Top One Percent

The gaps between the top one percent and the other nine percent in the highest income decile are larger than the gaps between other income strata.

Inequality exists not just between the higher and lower deciles, but also within the top decile itself. In fact, the gaps within the highest decile between the top one percent and the other nine percent are wider than the gaps between other income strata.

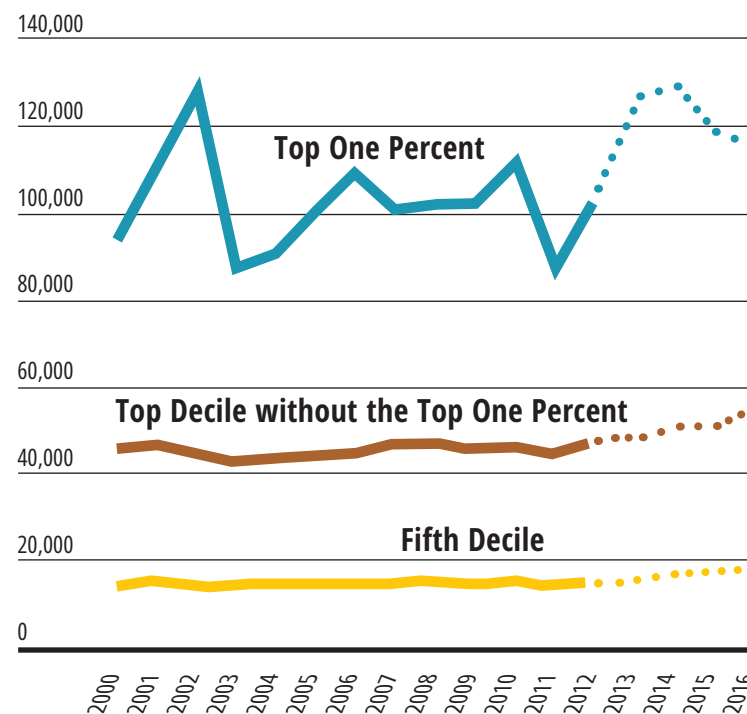
If reliable figures were available for the top .1 percent, even more inequality would be evident.

The numbers below are not wage data, but household income data, because in the top one percent, a large portion of household income comes not from wages, but from capital.

Over the past sixteen years, the average income of the top one percent of households has been two to three times higher than the average income of households in the other deciles. Thus, the Ministry of Finance noted in its economic review, “The income gaps at the very bottom of the income distribution are not the main reason for the level of inequality in Israel,” but rather, “The income gaps at the upper extreme of the income distribution in Israel make a significant contribution to the inequality.”<sup>24</sup>

Also evident in the graph is that the income of the upper decile – excluding the top one percent – like the income of the fifth decile, remained virtually the same throughout 2000–2011, while in 2012–2016, income rose somewhat.<sup>25</sup>

Gross Income of Households Headed by a Salaried Employee: Top One Percent, Top Decile without the Top One Percent, and Fifth Decile, 2000–2016



Note: Figures for 2012–2016 are based on the new data classification of the CBS.

Sources: For 2000–2011: Household Income Surveys. For 2012–2015: CBS, Household Income and Expenditures Survey. Data for 2016 courtesy of the Consumption Department of CBS.

# Almost a Quarter of Israeli Employees Receive Low Pay

In 2014, the most recent year for which figures were published for Israel, 22.1% of Israeli workers who had full-time jobs earned “low pay.” This ranked Israel high on the list of OECD countries with poorly paid workers.

How much is low pay?

The OECD defines “low pay” as earning less than two-thirds the median wage for full-time employees.

Instead of “low pay,” the National Insurance Institute uses the measure “minimum wage” and includes all wage-earners, whether employed full- or part-time.

Thus, these two institutions define differently who is at the bottom of the salary scale: The National Insurance Institute notes that 29% of Israelis earn less than the minimum wage, while the OECD reports that 22.1% are earning “low pay” in Israel. In either case, the data do not flatter Israel compared to western countries.

Whether measured by the OECD or the National Insurance Institute, the overall picture is of too many Israelis earning a salary that does not allow them a living standard considered normative in Israel, which would include items such as:

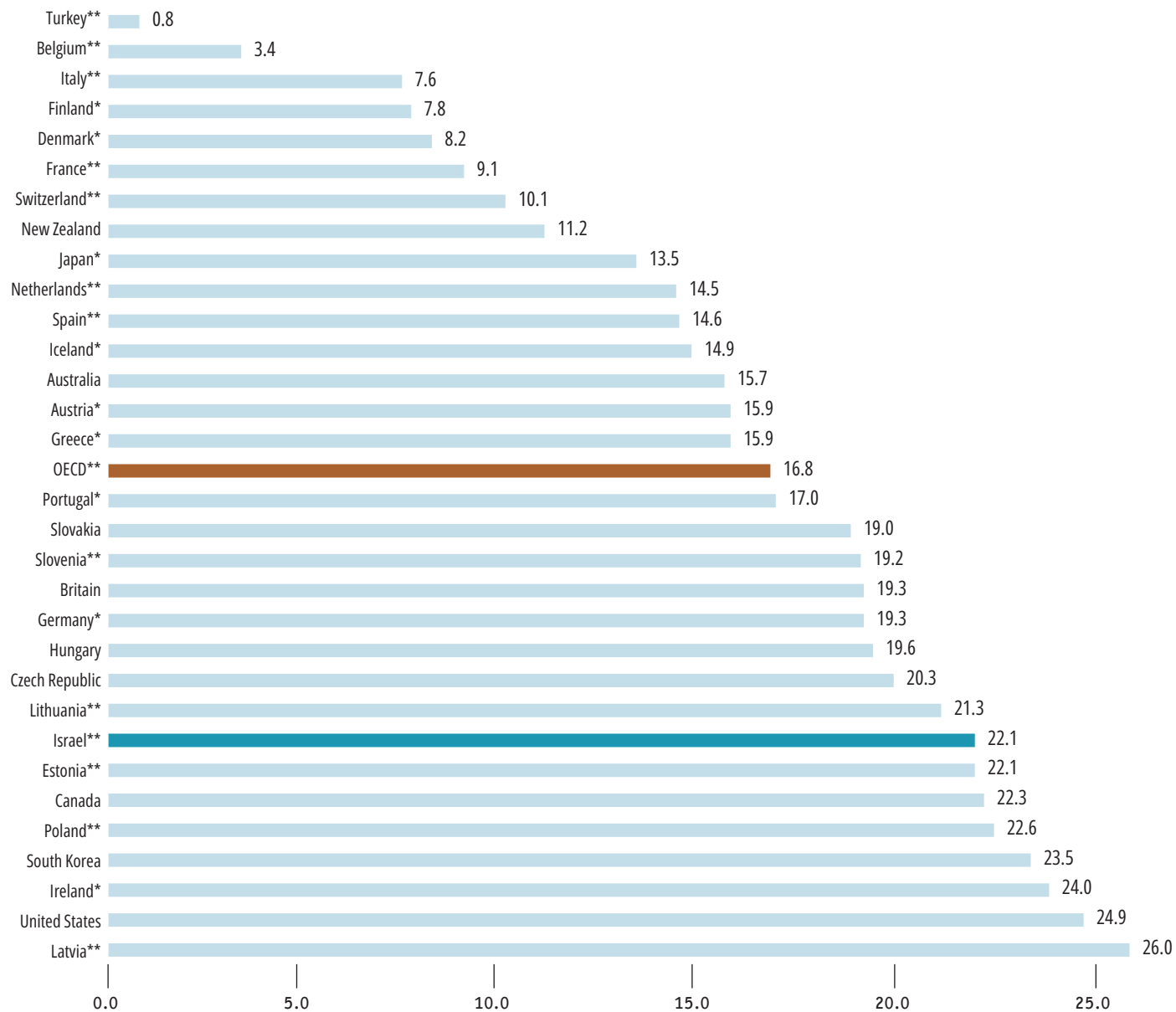
Homeownership, given the usual definition of affordable housing – a home whose cost does not exceed 30% of a household’s monthly income – and given the demand for a down-payment;

Payments of supplementary fees now required by many schools, as well as payments for tutors or extra-curricular activities;

Car ownership: In 2015, at least one car was owned by 37.5% of those in the lowest decile, 42.8% in the second decile, and 54.5% in the third decile – compared with over 80% in the four highest deciles.<sup>26</sup>

## Proportion of Employees Earning Low Pay, 2016<sup>(1)</sup>

In percentages



(1)

\*\* Data from 2014

\* Data from 2015

Source: OECD (2018), Wage levels (indicator), doi: 10.1787/0a1c27bc-en (accessed on 8 January 2018).

Data from Israel: From [http://www.keepeek.com/Digital-Asset-Management/oecd/employment/oecd-employment-outlook-2016\\_empl\\_outlook-2016-en#page239](http://www.keepeek.com/Digital-Asset-Management/oecd/employment/oecd-employment-outlook-2016_empl_outlook-2016-en#page239)

# Wage Level by Type of Locality

**70% of all employees in Israel earn less than the average wage. This applies to 84% of workers in Arab localities, 77% in Jewish development towns, and 56% in affluent localities.**

The National Insurance Institute publishes figures on employees according to wage levels: less than the minimum wage, up to half the average wage, up to 75% the average wage, up to the average wage, up to twice the average wage, and double or more the average wage.

In 2015, the average monthly wage was NIS 10,418.

That same year, 70% of employees earned less than the average wage, which was a slight improvement over 2000, in which 72% were earning this amount. In parallel, the number of those earning more than the average wage grew slightly from 28% to 30%.

Figures from the National Insurance Institute allow for a comparison between localities on these wage levels.<sup>27</sup> The

most dramatic rise was in the affluent localities,<sup>28</sup> in which the proportion of those earning more than the average wage rose from 39% in 2000 to 44% in 2015. Arab localities also showed improvement, with employees earning above the average wage rising from 11% to 16%.

Nevertheless, disparities between Jews and Arabs are still gaping. In Arab localities, 41% of employees earned less than the minimum wage in 2015, compared to 34% of employees in development towns and 24% in affluent localities.

Gaps are also evident higher on the income ladder in the proportion of those earning more than the average wage: 44% in affluent localities, 23% in development towns, and just 16% in Arab localities.

## Distribution of Wages of Urban Employees, by Wage Level and Type of Locality, 2000

At current prices in percentages

	Type of locality	Less than minimum wage	Up to half minimum wage	Up to 75% minimum wage	Up to average wage	Minimum wage or less	Up to double the minimum wage	Double the minimum wage or more	Minimum wage or more
		<b>NIS 2,923</b>	<b>NIS 3,594</b>	<b>NIS 5,391</b>	<b>NIS 7,188</b>		<b>NIS 14,376</b>	<b>NIS 14,377 or more</b>	
	<b>Total urban</b>	30%	10%	20%	12%	72%	18%	10%	28%
From that:	Arab towns	36%	19%	24%	10%	89%	9%	2%	11%
	All Jewish localities	29%	10%	20%	12%	70%	19%	11%	30%
	Development towns	32%	11%	24%	13%	79%	16%	5%	21%
	Affluent towns	24%	8%	17%	11%	61%	22%	17%	39%

## Distribution of Wages of Urban Employees, by Wage Level and Type of Locality, 2015

At current prices in percentages

	Type of locality	Less than minimum wage	Up to half average wage	Up to 75% average wage	Up to average wage	Average wage or less	Up to double the average wage	Double the average wage or more	Average wage or more
		<b>NIS 4,650</b>	<b>NIS 5,209</b>	<b>NIS 7,814</b>	<b>NIS 10,418</b>		<b>NIS 20,836</b>	<b>NIS 20,837 or more</b>	
	<b>Total urban</b>	31%	7%	20%	13%	70%	20%	10%	30%
From that:	Arab towns	41%	10%	21%	11%	84%	13%	3%	16%
	All Jewish localities	29%	6%	19%	13%	67%	21%	12%	33%
	Development towns	34%	7%	22%	14%	77%	18%	5%	23%
	Affluent towns	24%	5%	16%	12%	56%	24%	20%	44%

**Note:** Numbers are rounded off and may show discrepancies of up to one tenth of a percent.

**Source:** Adva Center analysis of Mark Rosenberg, *Wages and Income from Work by Locality and by Various Economic Variables*, 2015. Jerusalem: National Insurance Institute.

