**Press Release** **– Embargo until 6:00 23/12/15**

**State of the Nation Report 2015**

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**The Taub Center’s annual *State of the Nation Report* published today (Wednesday) presents a broad overview of Israel's current socioeconomic position in comparison to the past and to other countries. The report includes 13 studies covering topics related to labor markets, productivity, education, health, welfare, and public expenditures. The *Report* was edited by Prof. Avi Weiss, Executive Director of the Taub Center and Associate Professor of Economics at Bar-Ilan University, and Prof. Dov Chernichovsky, Taub Center Senior Researcher and Health Policy Program Chair.**

**A selection of findings from chapters in the *State of the Nation* *Report* 2015:**

[**Occupations at Risk: Computerization Trends in the Israeli Labor Market**](http://taubcenter.org.il/occupations-risk-computerization-trends-israeli-labor-market/)

[*Shavit Madhala-Brik*](http://taubcenter.org.il/shavit-madhala/) *(Taub Center Researcher)*

* About 40% of Israel’s employment is in occupations that are considered “high risk” of undergoing a process wherein computers or machines will replace manpower within the coming two decades. This is a global trend that exemplifies modern, advancing economies, and in the United States and Germany, for example, an even greater share of employment, 47% and 49% respectively, work in high risk occupations.
* The Taub Center study is based on a model that classifies occupations by their risk of computerization in the future. The occupations that are at highest risk are those that are characterized as repetitive and technical, such as bookkeeping and data entry. In contrast, those occupations deemed to be low risk include those that require skills such as creativity, social intelligence, proficiency in negotiation, and the ability to understand complexity. According to the analysis, occupations such as economists, historians and bus drivers are at medium risk of computerization, while occupations such as doctors, social workers, choreographers, and psychologists are classified as being at low risk.

**Distribution of work hours by occupation risk of computerization\***

workers ages 25-64, 2011

\* Occupation risk level is based on Frey and Osborne (2013)

Source: Shavit Madhala-Brik, Taub Center for Social Policy Studies in Israel

Data: Central Bureau of Statistics, *Labor Force Surveys*

* Many employees in occupations at high risk of computerization come from more vulnerable population groups: those without an academic education, low wage earners and younger employees. The group at highest risk is non-Jewish men. About 52% of work hours among this group are in construction and building occupations – occupations in which most of the jobs are at high risk of computerization. In 2011, about 59% of hours worked by individuals aged 15-24 were in occupations at high risk of computerization. Taub Center Researcher Shavit Madhala-Brik asks, "What will young adults do for work in the coming decades after these jobs have become computerized?"
* The computerization process has been evident in the past two decades, as there has been a decline of 9% in the relative share of work hours in high risk occupations out of all work hours. For example, between 1995 and 2011, there was a decline of 38 percent in the employment of metal workers, tinsmiths, blacksmiths, and welders. Likewise, there has been a large shift of workers without an academic education into occupations in the service industry (similar to the trends seen in the United States).
* The Taub Center study recommends several preparations for these changes in the labor market: the expanded use of vocational training programs that are targeted at populations that may drop out of the workforce, securing their employment potential for the long term; the regular updating of educational programs to ensure their relevancy; and the establishment of a government body to spearhead and coordinate on the subject with various relevant parties such as training institutions, academic institutes and schools.

[**The Cost of Living in Israel: An International Comparison and Historical Perspective**](http://taubcenter.org.il/cost-living-israel-international-comparison-historical-perspective/)

[*Gilad Brand*](http://taubcenter.org.il/gilad-brand-2/) *(Taub Center Researcher)*

* The Taub Center research addresses the question of whether it is indeed “expensive to live in Israel,” and corroborates the prevailing sentiment that ignited the social protest movements of the past several years. It does so through an examination of price levels in Israel relative to other countries over the last 25 years, after controlling for the effect of the exchange rate.

**Consumer prices and per capita GDP in the OECD countries\*, 2014**

\* 35 OECD countries, including Lithuania and Latvia and excluding Luxembourg

\*\* The regression estimate is calculated using an equation where the log of the price level is explained by the squared polynomial of per capita GDP. Similar results were found using a regression where the per capita GDP log was explained by the log of price levels.

