

Gaps in Income and in Understanding

by

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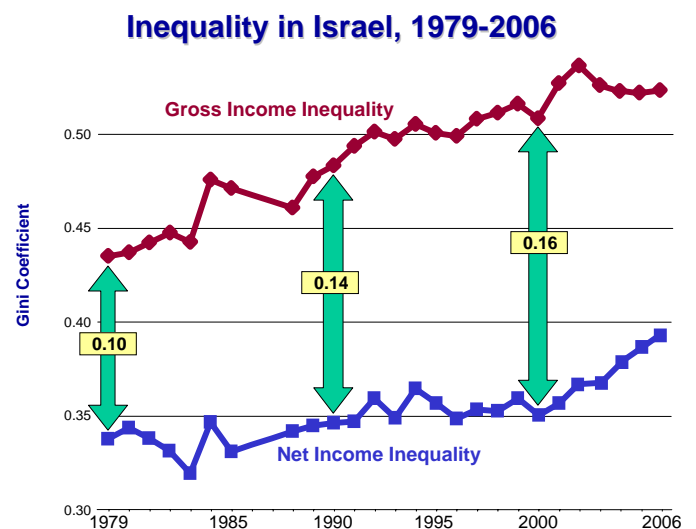
The socio-economic discourse in Israel is problematic on three main tiers of discord. First, basic concepts are not understood by many of the debaters. For example, when comparing incomes over time, inflation needs to be discounted. This is done by reporting incomes in terms of constant prices which are specified for a particular year. This is the source of the mistake made by those who claim that the rise in incomes among the lower income deciles between 1990 and 2006 did not surpass the price increases.

The second tier of the problematic discourse regards the blinders resolutely worn by many of those presenting facts to an unsuspecting public. One side of this debate extols the virtues of economic growth without mentioning that, in its current form, many individuals are barely able to cope. The more market failures there are – and in Israel, there are many – the greater the number of people finding it difficult to make ends meet, and consequently, the greater the economic gaps.

The opposing side in this debate issues reports and statements that do not contain a trace of corroboration for President Kennedy's adage, "a rising tide lifts all boats." This, despite the fact that from 1967 through 2006, economic growth in Israel contributed to an increase – in constant prices – of 275% in the poor's living standards, as indicated by the rise in average gross incomes in the bottom decile of families. However, since the wealthy benefited much more from the growth, this turned into the only aspect of the growth process publicly put forth by this side of the debate.

On the third tier of the problematic public discourse are the plethora of superficial and radical headline-grabbing proclamations. These prevent a broad internalization of the big picture – one that is substantially worse than what is brought to the fore by the usual spokespersons from the various sides. For over two and a half decades, behind the scenes and outside the radar screens of the politicians and advocacy research centers, gross income inequality soared upwards along a trajectory as straight as a ruler. This steady increase, of 20% in the Gini index between 1979 and 2006, transformed Israel into one of the least equal countries in the Western world. It is important to note that gross income inequality reflects the actual level of income disparity, the level that would exist had it not been for the existence of the social safety net of taxes and welfare.

A country that does nothing to prevent this actual increase in inequality must then implement rear-guard tax and welfare policies in order to reduce net income gaps. This is what



Source: Dan Ben-David, Tel-Aviv University
Data from Israel Social Security Institute

Israel did. During the years 1979-2000, net income inequality – which is what the public debate focuses on – rose by “only” 4%.

As a result, welfare payments had to rise steadily and steeply – not to reduce inequality, but to prevent the continuously-rising gross income gaps from being reflected in net income gaps. In 1980, defense spending was roughly similar to the combined expenditures on education, health and welfare. Since then, the former has fallen and the latter have risen. Today, the amount that Israel spends just on welfare is greater than its entire defense expenditure. It is a trajectory that will have an unhappy ending if not stopped in time. This decade, we received a glimpse of what the future holds. The defense situation and the recession prevented continued increases in welfare spending, and this led to a substantial increase in net income inequality.

Despite the relentless barrage of strident public statements that would have us believe otherwise, the twin objectives of heightened growth and lower income inequality do not conflict with one another. Treating the root sources of these problems requires – but is not limited to – comprehensive structural reforms in the realms of education and employment to increase the number of people who will be able to help themselves and to contribute to their country. But the State of Israel – its elected officials and unelected advocacy research centers – continue to focus on cosmetic and artificial solutions as substitutes for the real thing.

When the dependent segment of the population is growing larger by the day, it is important to understand that there exists a point of no return. Laws that are difficult to pass today in the Knesset will be impossible to pass in another generation.