# Wage Level by Gender

The recent improvement in wages is more evident among women than men. Between 2000 and 2015, the proportion of women earning above the average wage increased from 18.6% to 25.9%, while for men it increased from 37.7% to 43.9%.

According to National Insurance Institute figures, in 2015, the average monthly wage was NIS 12,400 for salaried men and NIS 8,316 for salaried women.<sup>29</sup>

Figures from the National Insurance Institute allow for a comparison of the wages of women and men.

Between 2000 and 2015, the proportion of women earning at least the average wage grew by 39.2% – from 18.6% to 25.9%. During this same period, the proportion of men earning at least the average wage – which from the outset was higher than the proportion of women in this category – grew by 16.4% – from 37.7% to 43.9%. The gap is still very large: 43.9% of men earned the average wage or more, compared to 25.9% of women.

The gender disparity was particularly striking at the lowest wage level: In 2015, the proportion of women earning less than minimum wage – 31.4% -- was almost double that of men at this wage level – 16.4%.

The OECD presents data comparing the median wage of women and men in its member countries.<sup>30</sup> As can be seen below, Israel scores in the middle of the scale of gender gaps for the median wage.

Belgium tops the ranking with a gender gap of only 3.3%, while South Korea has the largest gender gap – 36.7%.

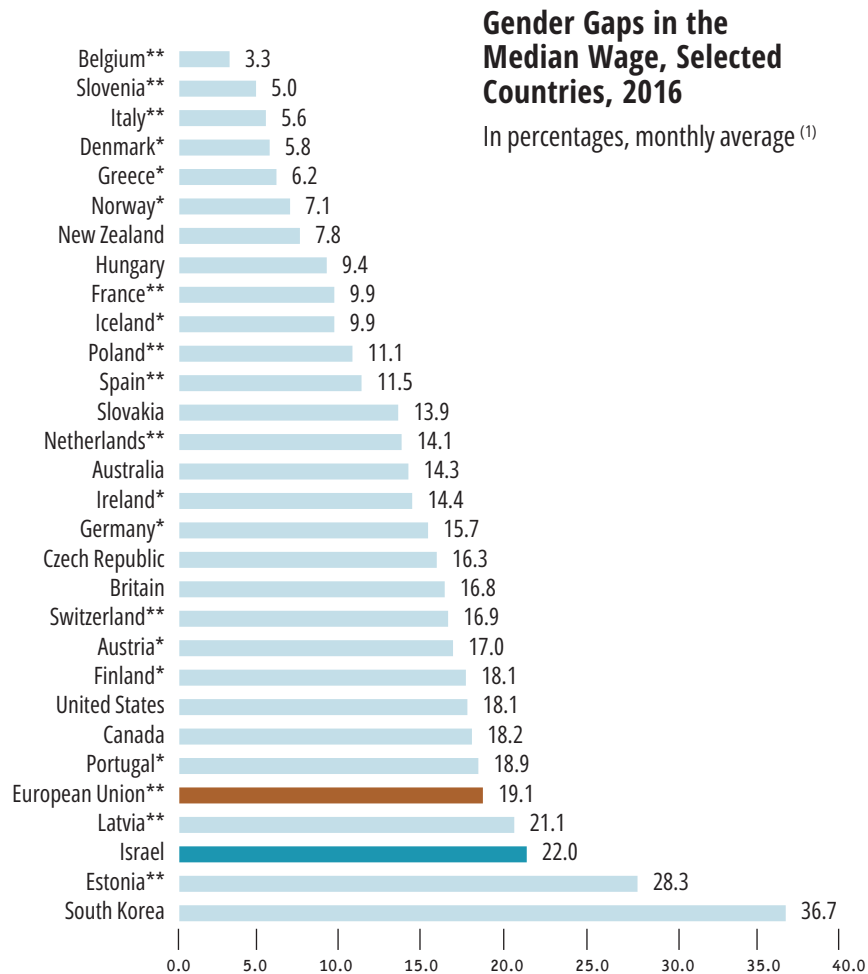
## Wage Groups by Gender, 2000 and 2015

In percentages, monthly averages



**Note:** Numbers are rounded off and may show discrepancies of up to one tenth of a percent.

**Sources:** Jacques Bendelac, October 2002. *Average Wage and Income by Locality and by Various Economic Variables 1999–2000*. Jerusalem: National Insurance Institute; Mark Rosenberg, August 2017. *Wages and Income from Work by Locality and by Various Economic Variables, 2015*. Jerusalem: National Insurance Institute.



(1) \*\*Data from 2014 | \*Data from 2015

**Notes:**

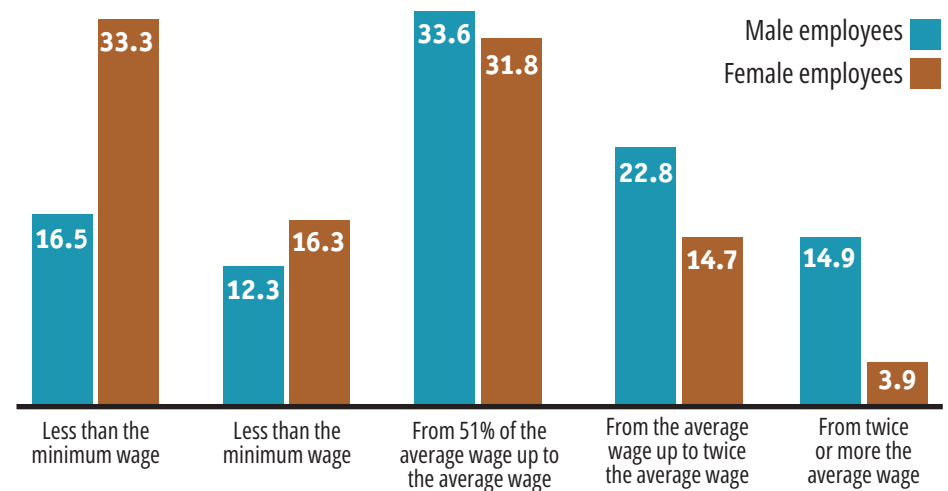
The gap is defined as the difference between the wages of men and women divided by the wages of men. Data for Israel are from 2016 and based on an Adva Center analysis of figures from CBS, *Household Income and Expenditures Survey* database for 2016.

The figures include men and women employed full-time and the self-employed.

**Sources:** OECD (2017), Gender wage gap (indicator), doi: 10.1787/7cee77aa-en (accessed on 1 October 2017); Adva Center analysis of CBS, *Household Income and Expenditures Survey* database, 2016.

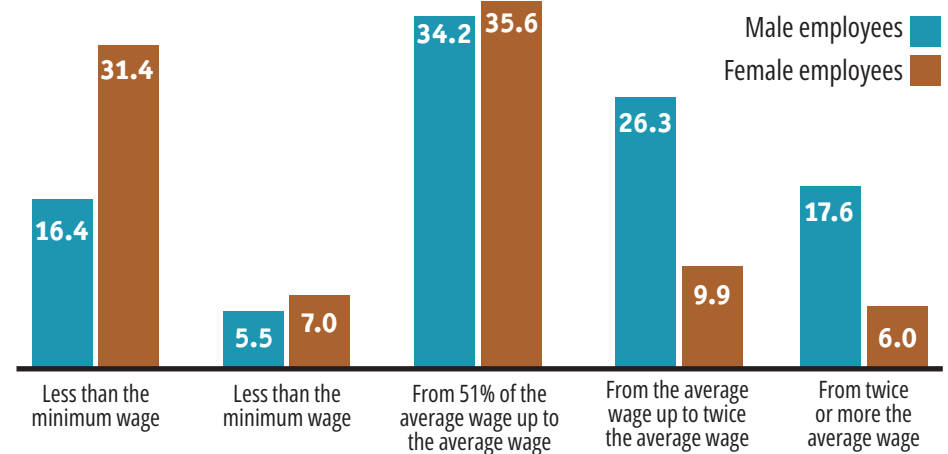
### Wage Groups of Employees by Gender, 2000

In percentages, monthly averages



### Wage Groups of Employees by Gender, 2015

In percentages, monthly averages



**Source:** Mark Rosenberg. August 2017. *Wages and Income from Work by Locality and by Various Economic Variables, 2015*. Jerusalem: National Insurance Institute.

# Wage Level by Ethnicity

**The average gross income of an employee in 2016 was NIS 9,724.**

**Wage gaps between Ashkenazi and Mizrahi men narrowed in recent years, and were only seven percentage points in 2016 – Ashkenazi men earned 55% more than the average wage and Mizrahi men earned 48% more than the average, both groups second-generation Israelis.**

**The highest income was earned by first- and second-generation Ashkenazi men; the lowest, by women of Ethiopian origin and Arab women.**

While wage data published by the National Insurance Institute allow for a comparison of localities, the Central Bureau of Statistics data allow for a comparison among the three main ethnicities in Israel – Mizrahi Jews, Ashkenazi Jews, and Arabs.

The findings indicate particularly wide disparities. In 2016, first-generation Ashkenazi men who immigrated to Israel before 1989 topped the list with an average wage of NIS 17,640; after them were second-generation Ashkenazi men, with NIS 15,099; second-generation Mizrahi men followed with NIS 14,406; then first-generation Mizrahi men who immigrated before 1989, with NIS 12,761; Ashkenazi men who immigrated after 1990, with NIS 12,005; and first-generation Ashkenazi women who immigrated before 1989, with NIS 11,037.

Not long ago, second-generation Ashkenazi and Mizrahi men were quite far apart in earnings, but this gap has significantly narrowed: In 2016, the salary of second-generation Ashkenazi men was NIS 15,099, which is 55% above the average wage,

while Mizrahi men earned NIS 14,406 – 48% above the average. Ashkenazi women earned on average NIS 9,017, or 93% of the average wage, compared to second-generation Mizrahi women, who earned NIS 8,640, or 89% of the average wage.

The wages of Arabs were particularly low compared to all employees: In 2016, Arab women earned 55% the average wage, while Arab men earned 74% the average wage.

A somewhat lower wage was evident among first-generation Jews from Africa or Asia who immigrated to Israel after 1990 – most of them presumably Jews from Ethiopia. In 2016, the average wage of men in this group was NIS 7,233 – 74% of the average wage.

At the bottom of the wage rankings were women from Ethiopia (Jews born in Asia or Africa, who immigrated after 1990) and Arab women, with an average salary of NIS 5,376 and NIS 5,004, respectively.



## Average Gross Monthly Income from Wages or Salaries by Ethnic Group, Continent of Birth, Immigration Period, and Gender, 2016

In NIS at current prices • In descending order of the male employees

Female employees			Male employees	
7,633		Total	11,664	
7,928		Jews	12,734	
5,004		Arabs	7,384	
		Jews, thereof:		
11,037	Born in Europe-America, immigrated before 1989 (first-generation Ashkenazi)	17,640		
9,017	Born in Israel to father born in Europe-America (second-generation Ashkenazi)	15,099		
8,640	Born in Israel to father born in Asia-Africa (second-generation Mizrahim)	14,406		
7,205	Born in Asia-Africa, immigrated before 1989 (first-generation Mizrahim)	12,761		
7,632	Born in Europe-America, immigrated after 1990 (primarily from the former Soviet Union)	12,005		
7,049	Born in Israel to father born in Israel <sup>31</sup>	10,472		
5,376	Born in Asia-Africa, immigrated after 1990 (primarily Ethiopian Jews)	7,233		

Source: Data courtesy of the Consumption Department of CBS, November 2017.