Source: Gilad Brand, Taub Center for Social Policy Studies in Israel

Data: OECD Stat, IMF

* When taking into account per capita income, consumption prices in Israel are high relative to those in the majority of developed countries. This phenomenon has, for the most part, been persistent since the beginning of the 1990s and is not simply a result of the strong shekel of the past few years.
* Taub Center Researcher Gilad Brand's international comparison found that after accounting for exchange rate fluctuations, consumption prices in Israel were at a level commensurate with per capita income in only 4 out of the past 25 years; in all other years, prices levels were far higher. This finding was largely unique to Israel, and confirms that consumption prices in Israel have generally been relatively higher than in other developed countries, given the comparatively low level of incomes in Israel.
* An examination of price levels by consumption category revealed a substantial and rapid rise in food prices alongside a corresponding increase in the profit margins in the industry. It appears that the profit margin increase was the result of changes in the structure of the market, which resulted in a decline in competitiveness alongside a low share of imports. In contrast, there were substantial price reductions in consumption items that were exposed to competition in the 1990s, such as clothing and footwear. These findings and other research evidence highlight the importance of continued exposure of the market to imports as a means of increasing competition, lowering prices, and improving consumer welfare in Israel.

[**The Socioeconomic Situation of Young Adults in Israel**](http://taubcenter.org.il/socioeconomic-situation-young-adults-israel/)

[*Hadas Fuchs*](http://taubcenter.org.il/hadas-fuchs/) *(Taub Center Researcher)*

* The share of students among the 18-34 year-old population increased from 9% in 1995 to 15% in 2011. The majority of the increase comes from students enrolled in academic colleges. Over the last decade, the relative number of students enrolled in an Israeli university has declined, and in 2014 there were 65,000 students in universities (with 96,000 students enrolled in colleges). The data show that in the past few years, the growth in the share of students has slowed down.
* Taub Center Researcher Hadas Fuchs found that, among young adults, women are better educated than men. The share of academics among those aged 31 to 34 is higher for women both in the Jewish population (49% for women versus 42% for men) as well as in the Arab Israeli population (21% for women versus 18% for men).
* Young adults are both beginning their higher education and entering the labor force at a later age than in the past. This is particularly true for men. The employment rate among those aged 18 to 22 has declined from 31% in 1995 to 28% in 2010, and the share of men in this age group who are neither employed nor studying for an academic degree has increased from 76% to 81% among Jews and from 35% to 42% among Arab Israelis.
* Between 1995 and 2011, among Jews, there was an increase in the share of students who were employed, and today about 65% of all students are employed. More than 55% of Jewish students work in part-time employment during their first 3 years of studies, and a good number of them are employed in sales and service occupations. It seems that, at least in the first few years of studies, young adults are not acquiring relevant work experience that will help in their future career choices; rather, they work to earn money.

**Real hourly wage for academic degree holders**

by age group, in 2011 prices, in shekels, 1997-2011\*

\* Two-year moving average

Source: Hadas Fuchs, Taub Center for Social Policy Studies in Israel

Data: Central Bureau of Statistics, *Income Surveys*

* Individuals aged 31 to 34 integrate into the labor market at similar rates to those of older individuals, and are employed in similar occupations. Nonetheless, there has been a decline in the real hourly wage for this age group between 2004 and 2011. This decline is explained partially by a drop in the number of years of experience of young graduates in the labor market as their studies, and then subsequently their employment, is often delayed by a year. In addition, the lower wages are explained in part by the increase in the percent of students, and by an increase in the share of young adults working in the service industry.
* Since 2005, there has been an increase in the share of those aged 22 to 28 living with their parents. The rise may be due, among other factors, to a delay in the marriage age; nonetheless, the rise is considerable even when unmarried individuals alone are examined. This trend may be related to a rise in housing prices, as well as to the delayed entry of many young adults into the labor market.
* Between 2003 and 2014, the share of married couples aged 25 to 30 living in a home that they own declined by 19 percentage points and stood at only 44%. This decrease aligns with the delay in initiating studies and began prior to the sharp rise in housing prices. In the same years, young couples in the 31 to 34 year-old age group who live in a home that they own declined by 9 percentage points and stood at 60%. For this group, most of the decline occurred after the rise in housing prices began.

