

## Term

# The Poverty Line in Israel

## Definition

The poverty line in Israel is defined as half the median disposable income,<sup>1</sup> weighted by household size. A household with a disposable income that is lower than the poverty line is considered poor.

## Background

Israel measures poverty relatively,<sup>2</sup> an approach that understands poverty to be an expression of social and economic inequality. This approach defines poverty as a relative shortage reflected in a gap from the typical standard of living in the society. Households that earn significantly less than the typical income in the society are poor.

In Israel, the median disposable income is considered representative.<sup>3</sup>

The National Insurance Institute publishes results on poverty in Israel based on The Annual Earnings Survey carried out by the Central Bureau of Statistics.<sup>4</sup>

## Use

The poverty line has various uses:

- **Measuring the Incidence of Poverty** – The Poverty Incidence Index reports the proportion of poor households within the population. The Poverty Incidence Index can be used to analyze sub-categories of the population: the number of people or children below the poverty line or the incidence of poverty in different sectors.<sup>5</sup>
- **Calculating the depth of poverty** – The Poverty Gap Index measures the difference between household income and the poverty line. It reflects the depth of the poverty.<sup>6</sup>
- **Comparing internationally** – assessing the Israeli case with other countries.<sup>7</sup>
- **Comparing across time** – sequential measurements identify trends and changes in Israel's poverty.

<sup>1</sup> Disposable income is defined as the sum of gross income and transfer payments minus direct taxation. See: Khunai S., Poverty measurement in Israel – current and alternative methods. ([Hebrew only](#)) 2004. p. 12.

<sup>2</sup> Two additional approaches to poverty:

The absolute approach regards poverty as "having less than an objectively defined absolute minimum." The subjective approach regards poverty as "feeling that you do not have enough to get along." In recent years, this approach was incorporated in EU poverty indices. See: Förster M. F., Tarcali G. and Till M., Income and non-income poverty in Europe: What is the acceptable standard in an enlarged European Union? 2004, p.5.

<sup>3</sup> The median is less prone to changes due to extreme values and therefore is preferable to the average. Ibid.

<sup>4</sup> The poverty line accounts for household size. See: [Annual Survey 2006](#), **The National Insurance Institute of Israel**.

<sup>5</sup> Ibid. see: poverty incidence by population group (p. 74).

<sup>6</sup> See: [Annual survey 2005](#), **The National Insurance Institute of Israel**, 2006. p.72.

<sup>7</sup> On comparing Israel's poverty rate to OECD countries, see: Sheinin, Y., poverty reduction in Israel, recommendations for economic policy ([Hebrew only](#)). **Economic models**, 2007. p. 10.

However, there are some limitations to the use of The Poverty Line:

1. **Disposable Income could be a limited indicator of poverty's severity:**

- **Standard of living** – Disposable income represents only one aspect of a household's financial status. It does not measure wealth such as savings, assets, or debt.<sup>8</sup>
- **The probability of entering and leaving poverty** – Disposable Income has limited explanatory power regarding the possibility of entry to or exit from poverty. It ignores other financial aspects of a household, the demand for human capital in the labor market and the general status of the market.
- **Duration of poverty** – The measurement of poverty takes place at a single point in time. Therefore, it cannot distinguish between transitional and long-term poverty.<sup>9</sup>

2. **Measurement limitations:**

- **Arbitrary** – The poverty line is set as an arbitrary proportion of median disposable income. It ignores the characteristics of the population that falls under that line. Other countries set their poverty line differently.<sup>10</sup>
- **Index reliability** – The weighted disposable income does not account for unreported income.<sup>11</sup>

## Israel's Rank

According to the National Insurance Institute of Israel, 20% of Israeli households were reported as poor in 2005. Similar figures were noted in the previous year.<sup>12</sup>

End.

<sup>8</sup> The Bank of Israel's 2006 Annual Report states that consumption levels are better indicators than disposable income as they constitute a better estimate of the ongoing standard of living. See: Chapter 8, [issues in welfare policy](#), **The Bank of Israel**, p. 331.

<sup>9</sup> On the distinction between long-term and temporary poverty see: Shayu M. and Vaknin M., 2001. Long-term poverty in Israel ([Hebrew only](#)). **Economics Quarterly**, 48, p. 597-628.

<sup>10</sup> In 2000, the official poverty line in the EU was 60% of the median income. See: Eflandari Y. and Kaplan T., **Central Bureau of Statistics**. Poverty measurement in Israel ([Hebrew only](#)). 2000. p. 12.

<sup>11</sup> In order to increase poverty measurement reliability, certain steps should be taken to minimize unreported income. Sheinin proposes a mandatory annual report on a household income in Israel. See: Sheinin, Y., poverty reduction in Israel, recommendations for economic policy ([Hebrew only](#)). **Economic models**, 2007. p. 22.

<sup>12</sup> [Annual Survey 2006](#), **The National Insurance Institute of Israel**, p. 72.