# Retirement Savings

## One Out of Four Households Have No Retirement Savings

In 2016, 25% of the households in Israel headed by an adult aged 25–54 had not set aside monies for retirement. Most of these were in the lower income deciles.

Income and wage gaps become particularly problematic after retirement, when wages are replaced by a pension – if there is one.

In recent years, more households are setting aside money for retirement due in part to the mandatory pension law of 2008. The law did not address all the problems, however, particularly of those in vulnerable employment situations, such as contract workers, hourly workers, and freelancers; the law also provides no relief for the problem of continuity, i.e., saving for

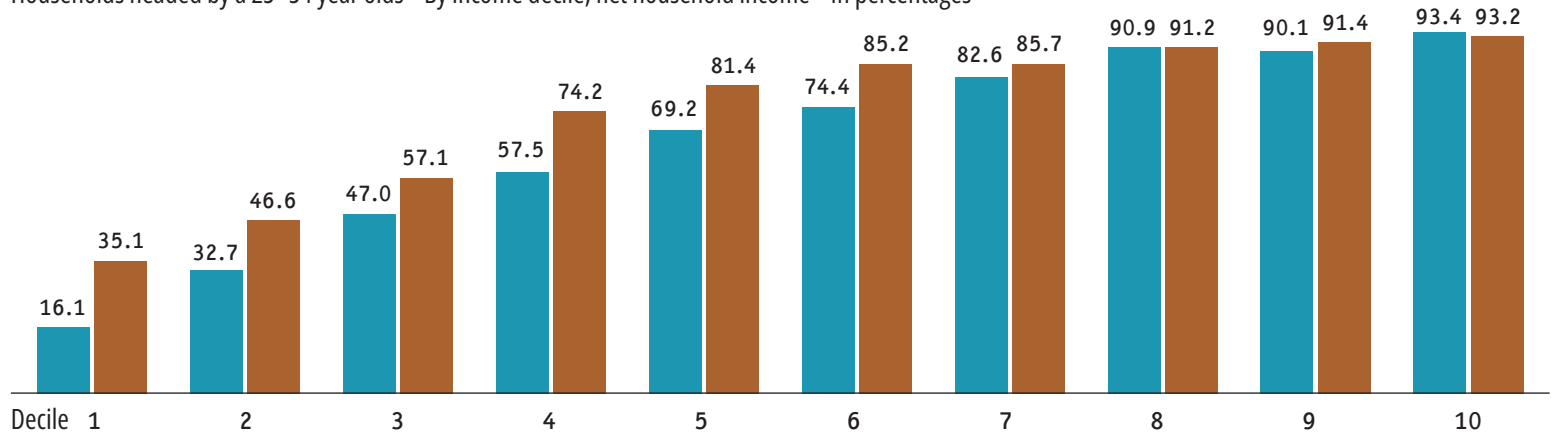
retirement during periods of unemployment.

Indeed, in the three lowest income deciles, only a third (35.1%) to a little more than half (57.1%) of households headed by someone of the primary working age (25–54) set aside monies for retirement. In contrast, 90% of the households in the three highest income deciles, did have pension savings. Overall in Israel of 2016, no money was set aside for a pension in 25% of the households headed by someone in the primary working years.

### Households that Set Aside Money for a Pension, 2009–2016

2009 2016

Households headed by a 25–54 year olds • By income decile, net household income • In percentages



**Note:** Retirement savings include payments to at least one of the following: a provident fund, a senior employee's insurance fund, or a pension fund.

**Sources:** Adva Center analysis of CBS, *Household Income and Expenditures Survey* database for 2009 and 2016.

# Pension Income Gaps Exceed Work Income Gaps

In 2016, the average pension received by households in the top decile headed by someone aged 67 or older was NIS 14,822; this was 26 times that of households in the third decile – NIS 562.

The first problem of retirement age persons is the large number of workers and employers who do not put money into a retirement fund, as noted on the previous page.

The second problem is the low wage of many workers, which does not allow for a large enough deduction that would enable a significant living stipend after retirement. As a result, the income gaps from pensions are larger than the income gaps from wages.

As noted above, the average gross monthly income of a household in the top decile was NIS 58,846 in 2016, which is twelve times the comparable income in the lowest decile – NIS 4,898.

In that same year, the average income from a pension in the highest decile households headed by a 67+ year-old was NIS 14,823, which is 26 times that of a household in the third decile at NIS 562. Comparison with the two lower deciles is not meaningful, as their income from a pension was negligible.

## Pension Income as a Proportion of Gross Household Income, 2016

Households headed by persons aged 67 or older

In NIS at current prices and in percentages • By net income decile per standard person

Decile	Gross income in NIS	Pension income in NIS	Pension as proportion of gross income
1	2,204	81	3.7%
2	3,570	46	1.3%
3	4,701	562	12.0%
4	6,228	1,421	22.8%
5	7,847	2,471	31.5%
6	10,056	3,902	38.8%
7	11,782	4,749	40.3%
8	14,597	6,927	47.5%
9	20,269	9,761	48.2%
10	38,656	14,823	38.3%

Source: Adva Center analysis of CBS, Household Income and Expenditures Survey database for 2016.

# Poverty and Education

## Higher Education No Longer Guarantees a Decent Income<sup>32</sup>

**The proportion of Arab households that are headed by persons with sixteen or more years of schooling out of all Arab households below the poverty line rose from 2.6% in 2000 to 7.3% in 2015. Among the Jewish population, the comparable proportion rose in that period from 14.5% to 23.7%.**

The income of nearly one-fifth of households in Israel is so low that it places them below the poverty line, defined as an income of 50% or less of the median family income in Israel.

In 2016, the poverty rate in Israel was 18.6%, a slight decrease from 2015 when it had been 19.1%.<sup>33</sup>

It is commonly assumed that those with higher education are immune from poverty, but this no longer holds true. In 2000, slightly more than a third of those who headed low-income households (35.9%) had completed nine years of schooling, and this dropped by just over a third in 2015 (to 22.4%).

On the other hand, the proportion of those with 16 years of schooling who headed low-income households, which had been 11.3% in 2000, rose to 17.5% in 2015.

During this period, a steady 38% or so of poor households were headed by persons who completed 10–12 years of

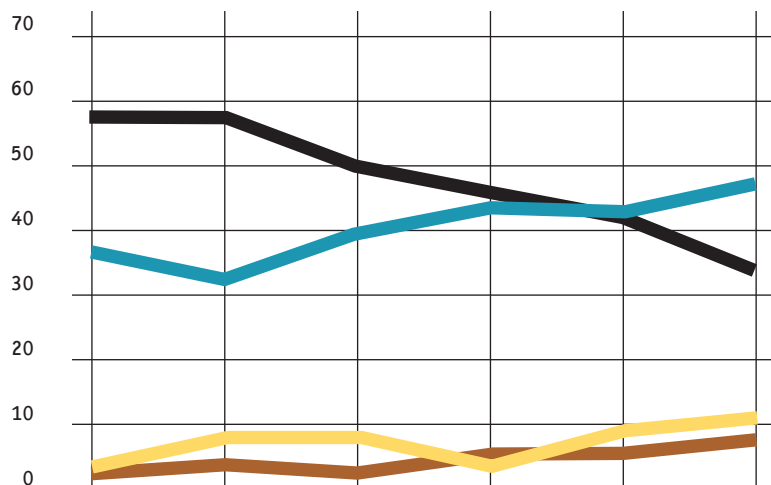
schooling. And the numbers climbed of poor households headed by persons who completed 13–15 years of schooling – from 15% in 2000 to 20% in 2015.

The proportion of Arab households that were headed by someone with 16 or more years of schooling out of all Arab households below the poverty line rose from 2.6% in 2000 to 7.3% in 2015, while their Jewish counterparts climbed during this period from 14.5% to 23.7%.

Looking just at heads of households living in poverty who had an academic degree, they divided almost equally between women and men. Further, half those with an academic degree were not employed; and 62.9% of those who were employed held white-collar jobs. In terms of the most recent school attended, only 5% of the household heads were enrolled in a yeshiva.

## Arab Households below the Poverty Line, by Years of Schooling of Household Head, 2000–2015

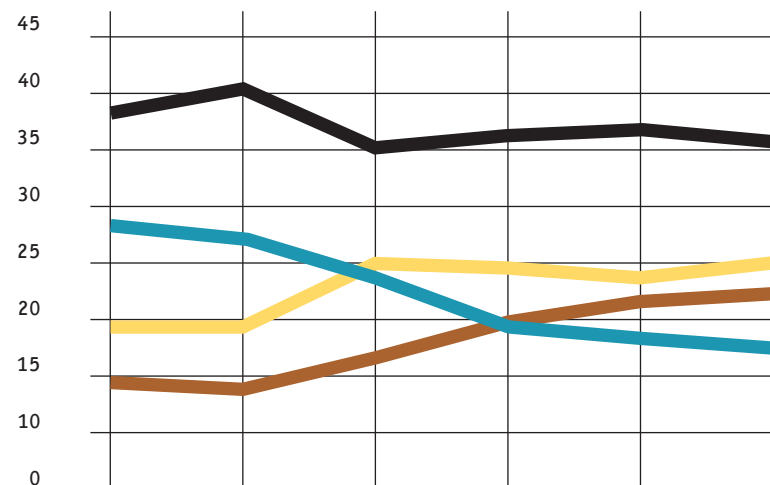
In percentages



2000	2003	2006	2009	2012	2015
42.9	48.4	54.0	53.5	54.4	53.3

## Jewish Households below the Poverty Line, by Years of Schooling of Household Head, 2000–2015

In percentages



2000	2003	2006	2009	2012	2015
14.3	14.9	20.0	20.5	19.4	19.1

Poverty rate of households

Distribution of poor households by years of schooling

2000	2003	2006	2009	2012	2015		2000	2003	2006	2009	2012	2015
58.0	57.7	50.2	46.5	42.6	33.8	0–9 years of schooling —	37.7	39.8	34.0	35.1	35.8	34.5
37.1	31.4	39.9	44.7	43.5	48.5	10–12 years of schooling —	27.8	26.2	22.7	18.2	17.0	15.6
2.4	7.4	7.8	4.0	8.8	10.4	13–15 years of schooling —	19.9	20.1	26.4	26.1	24.9	26.2
2.6	3.4	2.0	4.8	5.1	7.3	16+ years of schooling —	14.5	13.9	16.9	20.7	22.3	23.7

Note: Data for 2000 do not include East Jerusalem.

Source: Adva Center analysis of CBS, *Expenditures Survey* database for 2000–2009, and *Household Income and Expenditures Survey* database for 2012 and 2015; National Insurance Institute, *Annual Report*, various years [Hebrew].

# Poverty and Food Security

## Low Income Sometimes Means Doing Without Food

**The economic situation of some Israelis is so dire that they are sometimes compelled to forego the most fundamental human need – food. The lower the income, the more likely this will happen: In 2013, 38.3% of adults aged 20 or older at the lowest income level reported sometimes going without food due to economic constraints; 4.9% of those with more income said the same.**

Israel has not experienced famine as have some other countries in Africa or Asia. Nevertheless, there are Israelis whose economic situation is so dire that they are sometimes compelled to forego the fundamental human need of food.