[**Causes for the Widening of Productivity Gaps Between Israel and the OECD Countries: A Multi-Year Study**](http://taubcenter.org.il/factors-widening-productivity-gaps-israel-oecd-countries-multi-year-study/)

[*Eitan Regev*](http://taubcenter.org.il/eitan-regev/) *and* [*Gilad Brand*](http://taubcenter.org.il/gilad-brand-2/) *(Taub Center Researchers)*

* Over the past decades, the productivity gap between Israel and other OECD countries has widened. This Taub Center study reveals that there are five large branches that account for 81% of the widening of the productivity gap within the private sector. The most striking of these is the wholesale trade industry, which contributed 30% to the widening gap even though it represents only 8.6% of total work hours in the private sector. Additional industries that contributed to the widening of the productivity gap in disproportional terms were telecommunications and postal service, food, metal products and production, and publishing and printing.

**Main contributors to widening of productivity gap\* and their share in work hours**

industry’s contribution to widening of gap from 1995-1997 to 2006-2008 and relative share of work hours in 2008

\* Private sector analysis does not include: water and electricity supply, real estate services, construction, mining and quarrying, and agriculture

\*\* The columns do not sum to 100% because not all branches are represented here

Source: Eitan Regev and Gilad Brand, Taub Center

Data: OECD, Central Bureau of Statistics

* + Taub Center researchers Regev and Brand found that a substantial factor in the ability of an Israeli industry to narrow productivity gaps relative to the OECD is the extent of exposure of the industry to competitive imports. This is apparently due to the pressure to become more efficient when competition from outside of Israel is substantial. In industries with less exposure to imports, productivity gaps widened relative to the OECD.
	+ Service industries that are non-tradable (that is, industries that operate only in the local market) are a major factor underlying productivity gaps relative to the OECD and in the widening gap over time. This fact is likely indicative of shortcomings in the local business environment, such as monopolies and structural and regulatory obstacles that harm competition and ultimately limit the pace of productivity growth – as well as the overall improvement in the standard of living.
	+ Differences in the average number of work hours per worker between Israel and other OECD countries can explain, at most, about half of the gap in productivity per work hour, but do not explain the widening of the gap that has occurred in the past two decades. Differences in the relative share of the various industries in Israel as compared to the OECD also do not explain the widening of the gap – and even serve to narrow it slightly, particularly as the high productivity high-tech and finance industries account for a larger share of the private sector in Israel relative to the OECD.

**Change in group’s share in Israeli private sector employment and in Israel/OECD productivity per worker ratio\***

by tradability and productivity, between start period (1995-1997) and end period (2006-2008)\*\*

\* In 2009 prices and PPP

\*\* Bubble size represents group’s share in GDP; bubble color represents Israel’s productivity per worker level relative to OECD

Source: Eitan Regev and Gilad Brand, Taub Center

Data: OECD, Central Bureau of Statistics

[**The Dual Labor Market: Trends in Productivity, Wages and Human Capital in the Economy**](http://taubcenter.org.il/dual-labor-market-trends-productivity-wages-human-capital-economy/)

[*Gilad Brand*](http://taubcenter.org.il/gilad-brand-2/) *and* [*Eitan Regev*](http://taubcenter.org.il/eitan-regev/) *(Taub Center Researchers)*

* The Israeli economy is characterized by a duality. At one end are the high-tech and other advanced industries, with high and quickly rising labor productivity. At the other end are industries characterized by low productivity and minimal growth. This second group represents about 60 to 65% of the private sector, and its productivity levels have not increased much since the 1990s despite the rapid technological developments since. This is an anomaly relative to other developed countries.
* The growth in the productivity gap within the private sector sheds light on different trends in the labor market since the 1990s, among them the growth in income inequality and the stagnation in the real average wage.
* The high-tech and other advanced industries are very different from the rest of the private sector, not only with regard to productivity, but also in terms of the characteristics of their workers and the returns on education for these workers. The likelihood of a worker with a secondary school education working in a branch with high productivity and high wages declined by 14%. The likelihood of a worker with an academic education working in branches with low wages and low productivity fell by 15%.

**Total factor productivity in manufacturing and trade and services, 1975-2014, Index: 1975=100**

workers ages 25-64, 2011

Source: Gilad Brand and Eitan Regev, Taub Center

Data: Bank of Israel

* At the same time as employment mobility between sectors declined, the relationship between the wages in the high productivity and low productivity sectors also diminished. Until the early 2000s, there were wage differences between industry sectors with varying levels of productivity, but there was almost full correlation between the growth of salary across these sectors. In later years, the correlation almost completely disappeared. An empirical examination reveals that growing differences in worker characteristics in the two sectors led the sectors down different paths with regard to productivity and wages.
* Taub Center Researchers Brand and Regev propose that the solution to the widening gap lies in diversifying the Israeli export base and creating vocational training programs that will strengthen employment mobility between the sectors. These tools will expose larger segments of the labor market to employment with companies that are exporters, which pay higher wages and enjoy rising productivity. Such actions may also put pressure on wages even in branches that sell primarily within the local market and that are characterized by low productivity levels. This pressure might encourage companies in these branches to streamline their processes, ultimately leading to a narrowing of gaps within the Israeli labor market.

