

A State of Inequality

by
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“Which country today has the greatest equality? ... If we confine ourselves to the non-communist world, it has been suggested that the new state of Israel may lead the list.” So wrote the Nobel laureate, Paul Samuelson, in his book, “Economics” – a text that became the “bible” of every first year economics student in the Western world during the fifties, sixties and part of the seventies. This is how Israel was introduced to an entire generation of economists by one of the most important leaders in the field.

Today, the Israel that will be celebrating its 60th birthday is less “new”, and to the title of the list that it currently leads it is necessary to add the prefix “in-“. A badge of honor – it is not.

There is little argument about the need to grant compensation for excellence as a means of providing incentives for its achievement. Similarly, it makes no sense that envy should become the binoculars through which the majority view society’s most successful. But along with yesteryears’ socialist bathwater, we appear to have also thrown out our community conscience and social compass. Salaries beginning with the number 7 and followed by 3 zeroes reflect the national average. But in a country where that is the average, monthly salaries that begin with the same number, but are followed by 5-6 zeroes, long ago surpassed – in most cases – not only the boundaries of propriety, but also the boundaries of economic rationale

Few in Israel remain unconvinced that these insane salaries are the source of our leap from the forefront of egalitarian countries in the sixties to head the list of most unequal Western countries this decade? The problem is that this is just another example of the easy life that we make for ourselves when the issue of inequality is raised and the focus invariably turns to those maddening examples, instead of to the actual crux of the problem.

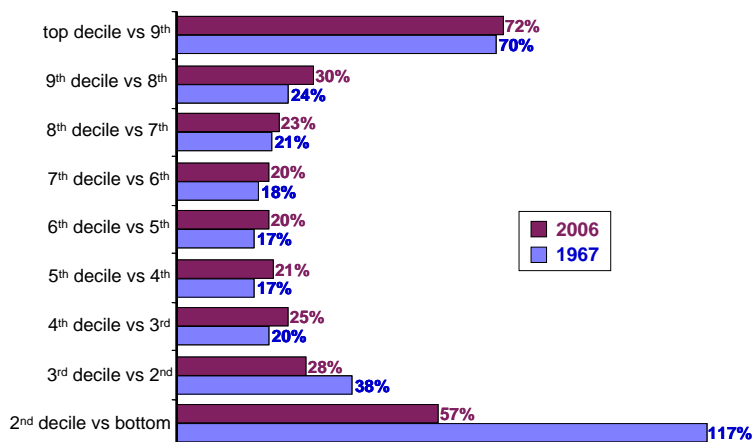
As indicated in the diagram, the largest gaps are between the two polar income deciles and the rest of society. But what is the source of the *increase* in inequality since the 1960s?

As a matter of fact, the gap between the second income decile and the bottom decile dropped from 117% in 1967 to 57% in 2006. The gap between the third income decile and the second decile also fell, from 38% to 28%. Gaps between every one of the other deciles grew.

Where was the largest increase in income disparity? Not between the highest income decile and the 9th decile immediately below it. This gap was large in 1967, and during the next 4 decades, it grew from 70% to “only” 72%.

But, in contrast with conventional wisdom, most of the increase in Israeli income gaps did not result from the very wealthiest leaving the rest of us in the dust, nor did it come from society discarding its very poorest farther and farther behind. The bulk of the increase in income disparity came from gaps that became increasingly wider between each of the middle income deciles. In the central boulevard of Israeli society, each one of the income lanes has moved farther and farther from one another. The time has come to understand this and to begin dealing with it.

Income Gaps in 1967 and in 2006*



* Gross household incomes gaps between each decile and the one below it
source: Dan Ben-David
data from the Central Bureau of Statistics