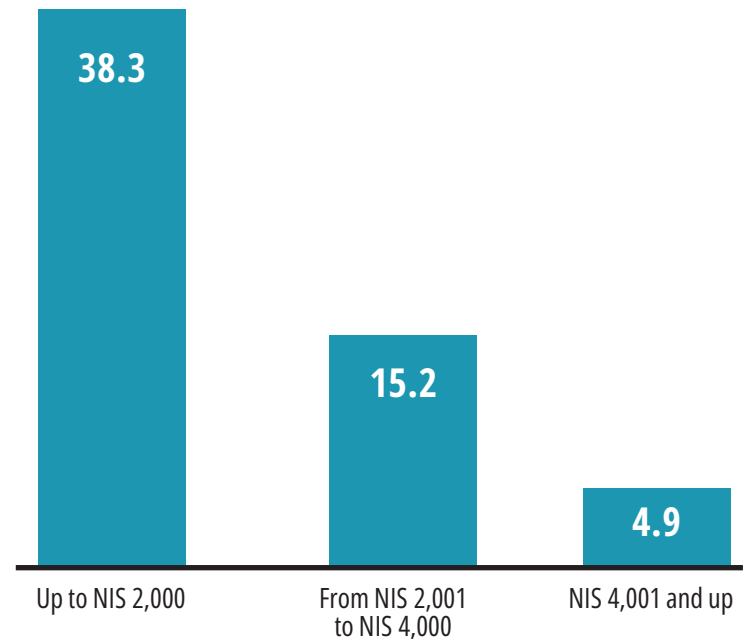
Two government bodies compile data about food security – the Central Bureau of Statistics (CBS) and the National Insurance Institute.<sup>34</sup>

As part of its Social Survey, CBS began to publish figures in 2003 about how many Israelis forego food due to financial difficulties.<sup>35</sup> The most recent statistics are from 2013 and examine three levels of average household income per capita: up to NIS 2,000, from NIS 2,001 to NIS 4,000, and NIS 4,001 and up. The proportion of those who forego food rises, of course, as income declines: In 2013, 38.3% of those aged 20 or older at the lowest income level reported sometimes going without food due to economic constraints; 4.9% of those with more income said the same.

The National Insurance Institute published two reports about food security, in 2011 and 2012, based on a telephone sample of 6,300 families in the population at large. According to their most recent report, 18.8% of Israeli residents experience food insecurity, 8.6% of them at an acute level. The highest rates were among Arabs, the ultra-Orthodox, families with one breadwinner, and the disabled. Not surprisingly, the report found a high correlation between food insecurity and poverty rates.<sup>36</sup>

### Adults Aged 20 or More Who Made Do without Food Due to Economic Constraints, 2013

In percentages • By average household income per capita • At current prices



Source: CBS, *Well-Being of the Population in Israel 2013*: Table 18.

# The Gini Coefficient

## Gini Declined, But Inequality Remains Very High

**The National Insurance Institute published a Gini coefficient for individuals of 0.359 in 2016. This figure represents a drop of 1.8% compared to 2015, and is the lowest Gini coefficient in some two decades.<sup>37</sup>**

**Nevertheless, inequality in Israel still exceeds that of almost all other OECD member countries.**

One figure summarizes the data presented in the preceding pages – the Gini coefficient. The OECD publishes Gini data based on the disposable income of households. This number reflects the degree of inequality in countries on a scale between 0 and 1: Zero represents a state in which income divides up equally among all households, while 1 reflects a state in which all the disposable income of a country is concentrated in one household. The closer the index to 1, the greater the inequality.

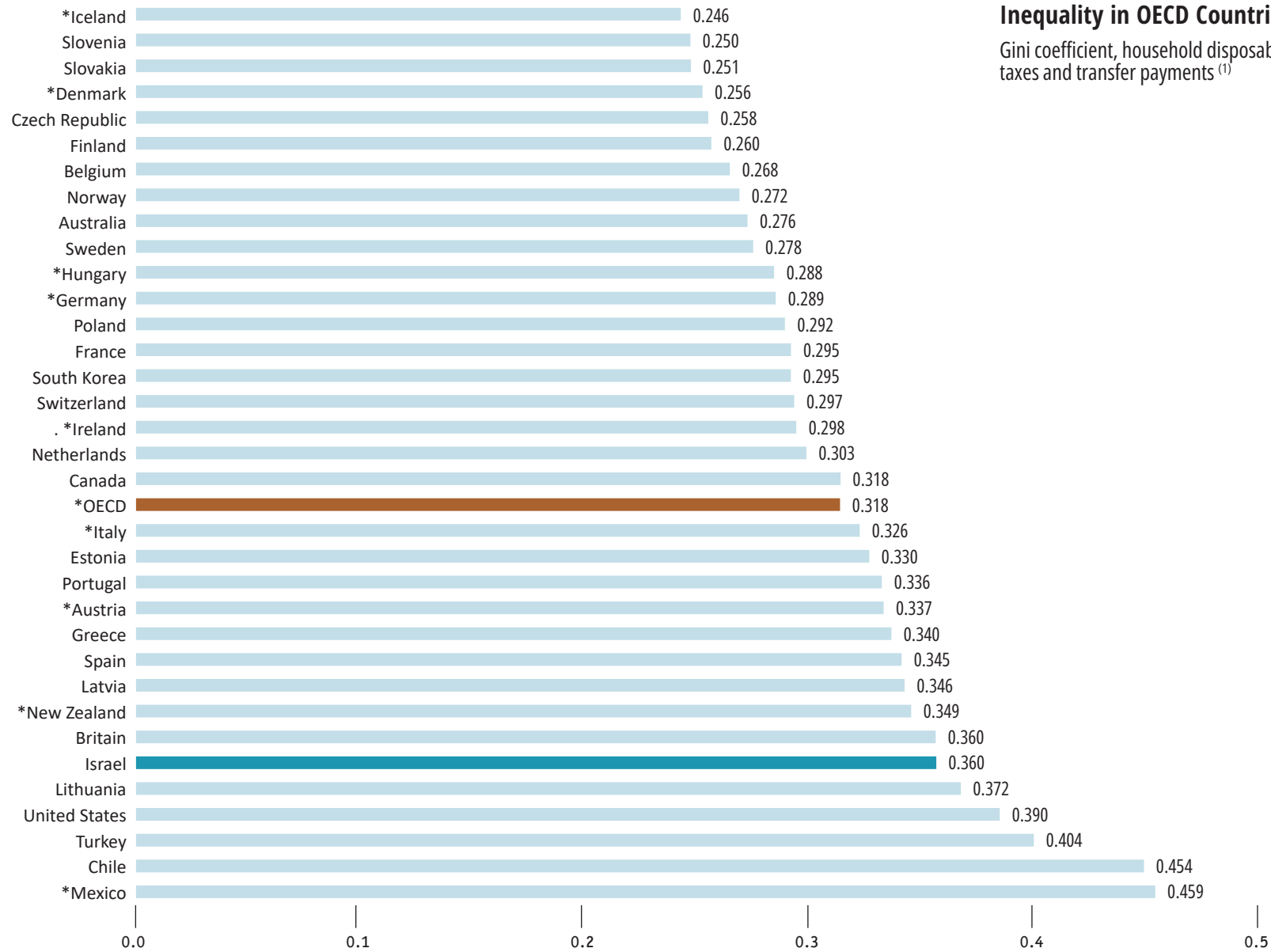
Prime Minister Benjamin Netanyahu recently boasted that

the Gini coefficient of Israel declined over the past two years. While this is true, Israel remains distant from the lower inequality rates of western Europe. In 2015, the most recent year for which the OECD published comparative figures that included Israel, Israel's Gini score (for household disposable income) was 0.360, ranking Israel uncomfortably near the top of the inequality list.

The National Insurance Institute published a Gini coefficient of 0.359 for 2016. This represents a decrease of 1.8% compared to 2015, and is the lowest in two decades.<sup>38</sup>

## Inequality in OECD Countries, 2015

Gini coefficient, household disposable income after direct taxes and transfer payments <sup>(1)</sup>



(1) \* data from 2014.

### Sources:

OECD. 2017. *Income Inequality* (indicator), doi: 10.1787/459aa7f1-en (accessed on 5 September 2017).

OECD average from OECD *Income Distribution Database* (IDD): Gini, poverty, income, Methods and Concepts.



# Schools and Higher Education

**In 2008, only 79.2% of 17-year-olds were enrolled in twelfth grade. Of this age cohort, only 44.4% passed the matriculation exams that year, and some who did pass still failed to meet the entrance requirements of Israeli institutes of higher learning. As a result, only 38.5% of that age cohort were eligible to apply to a college or university. Ultimately, only 32.4% of Israelis who had been 17 years old in 2008 were enrolled in higher education by 2016 – approximately one out of three.**

Ostensibly, the key to a more egalitarian society lies with the systems of schooling and higher education. These systems themselves, however, are themselves characterized by inequality.

The schools and higher education systems resemble a pyramid: The higher one goes, the fewer are able to sustain the climb. By the time the highest step is reached – enrolling in a college or university – only a third of the age cohort have reached the pinnacle – pursuit of a college degree.

This figure of one-third emerged from cohort studies conducted by CBS that span an 8-year period after high school graduation. The most recent study for which CBS published data follows the high-school graduating class of 2008.<sup>39</sup>

The Ministry of Education publishes statistics about high school graduates out of all those attending high school. Adva, on the other hand, examines the entire age cohort – all those who were 17 years old in 2008. In other words, Adva also takes into account those who dropped out of school and those who were never enrolled in a matriculation program, such as many ultra-Orthodox youth.

Here are the figures for the pyramid below: In 2008, 79.2% of all 17-year-olds were enrolled in twelfth grade. Only 44.4% of this age cohort passed the matriculation exam that year.

Some of those who passed had a matriculation certificate that did not meet the admission requirements of the institutions of higher learning. As a result, only 38.5% of this age cohort were able to apply for admission to an institution of higher learning. Ultimately, by 2016, only 32.4% of those who had been 17 years old in 2008 made it into one of the colleges, universities, or academic seminaries of Israel – one out of three, approximately.<sup>40</sup>

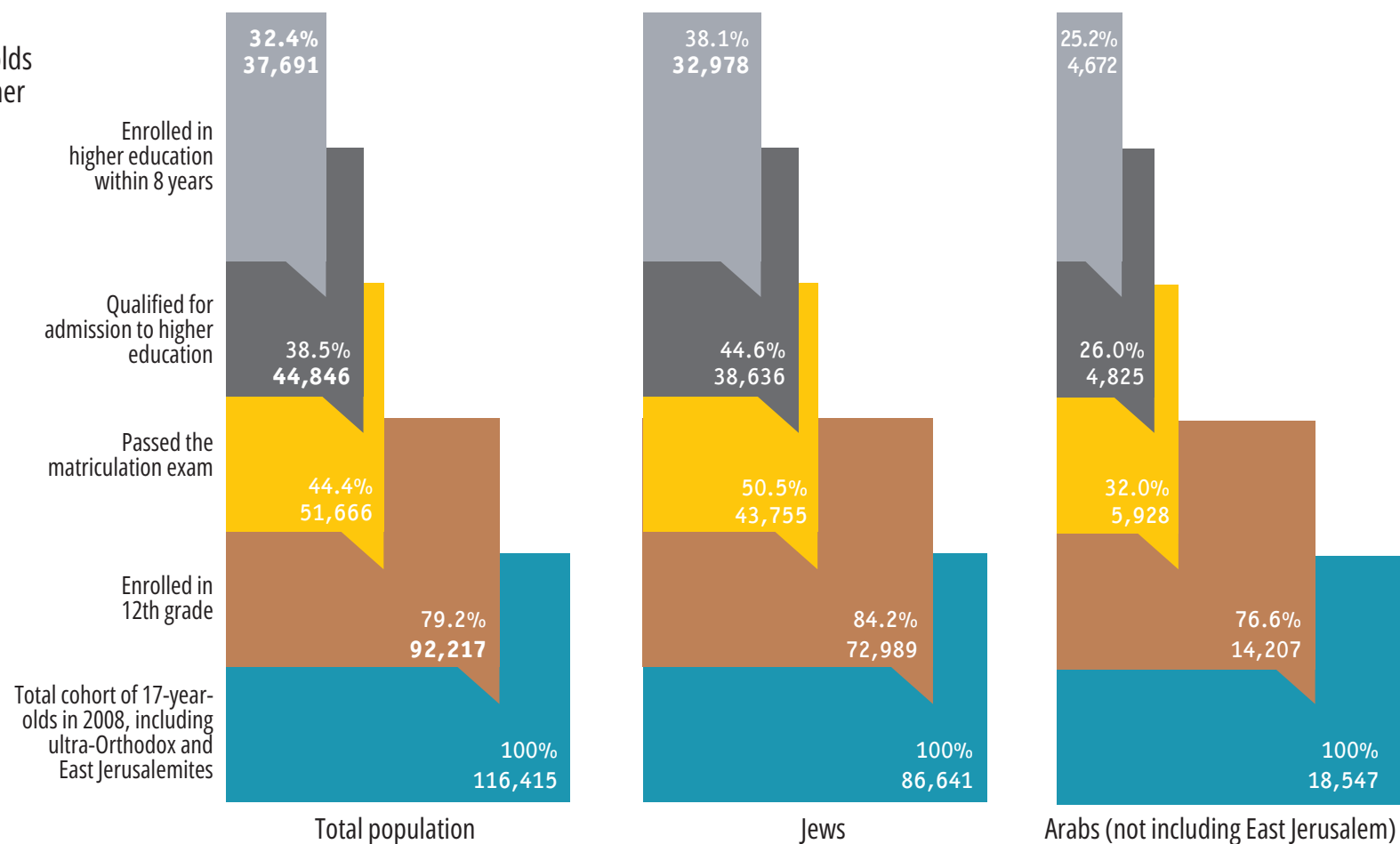
Overall in Israel, 38.1% of the Jewish population and 25.2% of the Arab population are enrolled in institutes of higher learning.<sup>41</sup>