[**Poverty and Inequality in Israel: An International Perspective**](http://taubcenter.org.il/poverty-inequality-israel-international-perspective/)

[*Haim Bleikh*](http://taubcenter.org.il/haim-bleikh/) *(Taub Center Researcher)*

* Israel’s poverty and inequality rates, when calculated based on market income (gross income from work, capital and private pensions), are close to the OECD average. In contrast, the rates using disposable income (after transfer allowances and direct tax payments) are among the highest of Western countries. These rates are affected by the demographic structure, the relative size of the elderly population and differences in welfare systems – all of which have an impact on the income structure and particularly market income.
* When examining the population for which the head of the household is aged 59 and under, Taub Center researcher Haim Bleikh found that poverty rates and inequality in Israel are even greater relative to other developed countries, both in terms of market income and disposable income.
* One of the reasons for the low public expenditure (as a share of GDP) in Israel relative to that in other developed countries is that overall tax revenues (as a share of GDP) in Israel are among the lowest. The connection between tax revenues and public spending has substantial implications for the ability to reduce disparities in Israel. As such, public discourse should focus on both the sources and uses of the budget collectively – rather than on each component separately.

\* 33 OECD countries. Data for Turkey are from 2011.

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

Data: OECD

**Tax revenues and public expenditure**

as percent of GDP in OECD countries, 2012\*

* Employment rates of individuals aged 15 to 59 rose in Israel between 2002 and 2011, and the gap between the employment rate of this population in Israel and the OECD average narrowed. Nevertheless, during this same time period, there was an increase in disposable income poverty rates among households that include a wage earner in this age group.
* At the beginning of the new millennium, 73% of all coupled households of working age in the OECD countries had two or more wage earners; the parallel figure for Israel was 57%. A decade later, the OECD average was 75%, while for Israel, this figure increased more substantially, to 65%.
* About 20% of retirement-age individuals in Israel are below the poverty line in terms of disposable income, compared to 12% on average in the OECD countries. Notably, however, income from pensions (both public and private) for elderly individuals in Israel (as a percent of GDP) is not lower than the average in other developed countries. This finding suggests that there are large gaps in income among the elderly population in Israel. Therefore, a balance must be found between increasing economic incentives that will expand employment and labor income among this population and finding solutions and resources to assist this population and ensure that they do not fall behind, particularly the elderly who are not entitled to work pensions or who have not saved sufficiently for a comfortable pension.

[**Public Expenditure on Welfare**](http://taubcenter.org.il/public-expenditure-welfare/)

[*Johnny Gal*](http://taubcenter.org.il/johnny-gal-2/) *(Chair of Taub Center Welfare Policy Program) and* [*Shavit Madhala-Brik*](http://taubcenter.org.il/shavit-madhala/) *(Taub Center Researcher)*

**Levels of National Insurance Institute allowances, 2005 and 2014**

average monthly allowance per benefit recipient, 2011 prices, in shekels

\* Per household

Source: Johnny Gal and Shavit Madhala-Brik, Taub Center

Data: National Insurance Institute

* Public expenditure on welfare was about NIS 86 billion in 2014.This amount has shown slow growth since the middle of the past decade, principally due to an increase in transfer allowances targeting the elderly population. At the same time, there has been a decline in expenditures for social welfare.
* About 80% of the overall expenditure on welfare is devoted to social security, a category that primarily includes allowances from the National Insurance Institute. Expenditure on social welfare, such as housing and family services, represent only 20% of the overall expenditure.
* The number of households under the care of the Ministry of Social Affairs and Social Services was 464,000 in 2014, about 20% of the total households in Israel.
* The largest expenditure of the Ministry of Social Affairs and Social Services is on personal and social services that are intended primarily for families and that are supplied through municipal social service offices via a variety of frameworks. In 2014, the Ministry financed about 6,450 workers in these various departments, the vast majority of whom are social workers (about 5,000). The Ministry financed 75% of the costs of social services while the municipalities funded the remaining 25%.
* Daycare for infants and toddlers was the subject of lengthy discussion in the Trajtenberg Committee that was established following the 2011 social protests. The budget of the division of infant and toddler daycare within the Ministry of Economy increased by 57% between 2010 and 2014. In 2014, the expenditure in this area came to more than one billion NIS.
* The general social security expenditure has remained relatively stable over the years, although there have been substantial changes in some allowances. Old-age and survivor’s allowances as well as long-term care allowances together represent the largest expenditure (48%) among the various allowance types. The number of benefit recipients for these allowances increased by 32% and 66%, respectively, since 2000 – a trend that demonstrates the aging of the population.
* There has been a sharp decline in the number of recipients of income support: from a high of 158,000 families in 2003 down to 103,000 families in 2014. This decline was due to an increase in employment as well as changes in the eligibility requirements. The number of families entitled to child allowances grew substantially, although there was a simultaneous sharp reduction in the value of the entitlement; in some cases, the amount received by a household was reduced by half.
* Following government reform, the expenditure on services and allowances for Holocaust survivors went from 0.25% of GDP in 2000 to 0.33% in 2014. Today, the amount of this expenditure reflects about 5% of the total social security expenditure.

[**The Relationship Between Social Capital and Health in the Haredi Sector**](http://taubcenter.org.il/relationship-social-capital-health-haredi-sector/)

[*Prof. Dov Chernichovsky*](http://taubcenter.org.il/dov-chernichovsky-2/) *(Taub Center Senior Researcher and Chair, Taub Center Health Policy Program) and Chen Sharony*

* In Israel, studies find a positive correlation between a locality’s socioeconomic status and the life expectancy of its residents. Nevertheless, in cities with a high concentration of Haredim (ultra-Orthodox Jews) – Bnei Brak, Jerusalem and Beit Shemesh – life expectancy is substantially higher than would be expected given these cities’ low socioeconomic status. In addition, the vast majority of Haredim (73.6%) consider their health to be “very good,” in contrast to only 50% among other segments of the population. Only 18.7% of Haredim reported that they suffered from a health problem of any kind, compared to double that figure or more among other population groups.

\* Life expectancy at birth – average for 2005-2009; Socioeconomic Index – data for 2008

\*\* The Index is calculated on the basis of 16 factors from the following areas: demography, education and schooling, employment, pensions, and standard of living (cash income, mobility, housing factors). The regression line does not include Haredi municipalities.

Source: Dov Chernichovsky and Chen Sharony, Taub Center

Data: Central Bureau of Statistics, Ministry of Health

**Life expectancy at birth and the Socioeconomic Index\***

municipalities with over 50,000 residents

* Haredi communities have high levels of social capital, as expressed in a high number of social relationships, high levels of satisfaction with family relationships, strong social support systems and high levels of volunteering.
* There is a significant positive correlation between being Haredi and the likelihood of self-reporting very good health. There is also a positive correlation between self-reporting good health and high social capital. This finding supports the hypothesis that Haredim in Israel have high social capital and perceptions of good health that contribute to longevity (although these findings may be related to social norms that frown on complaining, particularly to people from outside of their community).
* Chernichovsky and Sharony found that, on average, life expectancy was 3 years higher among Haredi men in these three communities than would be expected based on their socioeconomic status. Among Haredi women, life expectancy was 1.5 years higher than would be expected based on their socioeconomic status. The authors suggest the discrepancy between the genders might be related to differences in the level of interactions with friends, as expressed by multiple synagogue visits by males over the course of the day.

[**Tracking and Attainment in Israeli Secondary Education**](http://taubcenter.org.il/tracking-attainment-israeli-secondary-education/)

[*Carmel Blank*](http://taubcenter.org.il/carmel-blank/) *(Taub Center Education Policy Program Fellow),* [*Prof. Yossi Shavit*](http://taubcenter.org.il/yossi-shavit-2/) *(Chair, Taub Center Education Policy Program) and* [*Dr. Meir Yaish*](http://taubcenter.org.il/meir-yaish/)

* Israeli secondary education offers pupils four main educational tracks. The main track, which includes the majority of pupils (60%), is the academic track. The other three tracks are technological tracks: the prestigious engineering track, which consists of about 15% of secondary school pupils; and two other tracks – the technological track (16% of pupils) and the vocational track (10% of pupils). Despite the changes that have occurred in tracking over the years, socioeconomic factors continue to affect pupil assignment to educational tracks.
* Jewish pupils in the technological and vocational tracks generally come from lower socioeconomic groups and from relatively weaker educational backgrounds. Among the Arab Israeli population, there has been a rise in the demand for technological education, which is considered appropriate for pupils who might otherwise drop out of school.