The figures published by the CBS do not allow for ongoing follow-up through completion of the first academic degree; therefore we do not know the proportion of those awarded a B.A. degree out of the 17-year-old cohort that year.

[The figures for enrollment in higher education relate to institutions under the supervision of the Council for Higher Education and are based on admission criteria set by the Council. Therefore, enrollment figures do not include the Open University, which does not have admission criteria and admits students of a wide range of ages.](#)

# The Education Pyramid

The Cohort of 17-year-olds in 2008 Enrolled in Higher Education by 2016



**Notes:**

Calculation based on all 17-year-olds within each group.

Arabs – includes Muslims, Christians and Druze.

Higher education – students enrolled in universities (not including the Open University), public and private academic colleges (government supported and not), and academic teachers' seminaries.

**Sources:** Adva Center analysis of CBS, *Statistical Abstract of Israel*, various years; Ministry of Education, Culture and Sport, Examinations Department, "Matriculation Figures," various years.

# Standstill After Two Decades of Expansion

The student population has stopped expanding. To some extent, this reflects the fact that the previous decade saw no increase in the proportion of 12<sup>th</sup> graders or of those who matriculated and met the admission criteria of Israel's academic institutions. In the words of the Council for Higher Education, "In recent years, we have seen the pool drying up of the age group interested in studying for their first degree," noting that "these trends are expected to continue in the coming years."<sup>42</sup>

Since 1990, the number of students enrolled in bachelor degree programs in Israel has increased more than three-fold, from approximately 55,000 to some 200,000.<sup>43</sup> Most of this growth has taken place in academic colleges, whose establishment, side by side with the universities, was approved by the Council for Higher Education in 1993.

In parallel, successful completion of the matriculation exam rose from about 30% of the age cohort in 1990 to approximately 40% in the first decade of 2000.

The present decade, however, has seen a halt in the growth of the student body for higher education. To some extent this reflects the fact that in the previous decade, passage of the matriculation exam bogged down at 46–48% of the age

cohort. Furthermore, the age cohort of that decade saw no increase in enrollment for the final year of high school, nor any expansion of those passing the matriculation exam at a level meeting the entrance requirements of academic institutions. "In recent years," wrote the Council for Higher Education, "we have seen the pool drying up of the age group interested in studying for their first degree," noting that "these trends are expected to continue in the coming years."<sup>44</sup>

Since the start of this decade, the proportion of those graduating high school who passed the matriculation exam is on the rise: from 44.4% of 17-year-olds in 2008 to 56% of 17-year-olds in 2015. What remains to be seen is whether this rise will eventually bring with it higher rates of enrollment in institutions of higher learning.

## High School Graduates 2000–2008 Who Began Higher Education within 8 Years of High School Graduation

In percentages of the 17-year-old cohort

Year of high school graduation	2000	2001	2002	2003	2004	2005	2006	2007	2008
Began higher education within 8 years	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total 17-year-old cohort each year	100	100	100	100	100	100	100	100	100
Enrolled in 12th grade within each year	77.9	75.4	79.8	79.3	82.3	82.0	79.6	81.8	79.2
Passed matriculation within each year	40.8	45.3	48.4	48.3	49.2	46.4	45.9	46.3	44.4
Met admission requirements within each year	35.2	37.3	40.5	40.6	41.3	39.5	40.0	40.3	38.5
Enrolled in higher education within 8 years, for each year	29.7	30.1	32.0	32.1	33.1	32.8	32.6	33.8	32.4

**Note:** Higher education – students enrolled in universities (not including the Open University), public and private academic colleges (government supported and not), and academic teachers' seminaries.

**Sources:** Ministry of Education, "Matriculation Exam Figures," PowerPoint presentations, various years [Hebrew]; CBS, *Statistical Abstract of Israel*, various years.

# Pyramid Within a Pyramid: On Inequality in Higher Education

Inequality has been growing within higher education, and may have assumed the same pyramid shape that replicates the inequalities of the elementary and secondary school system.

At the base of the academic pyramid are students enrolled in public colleges, most of them located in the periphery, and academic teachers' seminaries; above them are students in the prestigious, private colleges, most in the center of the country; and at the top is the dwindling group of students at the research universities, located in the four large cities. Furthermore, there is a hierarchy within each layer, with the Hebrew University, Tel-Aviv University, and the Technion at the top, while Bar-Ilan University, Haifa University, and Beersheba University are ranked lower.<sup>45</sup>

The most comprehensive research about this in Israel was conducted by Zussman, Romanov, Forman, and Kaplan, and published in 2009. Among their findings, they note “gaps in the quality of students between the universities and the academic colleges; differences in the quality of the teaching staff and learning environment stemming from the rapid growth of the colleges, which necessitated the absorption of new staff and use of adjunct teachers, and also the attempt by the institutions of higher learning to differentiate themselves at the level of the institution

and coursework...”<sup>46</sup> Needless to say, the institutional differences reflect disparities in the student body, with “graduates of the academic colleges coming primarily from more disadvantaged socioeconomic backgrounds than the university graduates...the [socioeconomic] characteristics of private college graduates more greatly resemble those of university graduates...while the background characteristics of the graduates of public colleges – such as the education and income of their parents – are less privileged than those of the private college graduates. These findings indicate that public colleges did broaden access to higher education for the lower socioeconomic strata, while private colleges served as a channel to higher education for the affluent, some of whom were not accepted by the universities.” These differences also manifest themselves in the wage levels of the graduates, with “first-job salaries of academic college graduates in most professions lower by tens of percentage points than the salaries of university graduates (with the exception of business administration).”

# Who Goes on to College?

## The Four Lowest Socioeconomic Clusters Advanced Very Little

The education gaps between socioeconomic strata remain large: Among students in the lowest socioeconomic clusters (1–4), only 22.1% continued on to higher education in 2000, and this barely increased to 23.6% in 2008 (a rise of just 7%). Meanwhile, the highest clusters (8–10) did see improvement: The proportion who went to college rose from 45.3% in 2000 to 53.1% in 2008 – an increase of 17%. The four clusters of the middle class saw a 14% improvement.

As noted, only a third of 17-year-olds each year from 2002 to 2008 began college studies within eight years of graduating high school. Who are these students?

The education gaps between socioeconomic strata remain sizable. Among Jewish students in the lowest socioeconomic clusters (1–4), only 22.1% continued on to higher education in 2000, and this barely increased to 23.6% in 2008 (a rise of just 7%). Meanwhile, the proportion of students in the highest clusters (8–10) who continued their academic studies rose from 45.3% in 2000 to 53.1% in 2008 – an improvement of 17%. The four middle class clusters saw a 14% improvement. Data about the division into clusters of Arab students are not systematic, and therefore not included here.

The differences in scholastic achievement should not be surprising: They are well known from the results of the international exams and the Effectiveness and Growth Measures Scale (GEMS) used in Israel. Indeed, research conducted by CBS reveals that one can predict the gaps in the percentage of those continuing on to college based on the GEMS given in 8<sup>th</sup> grade.<sup>47</sup>

### Jewish Students: High School Graduates 2000–2008 Enrolled in Higher Education within 8 Years of High School Graduation, 2008–2016

In percentages by socioeconomic cluster

Year of high school graduation	8 years from graduation	Clusters 1–4	Clusters 5–7	Clusters 8–10
2000	2008	22.1	33.8	45.3
2001	2009	22.1	34.5	45.7
2002	2010	23.6	34.9	47.6
2003	2011	24.5	35.3	48.0
2004	2012	25.1	38.5	50.7
2005	2013	25.1	39.5	52.5
2006	2014	25.2	39.0	53.9
2007	2015	23.8	39.3	52.4
2008	2016	23.6	38.5	53.1

Source: CBS, *Statistical Abstract of Israel*, various years.

# Housing

## Housing – Key Component of Inequality Among Israeli Households<sup>48</sup>

For 60% of Israelis, purchase of a home in a high-demand area without significant equity capital of their own will adversely affect their standard of living due to the heavy burden of mortgage payments.

Even in income deciles 7 through 9, families that cannot make a down-payment of 25% of the sale price will find it hard to buy an apartment in the high-demand areas of central Israel and Jerusalem.

In fact, only families in the top decile can purchase a three-room apartment in Tel Aviv, or a four-room apartment in Gush Dan or Jerusalem, without their standard of living being adversely affected, i.e., without spending more than 30% of their net income on housing.

### A. Ownership

Ownership of a home provides a family with stability and security. A home is also an asset – often the main financial asset of a family.

In 2016, 72.6% of Israeli households owned at least one home. This average, however, conceals large gaps: 90.8% of households in the top quintile (income deciles 9 and 10) owned at least one apartment, compared with 84.4% of households in the fourth quintile, 78% of households in the third quintile, 69.3% of households in the second quintile, and 53.7% of households in the bottom quintile.

A home is not just a roof overhead and a possession – it can also be a financial asset; 9.7% of all households in Israel own at least two homes, most of these additional homes producing rental income or benefiting the owner from their increase in value between purchase and sale.

“Investment homes” are the privilege of the affluent. In 2016, 29.1% of households in the top quintile owned two or more homes – compared with 1.6% of households in the bottom quintile, 2.5% in the second quintile, and 6.8% in the third quintile.

### Homeownership by Households, 2016

In percentage by net income quintile per standard person

Quintile	Of homeowners:			
	Own no homes	Own at least one home	Own only one home	Own two or more homes
1	46.3	53.7	52.1	1.6
2	30.7	69.3	66.8	2.5
3	22.0	78.0	71.2	6.8
4	15.6	84.4	71.6	12.8
5	9.2	90.8	61.7	29.1
Total	27.4	72.6	62.9	9.7

Source: Adva Center analysis of CBS, 6 December 2–17, *Dwellings in Israel 2016: Findings from the Household Expenditures Survey 2016*, Table 2 [Hebrew].