Source: Carmel Blank, Yossi Shavit and Meir Yaish, Taub Center

Data: Ministry of Education

**Rate of bagrut qualification by educational track**

out of all pupils in the educational track, average for 2011-2012

* The highest rates of bagrut qualification come from the ranks of the engineering track (82%). In the academic track, the share of those with a bagrut qualification is 70%, and in the vocational track, the share of those finishing secondary school with a bagrut qualification is 40%. These gaps are related to pupil socioeconomic characteristics in each track as well as to prior educational attainment. However, when the effect of the pupils’ background variables was controlled for, the gaps remained between bagrut qualification rates. This suggests that pupils in the academic and engineering tracks receive better preparation for the exams than those in the technological/vocational tracks.
* The share of girls in the academic track (about 56%) and in the vocational track (about 59%) is relatively high, while girls are underrepresented in the engineering track (39%). The authors suggest that this could be due to girls’ reluctance to major in math and sciences.
* Only 12% of pupils changed tracks between 10th and 12th grade, which indicates that for most pupils, the 10th grade track is permanent. The majority of changes are from the technological/vocational tracks to the academic track, a very encouraging finding, although the majority of those who transfer are from strong backgrounds with high previous educational achievements. These are pupils who manage to “correct” their educational tracking and shift to the academic track.
* The drop-out rates from the technological track (5.5%) and the vocational track (5.2%) are substantially higher than from the academic track (2.9%) and the engineering track (1.4%).

[**The Increase in the Number of Income Earners and Its Impact on Household Income**](http://taubcenter.org.il/increase-wage-earners-impact-household-income/)

*Ayal Kimhi and* [*Kyrill Shraberman*](http://taubcenter.org.il/kyrill-shraberman/) *(Taub Center Researcher)*

* Between 2003 and 2011, the average number of income earners per household in Israel grew from 1.18 to 1.32. At the same time, the average size of households did not change substantially. Overall, income for the typical household rose as a result of the increased number of earners.
* The stagnation of real wages since the beginning of the millennium might explain the increase in the number of income earners. Having additional members enter the labor market helped households maintain, and even increase, the standard of living to which they were accustomed.

**Average real hourly wage for employees**

in shekels, 2011 prices, 1997-2011

Source: Ayal Kimhi and Kyrill Shraberman, Taub Center

Data: Central Bureau of Statistics, *Income Surveys*

* The income tax reductions initiated between 2003 and 2011 helped some households improve their situation despite the stagnation in real wages. For example, between 2003 and 2014, the average direct tax rate (including income and social security taxes) for individuals without children earning the average wage declined from 26.1% to 16.5%. Nevertheless, a good number of employees (about half of those in the labor market) earn less than the income tax threshold, and were therefore not directly affected by these rate reductions.
* Average real income from labor grew by 5% between 2003 and 2011, although the economy grew 21% in real terms during the same period. This means that income from labor eroded relative to the average standard of living in Israel. This is also evidenced by the decline in the relative share of labor in the national income: from 59% in 2000 to about 55% in 2010.
* The increase in the number of income earners cannot be an ongoing solution to the stagnation in real wages that Israeli households are experiencing, as employment rates are approaching their maximum potential (except among Haredi men and Arab Israeli women).

[**The Change in the Tax Burden on Households Between 2003 and 2011**](http://taubcenter.org.il/change-tax-burden-households-2003-2011/)