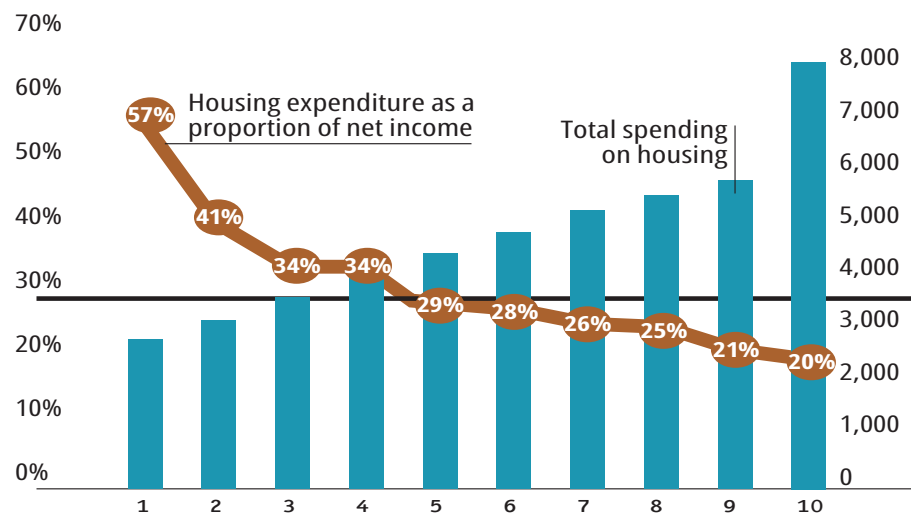
### B. On-going housing expenses

Inequality is evident not just in homeownership, but also in ongoing housing-related expenses. The conventional wisdom is that a household should spend no more than 30% of its disposable income on housing for it to maintain a reasonable standard of living with regard to education, health, and leisure.<sup>49</sup> In practice, many households do

not abide by this rule: In 2015, 27.8% of Israeli households spent more than 30% of their disposable income on housing<sup>50</sup> – most of these in the lower income deciles. For households that make regular rent or mortgage payments, the average expenditure on housing in the lowest income decile was 57% of their disposable income, and 41% among households in the second decile. For the third and fourth deciles, spending on housing was 34% of disposable income. The fifth and sixth deciles spent on housing sums that were closer to the amount considered reasonable – 29% and 28%, respectively.

### Average Expenditure on Housing and as a Share of Disposable Income per Household, 2015

For households paying monthly rent or mortgage • In NIS, by net income decile per standard person



**Notes:**

Housing expenditures include payments for rent or mortgage as well as ancillary expenses for water, electricity, gas, municipal taxes (including property tax), maintenance, renovations, insurance, as well as fees for a realtor, assessor, and lawyer.

Data include households paying rent (including key money, public housing, assisted living, student dormitories, and other) as well as households making mortgage payments.

Source: Adva Center analysis of CBS, *Household Income and Expenditures Survey* database, 2015.

### C. High-demand areas

The location of a home affects the social networking of a family, job opportunities for the adults, and the quality of the services available to the parents and children – education, health, and welfare. This is what underlies the concept “high-demand areas.”

Purchasing and maintaining a home in a high-demand area (and not exceeding the 30% of income rule) is a privilege accessible only to those in the high income deciles.

In 2015, an average household in the fifth decile could afford to pay a monthly mortgage of up to NIS 2,776 – this would allow it to purchase a home at a maximum price of approximately NIS 718,000. A similar calculation for the seventh decile projects that the maximum price of an affordable home for these households would be one million shekel.<sup>51</sup>

Households in the lowest four deciles that cannot make the down-payment of 25% of the sale price would not be able to afford a three- or more room apartment anywhere in Israel without exceeding the 30% rule. Households in the fifth and sixth deciles have to make do with a three-room apartment distant from the high-demand areas – the north, south, Haifa, or the Krayot – and even these on condition that they have the wherewithal to make a down-payment of NIS 180–205,000.

**This means that for 60% of the Israeli population, purchase of a home in a high-demand area without significant equity capital of their own will adversely affect their standard of living due to the heavy burden of mortgage payments.**

Even for families in income deciles 7 through 9, if they are unable to make a down-payment of 25% of the sale price, they will have a hard time finding an apartment in the high-demand areas of central Israel and Jerusalem.

In fact, only families in the top decile can afford to purchase a three-room apartment in Tel Aviv, or a four-room apartment in Gush Dan or Jerusalem, without their standard of living being adversely affected, i.e., without spending more than 30% of their net income on housing.



# Health

## Gaps in Infant Mortality and Life Expectancy

**In 2015, average infant mortality in Israel was 3.1 per thousand live births, ranking Israel high among OECD countries.**

**However, the infant mortality rate among Arabs was 6.4 – two and a half times the Jewish rate, which was 2.5.**

Health status is a reflection of quality of life, hence, also of class-based differences in many fields – nutritional intake, environmental quality, residential standards, distance from medical services, quality of transportation systems, employment conditions, awareness of health hazards, and more.

Quality-of-life differences are reflected in two main indicators, used throughout the world to demonstrate health discrepancies – infant mortality and life expectancy.

In 2015, the most recent year for which the OECD published figures, the average infant mortality rate in Israel was 3.1 per thousand live births, ranking Israel well compared to other OECD countries, and representing decades of improved infant mortality rates among both Jews and Arabs in Israel.<sup>52</sup>

Yet, infant mortality among Arabs was 6.4 – two and a half times the 2.5 rate among Jews.

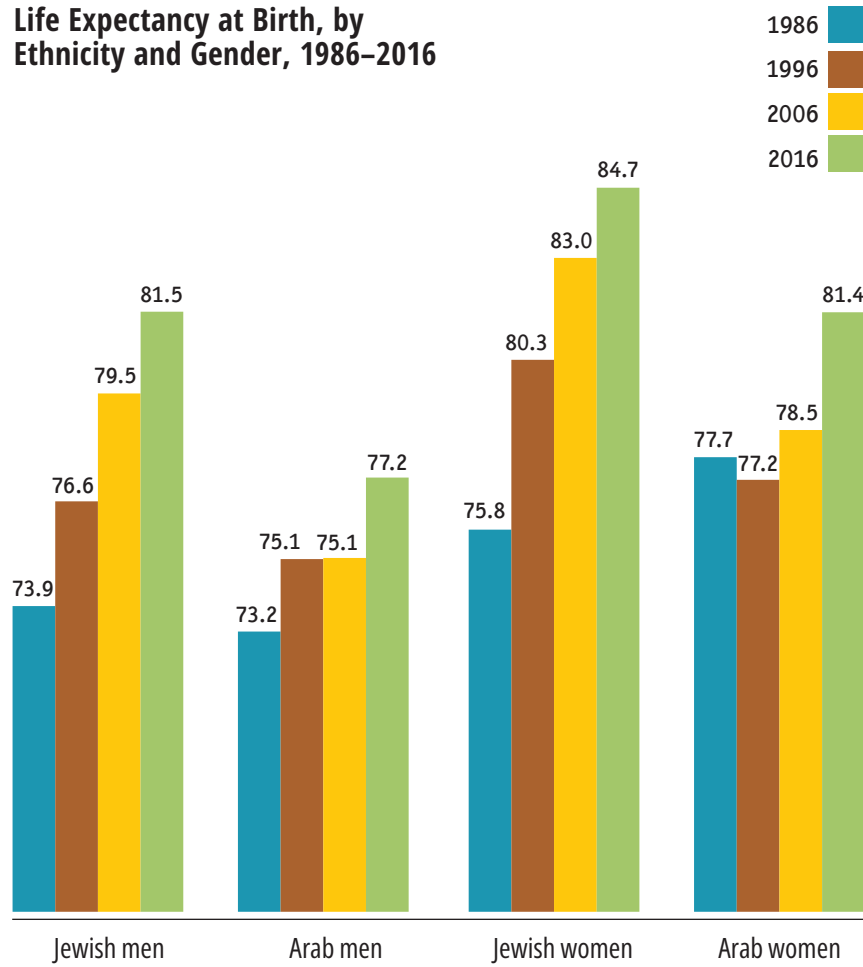
As for life expectancy at birth, in 2015, the life expectancy of men in Israel was 80.1 years, placing Israel impressively high among OECD countries. The life expectancy of women was higher – 84.1. Here, too, there has been ongoing improvement in Israel as in western countries.<sup>53</sup>

Yet, the life expectancy of Jewish men – 81.5 years old – was higher than that of Arab men – 77.2; while the life expectancy of Jewish women – 84.7 – was higher than that of Arab women – 81.4.

Israelis also score well on the “healthy life years at birth” indicator, which measures the number of years that a person at birth is expected to live in a healthy condition, combining information on mortality and morbidity. Israeli women score 65.1 and men 65.4 years on this indicator.<sup>54</sup> Unfortunately, figures were not published on the differences between Jews and Arabs on this indicator.



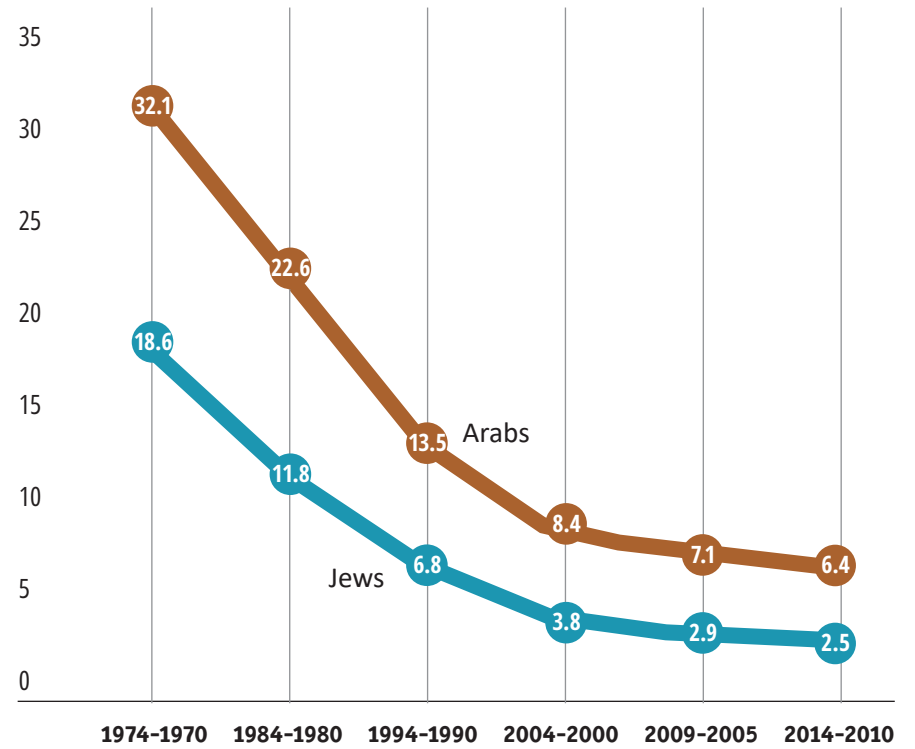
## Life Expectancy at Birth, by Ethnicity and Gender, 1986–2016



Source: CBS, *Statistical Abstract of Israel*, various years.

## Infant Mortality, by Ethnicity

Number of deaths per 1,000 live births each year



Source: CBS, *Statistical Abstract of Israel 2017*.

# Inequality in Health Insurance

Supplementary (marketed by the health funds) and private health insurance policies (marketed by insurance companies) have become big business: In 2000, household spending on supplementary and private insurance, medicines, and health care was NIS 4.6 billion (at 2016 prices); by 2016, this had ballooned to NIS 13 billion. It could be claimed that this is a surcharge to the health tax payments to the National Insurance Institute (which collected NIS 21.9 billion on health taxes in 2016), but these private policies foster disparities in health services.

## A. Supplementary insurance from the health funds

The National Health Insurance Law of 1994 was meant to provide all Israeli residents with a “basket” of health services paid for by a health tax (and government contributions).

However, the law does not have a mechanism to fully update the rising cost of the health basket, thereby creating a shortfall over the years between the resources available – the health tax revenues together with government funding – and the actual cost of the health services provided.