*Moshe Hazan*

* Tax policy between 2003 and 2011 primarily benefitted households in the top three income deciles, contributing to greater net income inequality and a sense among the middle class of an erosion in their standing. During this period, households in the 1st (lowest) through 5th deciles benefited from a reduction of about NIS 130 to NIS 430 in their tax burden, while households in the 8th to 10th (highest) deciles enjoyed a tax reduction of between NIS 800 and NIS 2,500 per month.
* Between the years 2003 and 2011, the largest decline in tax burden was for households in the lowest decile: 8.9 percentage points. The other deciles experiencing the largest reduction in taxes were households in the 9th and 10th deciles, with a reduction of 5.7 percentage points and 4.5 percentage points, respectively. Households in 2nd, 3rd and 4th deciles saw a reduction in overall taxes on the order of 2.5 percentage points.
* In 2011, the direct tax burden (the percent of income tax out of gross income) was lower than in 2003 among all of the deciles; naturally, however, wealthier households enjoyed a greater reduction since they pay the majority of income tax. The direct tax burden on households in the lowest decile was 6.2% of gross income in 2011, a reduction of 1.4 percentage points relative to 2003. In contrast, during this period, households in the highest decile enjoyed a reduction of 6.1 percentage points in their direct tax burden, which stood at 27.2% of gross income in 2011.

Source: Moshe Hazan, Tel Aviv University and Taub Center

Data: Central Bureau of Statistics, *Household Expenditure Surveys*

**Total tax burden, 2003 and 2011**

by household income decile, share of gross income

* The indirect tax burden, which is defined as the percent of tax on consumption out of net income, was lower in 2011 than in 2003 for all income deciles. In 2003, the indirect tax burden stood at 34.7% of net income for the lowest decile, in contrast to 26.1% in 2011. In the 5th decile, the indirect tax burden fell from 18.9% to 17.0%, while for those households in the top decile, the indirect tax burden fell from 13.3% in 2003 to 12.7% in 2011. In both years examined, the closer households were to the lowest deciles, the higher their indirect tax burden.

[**Contract Workers in Israel**](http://taubcenter.org.il/contract-workers-israel/)

*Noam Gruber*

* In Israel, it is common to distinguish between two types of contract workers: agency contract workers, who work under the direct supervision and guidance of the client, and service contract workers, who provide a service for the client but remain under the direction and supervision of the contracting agency. There are important differences between the two types of workers. Service contract workers are older (on average 44.5 years old in 2011) and are less educated than the overall working population, and there is a high share of immigrants and women among them. In contrast, agency contract workers are generally a younger group (on average 36.5 years old in 2011), and their characteristics are more similar to those of the general working population.

\* 2011 for Israel; average of 2011-2012 for all other countries

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

Data: Central Bureau of Statistics, *Labor Force Surveys* (Israel); OECD (other countries)

**Share of workers employed through agencies**

out of all workers\*

* In the past few years, there have been many claims that the use of contract workers is much more prevalent in Israel than in other developed countries. This study dispels these claims and demonstrates that this misperception is due to incorrect definitions and classifications of workers. To this day, most studies compare the overall rate of contract workers in Israel (aggregating both agency contract workers and service contract workers) to the rate of agency workers in other countries (the international figures generally do not include outsourced or subcontracted workers that are similar to service contract workers in Israel). As a result, the phenomenon in Israel is overestimated.
* The number of service contract workers more than doubled between 2000 and 2011, while the number of agency contract workers decreased by half.
* The share of immigrants among service contract workers declined somewhat between 2000 and 2011, although at the end of the period it still remained high (61.5%). In contrast, during the same period, the rate of immigrants among the general working population decreased from 41% to 32%. The share of women among service contract workers also fell relative to the beginning of the previous decade, although in 2011 it stood at 57.4% and was still higher than that of the general working population.
* Another characteristic of service contract workers is the relatively large number of workers who are employed in a part-time capacity. The share of service contract workers in full-time employment is 53.7%, a figure that is substantially lower than the share among non-contract workers (83.9%). Many service contract workers (about 25%) would like to increase their positions but are unable to do so.
* The Taub Center study suggests various policy steps regarding contract workers. The author recommends encouraging the employment of agency contract workers, who are by and large younger and better educated, through longer contracts that enable their employment without requiring their recruitment as employees. In contrast, Gruber suggests protecting service contract workers from exploitation through greater wage transparency; their paystub should clearly show the amount paid to the worker and the amount paid to the contracting agency. In this manner, all parties will be able to assess if the contract work relationship is worthwhile, and clients will not be able to ignore their responsibility to ensure that workers are paid according to the law.
* The author also suggests that the Contractors Law should be expanded so that it also covers non-profits that serve as contracting agencies (such as those created by municipalities). In addition, he suggests that the law should be changed to include service providers in all areas and not just those who provide guarding, security and cleaning services, as the law currently prescribes.

[**Inequality in the Education System: Who Opposes and Who Gains from the Gaps?**](http://taubcenter.org.il/inequality-education-system-opposes-gains-gaps/)

[*Nachum Blass*](http://taubcenter.org.il/nachum-blass/) *(Taub Center Senior Researcher)*

* In the past few years, the Ministry of Education has dealt with a number of issues to try to advance equality in education. Senior Researcher Nachum Blass’ perspective is that although the value placed on equality is high, oftentimes policy is determined by the opinions and for the benefit of more well-established groups who greatly influence public discourse.
* In this chapter, Blass raises several interesting examples that, in his view, highlight inequality within the education system:
	+ **School budgeting methods**: The current budgeting formula calls for allocating differential funds to schools based on the socioeconomic characteristics of the student population. In reality, this formula changes little from the existing method, in which only a small fraction of resources is dedicated to affirmative action, with insufficient extra hours funded to help narrow the gaps between the various populations. For example, while the Shoshani Committee’s recommendation from 2002 (which was implemented in 2004 and changed to a different method in 2008), called for pupils from weaker socioeconomic backgrounds to receive 70 weekly teaching hours, the current method has them receiving only 46 weekly hours (in third grade State schools with an average class size of 35 pupils).
	+ **An additional (second) teaching assistant in pre-compulsory kindergarten**: The decision to add a teaching assistant in pre-compulsory kindergarten classes with more than 30 pupils was done simultaneously in all locations, without any consideration for pupil characteristics. Even the higher subsidies to weaker socioeconomic municipalities that were included in the original decision were canceled due to pressure from other municipalities.

Table 1.  **Comparison between weekly budgeted teaching hours according to the new formula of differential budgeting per pupil and the Shoshani Committee recommendation**

for third grade in State education

|  |  |  |  |
| --- | --- | --- | --- |
| **Number of pupils per class** | **Number of teaching hours per class with the new formula** | **Number of teaching hours per class with the Shoshani formula** | **Ratio of weakest pupils to the strongest pupils** |
|  | Well-established pupils | Weak pupils | Well-established pupils | Weak pupils | Current formula | Shoshani formula |
| 20 | 31.0 | **38.0** | 36 | 40 | 1.23 | 1.1 |
| 25 | 32.0 | **39.0** | 36 | 50 | 1.22 | 1.4 |
| 30 | 33.0 | **40.0** | 38 | 60 | 1.21 | 1.6 |
| 35 | 34.0 | **46.4** | 44 | 70 | 1.36 | 1.6 |
| 40 | 39.0 | **56.4** | 50 | 80 | 1.45 | 1.6 |

* + **Reducing class size**: The “sardine protest” to reduce class size was primarily in more well-established communities in the center of the country. Following those protests, it was decided to devote resources to a gradual reduction in overall class size in primary and lower-secondary schools. This decision will primarily benefit more well-established populations, since schools with pupils in low socioeconomic standing (primarily Arab Israelis and Haredim in cities with a large Haredi population) were more overcrowded and were already slated for a reduction in their class size.
	+ **The protests in Christian schools**: Christian schools, which are classified as “recognized but not official,” are budgeted at 75% of the level of recognized schools. At the beginning of the school year, these institutions went on strike and demanded budget equality with the schools in the Haredi network of “Maayan Torani” and the “independent” schools, which have the same legal status but receive full budget allocation. Christian schools are discriminated against relative to pupils in these two systems, although they are not discriminated against relative to other Jewish institutions (private or semi-private) that are also classified as “recognized but not official.” As a consequence, their battle could create a precedent that would weaken public education. The differential budget is one of the tools that the Ministry of Education has to strengthen public schools, which, in contrast to certain private institutions, do not set admission requirements and are required to use an official educational program. If their demands are met, Christian schools will receive full budgeting and the doors will open for the establishment of additional private schools – something that will serve to increase polarization in the education system.

**The press release and accompanying materials are available for publication starting Wednesday (23/12/15) at 6:00am**

The Taub Center for Social Policy Studies in Israel, headed by Prof. Avi Weiss, is an independent, non-partisan institution for socioeconomic research based in Jerusalem. The Center provides decision makers, as well as the public in general, with a big picture perspective on economic and social areas. The Center’s interdisciplinary Policy Programs – comprising leading academic and policy making experts – as well as the Center’s professional staff conduct research and provide policy recommendations in the key socioeconomic issues confronting the State.

**For details, or to arrange an interview, please contact Itay Matityahu, Director of Marketing and Communications 054-290-4678.**