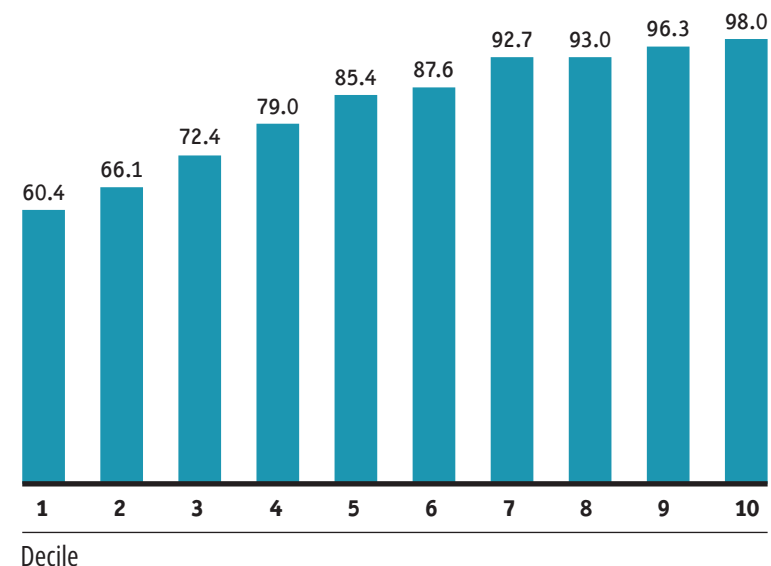
This shortfall created a business opportunity – the sale of supplementary insurance by the health funds, and of private insurance policies by insurance companies.

Thus, the economic gaps between households began to manifest themselves in health opportunities: The higher the income decile, the more money a household spends on supplementary and private health insurance policies. As a result, affluent families pay significantly more for medical insurance than low-income families, which ultimately leads to disparities in the quality of their medical care.

A large proportion of households at all economic levels purchase the supplementary health insurance of the health funds: 98% of households in the highest decile and 90% in deciles 5 through 9. Even in the two lowest deciles, almost two-thirds purchase the health funds’ supplementary insurance.

## Households with Supplementary Health Insurance from a Health Fund, 2015

In percentages by income decile, net household income



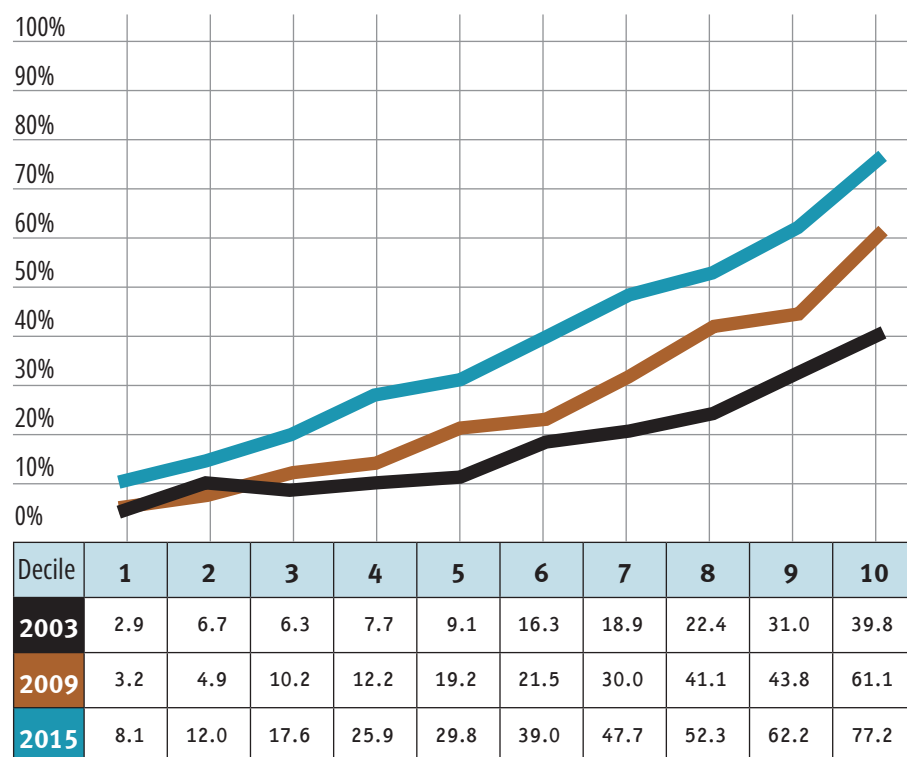
Source: Adva Center analysis of CBS, *Household Income and Expenditures Survey* database, 2015.

## B. Private health insurance

As for private health insurance, this is prevalent among families in the high income deciles: In 2015, 77.2% of households in the top decile had purchased private health insurance. These policies were less common among households in the low deciles.

### Households with Private Health Insurance, 2003, 2009, and 2015

In percentages by income decile, net household income



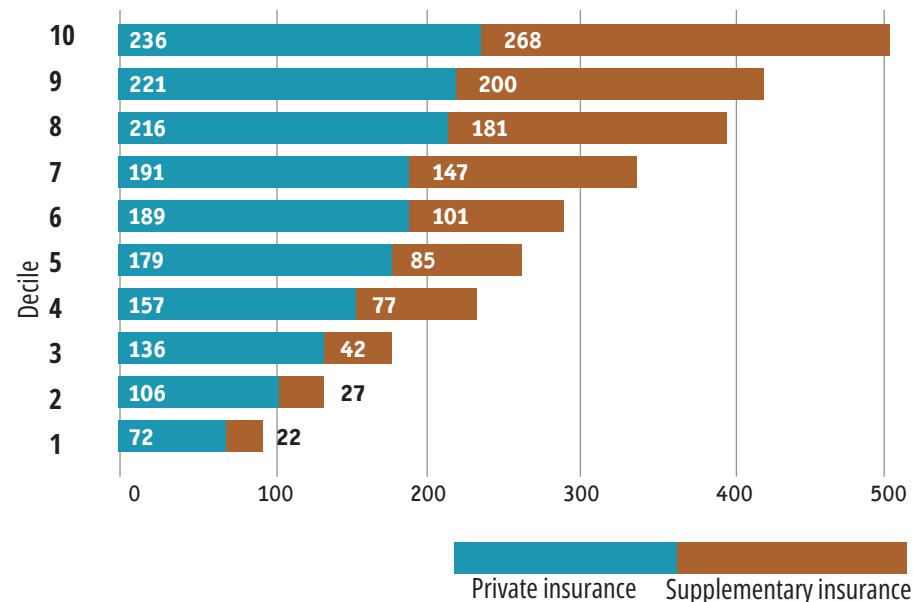
Source: Adva Center analysis of CBS, *Household Expenditures* database, relevant years.

## C. Household spending on supplementary and private health insurance policies

These findings are reflected in the monthly household spending on extra health insurance – both private and connected with the health funds. In 2015, the top decile spent an average of NIS 504 a month on additional insurance – NIS 236 on supplementary health fund policies and NIS 268 on private insurance. In deciles 1 through 8, spending on supplementary policies of the health funds exceeded spending on private health insurance policies. In the low income deciles, spending on private health insurance was minimal.

### Total Monthly Household Expenditure on Private and Supplementary Medical Insurance Policies

By income decile, net household income • In NIS at current prices



Source: Data courtesy of the Consumption Department of CBS, November 2017.

### D. An additional levy on the health tax

Supplementary and private health insurance have become very big business: Household spending on the extra health insurance, combined with co-payments for medicine and treatments, reached NIS 4.6 billion in 2000 (at 2016 prices); in 2016, this had ballooned to NIS 13 billion.

It could be claimed that this is a surcharge on the health tax paid to the National Insurance Institute

(which collected NIS 21.9 billion in health taxes in 2016).<sup>55</sup> Unlike the health tax, however, the additional health insurance policies are harmful in several ways:

First, they adversely affect the universality of the public health system. Those with extra insurance policies receive priority in treatments and surgery over those who do not have additional insurance.

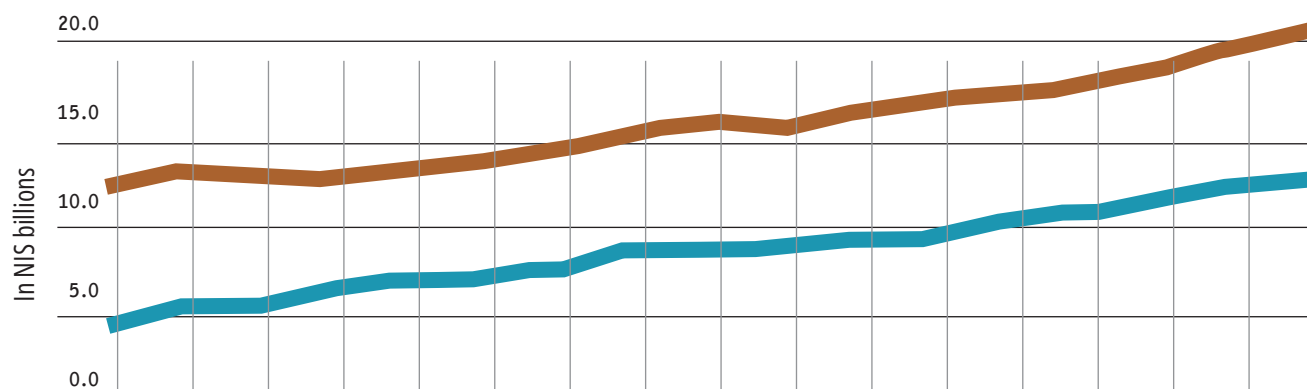
Second, they result in senior physicians leaving

public hospitals in the afternoon in order to perform private operations covered by extra insurance policies, thereby extending the waiting lists for surgery in the public health system.

A survey of accessibility to health services by income bracket would no doubt find large discrepancies.

### Health Insurance Payments Collected from Households, 2000–2016

Revenues of the health funds and insurance companies from household payments beyond national health insurance \* In NIS billions at 2016 prices



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Payments for national health insurance	12.8	13.7	13.4	13.2	13.8	14.3	14.9	15.8	16.4	16.3	17.3	17.9	18.3	18.8	19.6	20.7	21.9
Total household expenditures on health funds and insurance companies, less national health insurance	4.6	5.5	5.8	6.6	7.2	7.5	7.8	8.8	8.9	9.2	9.6	9.8	10.8	11.1	11.8	12.6	13.0

Sources: National Insurance Institute, *Yarhon Statisti* [Statistical Monthly], November 2017, Table 1.4.2 [Hebrew]; data courtesy of the Consumption Department of CBS, November 2017.

# The Government and Inequality

## The State Fails to Redress the Imbalance Resulting from Uneven Economic Growth

**The economic miracle in which the government takes pride largely benefits the minority whose wealth raises the general average. A real miracle will take place if and when the state abandons its policies of fiscal austerity and reduced involvement, and works to achieve balanced growth that advances the entire population.**

Ever since adoption of the Economic Emergency Stabilization Plan of 1985, the social and economic policies of Israeli governments have rested on the principles of downsizing the role of government and bolstering the role of the business sector.

Until this change, over the course of the post-1948 decades, the state was the primary social and economic actor – fostering economic development, striving for full employment, integrating immigrants, building housing, and providing education and health services. Since 1985, however, the state has narrowed its involvement, privatized many of its services, slashed its budgets, and sought to empower the business sector by reducing taxes, weakening regulation, lowering interest rates, and reducing the cost of labor.

The result has been to shrink and diminish the social services that the state provides – schools, higher education, health, welfare, and social security. In addition, government investment in fixed assets – part of the national effort required for economic development – is among the lowest of OECD countries.<sup>56</sup>

In 2015, civilian expenditure (which excludes defense) by the Israeli government was 30% of GDP. Although Israel spends heavily on defense compared to most western countries, the low civilian spending stems from belt-tightening policies rather than heavy defense spending, which actually declined relative to GDP. According to the Bank of Israel, civilian expenditure excluding

interest payments in Israel “is almost the lowest in the OECD, and makes it difficult for the government to allocate resources for policy measures that will entrench long-term economic growth.”<sup>57</sup>

Civilian expenditure includes the social spending of the government – budget monies intended to help households and individuals in times of need, such as welfare allowances, services for infants, the elderly, and the disabled, and tax benefits. In 2016, Israeli government spending on these was 16.1% of GDP, compared with an average 21.0% in OECD countries.<sup>58</sup>

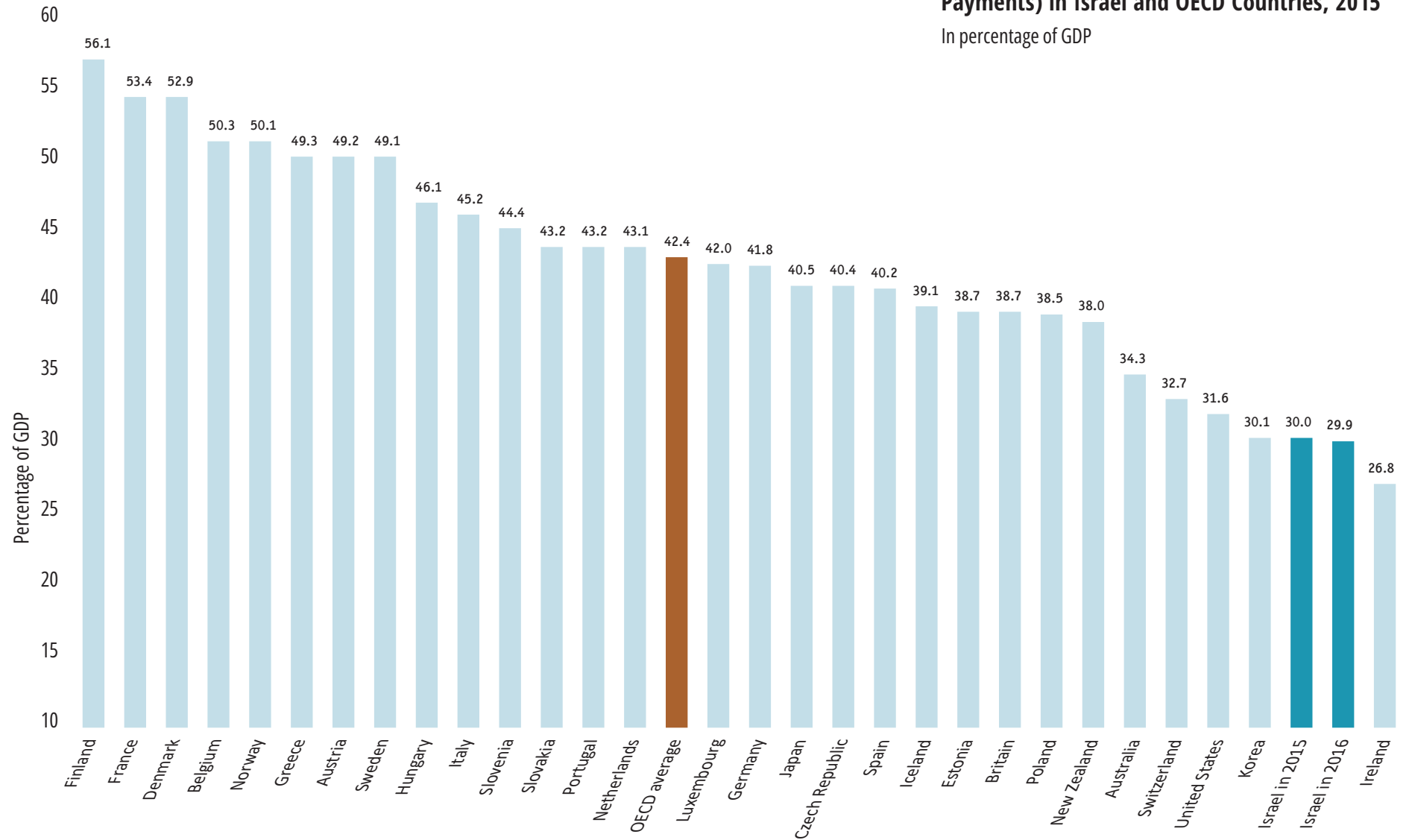
Here are a few comparative figures published by the OECD:<sup>59</sup>

- In social spending, Israel ranks second from the bottom of twenty OECD countries;
- In spending on education, Israel ranks third from the bottom among eighteen OECD countries;
- In public investment in the economy, Israel ranks the very lowest of twenty OECD countries.

The economic miracle touted by the government largely benefits a small number of Israelis, whose wealth raises the general average. A real miracle will take place if and when the state abandons its policies of fiscal austerity and reduced involvement, and works to achieve balanced growth that advances the entire population.

## Civilian Expenditures (Excluding Interest Payments) in Israel and OECD Countries, 2015

In percentage of GDP



**Note:** We have no precise data for Turkey or Chile, but the figures available place them lower than Israel. The data for Ireland reflect a change in the calculation of GDP.

**Source:** Bank of Israel. 22 March 2017. "An analysis of the fiscal developments in 2016, a fiscal point of view for 2017, and expected developments over the remainder of the decade." Press Release.

## Endnotes

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2. Arlosoroff, Meirav. "Netanyahu's economic advisor: The situation is good and it's time to get used to it." *The Marker*, 14 November 2017 [Hebrew].
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10. Swirski, Shlomo and Yaron Hoffmann-Dishon. 2015. *From Housing to Real Estate: How the Accumulation of Wealth by a Few Affects Israel's Housing Market*. Tel Aviv: Adva Center.
11. Adva Center analysis of data from CBS, *Household Expenditures Survey 2000*; figures from 2016 courtesy of the Consumption Department of CBS, November 2017.
12. Ibid.
13. Adva Center analysis of databases from CBS, *Expenditures Survey 2000 and Income and Expenditures Survey 2015*. Household income and expenditures cannot be compared for 2016 because of changes in the age groupings.
14. In 2014. See Report of the Committee for Examining Women's Pension Age, September 2016; Bank of Israel, Research Department, *Fiscal Survey and Selected Research Analyses*, March 2017 [Hebrew].
15. Bank of Israel, *Annual Report 2014*: 210; Bank of Israel, *Annual Report 2015*: 177. The negative income tax was first instituted in Israel in 2008 for the 2007 tax year.
16. CBS, *Job Vacancy Survey*, November 2013 and November 2017.
17. Between 1999 and 2015. See Endeweld, Miri, Leah Achdut, and Michel Strawczynski. 2017. *The Working Poor in Israel*. Jerusalem: Van Leer Jerusalem Institute [Hebrew].
18. See the section on poverty among those with higher education below.
19. Rabbis for Human Rights and the Adva Center. 22 January 2014. "Comments about the Negative Income Tax." Paper presented to the Alaluf Committee to Combat Poverty.
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21. Disagreement with this has grown in recent years in light of the data showing that growth alone does not ensure higher wages for all.
22. Endeweld, Miri and Oren Heller, *Wages, the Minimum Wage, and their Contribution to Reducing Poverty: Israel in an International Comparison*, National Insurance Institute, December 2014 [Hebrew]. Figures updated to 2014–2016 were provided courtesy of the authors, November 2017.
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25. Adva Center analysis of CBS, *Household Income and Expenditures Survey*, for the years 2012–2016.
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27. These figures do not include regional councils or unrecognized villages.
28. Localities in clusters 8–10 according to the socioeconomic clusters of CBS.
29. National Insurance Institute; Mark Rosenberg. August 2017. *Wages and Income from Work by Locality and by Various Economic Variables, 2015*. Jerusalem: National Insurance Institute.
30. The gender wage gap is defined by the OECD as the difference between median earnings of women and men relative to median earnings of men. Data refer to full-time employees and the self-employed.
31. The salaries of the group born in Israel are relatively low because they are young: Their median age in 2016 was 29, compared to 45 and 42 in the groups of second-generation Mizrahim and Ashkenazim, respectively.
32. See the new book by Amia Lieblich, 2017. *Kolot: 'Oni Hadash BeYisrael* [Voices: New Poverty in Israel]. Haifa University: Pardes [Hebrew].
33. National Insurance Institute. December 2017. *Poverty and Social Gaps, Annual Report, 2016* [Hebrew].
34. In addition, an annual report is published by Latet ["to give"], an NGO that documents the incidence of poverty and food insecurity, based on interviews with 756 (in 2017) of the recipients of food assistance from its partner organizations. Poverty and food insecurity rates reported by Latet are higher than those reported by the CBS or National Insurance Institute.
35. The Social Survey gathers information from some 7,500 Israelis aged 20 or more.
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37. This Gini coefficient reflects inequality in the disposable income of individuals. National Insurance Institute, Research and Planning Administration. December 2016. *Poverty and Social Gaps 2016, Annual Report* [Hebrew].
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39. Higher education: universities (not including the Open University), academic colleges (state supported and not), and teachers' seminaries that award an academic degree.
40. Note that the pyramid represents those who matriculated in an Israeli high school and continued their studies in an Israeli academic institution recognized by the Council for Higher Education. It does not include Israelis who continued their academic studies outside Israel, such as Arab citizens of Israel who are enrolled in academic institutions in the Palestinian Authority, Jordan, or other countries. It also does not include those who finished high school in 2008, but took their matriculation exam after graduating high school.
41. As noted, many Arab young people go abroad for higher education – to the Palestinian Authority or Jordan, where several thousand Israelis are studying. It is unknown how many of these meet the admission requirements of Israeli institutions of higher learning. See Khalid Arar and Kussai Haj-Yehia. 2010. "Emigration for higher education: The case of Palestinians living in Israel studying in Jordan." *Journal of Higher Education Policy*, 23, 358–380.
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49. State Comptroller, February 2015. *Audit of the Housing Crisis*, p. 3 [Hebrew].
50. This calculation of total household expenditures includes rent and mortgage payments as well as ancillary expenses such as water, electricity, gas, municipal taxes (including property taxes), maintenance and renovation expenditures, as well as home insurance and fees for a realtor, assessor, and lawyer. The calculation differs somewhat from the CBS calculation for 2014, which appears in its publication, *Well-being, Sustainability, and National Resilience Indicators* in 2016. Adva's calculation excludes amounts paid for government taxes (purchase or improvement tax), "domestic help" (home childcare, cleaning, or cooking), and "various household needs" (commodities such as cleaning materials, pesticides, etc.).
51. Based on the net income decile per standard person, a calculation was made of the maximum mortgage repayment that can be made without exceeding the 30% ceiling. The estimate assumes that the mortgage will finance 75% of the price of a home based on the Bank of Israel limits for first-time buyers, and that it is granted as a 25-year, fixed rate, non-linked loan. These assumptions allow us to estimate the mortgages that households can afford without exceeding the 30% limit. In reality, mortgages are composed of several different types of loans, including some with variable interest rates and linkages. We also posited 3.77% annual interest rate, which was the annual average interest for unlinked, 20–25-year mortgages issued by Israeli banks in 2015.
52. CBS, *Statistical Abstract of Israel 2017*, chapter 3.
53. OECD, *Health at a Glance*, 2017.
54. "Healthy life years and life expectancy at birth, by sex," *Eurostat 2015*; CBS, "Life expectancy in Israel 2016," Media Release, December 2017 [Hebrew].
55. National Insurance Institute, *Yarhon Statisti* [Statistical Monthly], November 2017, Table 1.4.2 [Hebrew].
56. OECD, *Government at a Glance*, 2017, table 2.48.
57. Bank of Israel. 22 March 2017. "An analysis of the fiscal developments in 2016, a fiscal point of view for 2017, and expected developments over the remainder of the decade." Press Release.
58. OECD database.
59. OECD Economic Surveys. Israel. January 2016.

