

DEMOGRAPHICS AND OTHER CULTURE-BASED PREFERENCES VERSUS DISCRIMINATION

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I. INTRODUCTION

Arab citizens of Israel are heavily represented among the low-income population in Israel. During the 1990s, about 35 percent of Arab families were poor compared to only 14 percent of the Jewish families.¹ In 1997, incomes in non-Jewish (90 percent Arab) households in Israel were about 74 percent of those of Jews measured by total gross income and about 61 percent measured by salary-income only.² Moreover, 71 percent of the Arab population lives in Arab dominated localities.³ Arab localities are heavily represented in the lowest echelon of per capita economic status as defined by the Israeli Census Bureau.⁴

Some of the papers presented at this conference portray a grim picture of covert discrimination against the Arab minority in Israel. Discussing discrimination at a conference for which topic is “the legal and socio-economic status of Arab citi-

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1. See Gharrah Ramsis & Refaela Cohen, *Oni Bekerev Aravim Be-yisrael-El Ve-Mekorot Le-I-Shivyon Bein Aravim Ve-Yehudim* [Poverty Among Israeli Arabs and Sources of Inequality Between Arabs and Jews], 48 RIV'ON LEKALKALA [ECON. Q.] 543, 556 (2001).

2. See Pnina O. Plaut & Steven E. Plaut, *Income Inequality in Israel*, 8 ISR. AFF. 47, 54 (2002). In 2000, the figures are similar: The average gross salary income of Arabs in Israel was 60 percent of the average gross salary income of Jews (based on a data set that did not include East Jerusalem because of security issues that prevented data collection). See CENT. BUREAU OF STATISTICS, THE ARAB POPULATION IN ISRAEL 11 (2002) [hereinafter ARAB POPULATION IN ISRAEL], available at <http://www.cbs.gov.il/statistical/arabju.pdf>. This study also found that 92 percent of Arabs own their houses as opposed to only 69 percent of Jews, but that the average cost of a house in an Arab household is only 490,000 shekels as opposed to 805,000 shekels for a house in a Jewish household. *Id.* at 11.

3. See ARAB POPULATION IN ISRAEL, *supra* note 2, at 3.

4. CENT. BUREAU OF STATISTICS, CHARACTERIZATION AND RANKING OF LOCAL AUTHORITIES, available at http://www.cbs.gov.il/hodaot2002/13_02_48.htm#tabgraphs (last modified Mar. 4, 2002).

zens in Israel” seems to imply that the two are interrelated. We assume discrimination is responsible for the Arabs’ relatively low socio-economic status; and, intuitively, their poor socio-economic status serves as a proof and a measure of the extent to which they are being discriminated against.

The aim of this paper is to draw attention to the complexity of the economic reality and to caution against a simple deduction that the Arabs’ poor socio-economic status is merely the result of discrimination. This is not to say that the Arab minority in Israel is not being discriminated against. They are; and discrimination should be fought against and eliminated.⁵ Moreover, the Arab minority in Israel should be guaranteed their equal rights and receive their fair share in central government allocations. However, when discussing economic inequality we should be aware that there are other important factors causing income disparities across ethnic groups in Israel. Some of these factors, such as the number of children per family and women’s participation rate in the labor market, are matters of choice. Clarifying these factors and their correlation with poverty is important not only because it weakens the claim regarding the extent of discrimination, but also because it has important policy implications. It suggests that eliminating discrimination will not be sufficient to transform the Arabs’ economic status. Clearly, the Israeli society must eliminate all forms of covert discrimination. But, the socio-economic status of the Arabs in Israel will not be significantly improved unless they adjust some of the preferences that currently disadvantage them economically.⁶

5. Under Israel’s Basic Law, discrimination is illegal, and therefore any discrimination is covert. See The State of Israel, *The Existing Basic Laws: Summary*, at http://www.knesset.gov.il/description/eng/eng_mimshal_yesod_2.htm (summarizing Israel’s Basic Laws, which form Israel’s piecemeal constitution).

6. One could argue that a welfare state has an obligation towards its citizens, regardless of their preferences (let alone culture), to maintain a certain minimum level of income and to mitigate inequality. For example, the Covenant on Economic, Social and Cultural Rights, G.A. Res. 2200, 21 U.N. GAOR Supp. No. 16 at 49, U.N. Doc. A/6316 (1966), requires states to provide fair pay, social security, health care, food, clothing, and housing “without discrimination of any kind as to race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status.” See also Philip Alston, *U.S. Ratification of the Covenant on Economic, Social and Cultural Rights: The Need for an Entirely New Strategy*, 84 AM. J.

The argument made in this Article is supported by a broad perspective, namely, by looking at similar patterns throughout the world, and by a narrow perspective, namely, by looking at the different groups within the Arab population in Israel.

The broad perspective can be illustrated by the following data. In 2000, the median income of Hispanic families in the United States, in constant 2000 dollars, was \$35,054; white families, \$53,256; and Asian/Pacific Islander families, \$61,511.⁷ Does it necessarily follow that families of Hispanic origin are being discriminated against? Does it follow that Asian/Pacific Islanders are being treated more favorably than whites?⁸

INT'L L. 365 (1990). Israel is a welfare state (though, a relatively poor one) and its tax and transfer system significantly reduces inequality. *See infra* Part II. Generous child support grants are being offered and various laws guarantee a very minimal basic income. *See, e.g.*, Minimum Wage Law, 1987; Social Security Law, First and Second Child Stipend, 1985. However, for efficiency (i.e., incentives) and equity reasons, redistribution policies in most countries of the world are not aimed at equalizing all individual's wealth. For example, redistributing money from individual A to individual B, when the two individuals are identical in all respects except for that individual A has a greater preference for work and therefore has greater wealth, is considered to be undesirable. Interestingly, the question of choice is central in redistribution policy from a welfare point of view, as well as from a liberal egalitarian perspective. *See* Daniel N. Shaviro, Commentary, *Inequality, Wealth, and Endowment*, 53 TAX L. REV. 397, 401-06 (2000) (exploring the rationales of various tax bases as proxies for differences in well being and demonstrating, *inter alia*, the theoretical difference, but practical similarity, of the two leading measures of inequality: the liberal egalitarian function that maximizes equality of opportunity and the welfare functions that maximize welfare).

7. *See* U.S. CENSUS BUREAU, STATISTICAL ABSTRACT OF THE UNITED STATES: 2002, at 436, tbl.658 (2002) [hereinafter 2002 U.S. STATISTICAL ABSTRACT], available at <http://www.census.gov/prod/2003pubs/02statab/income.pdf>. The median annual income of African-American families in the United States was \$34,192; however, this figure is inextricably linked to the lingering effects of slavery and discrimination, and thus does not provide a good example. *See id.*

8. Edward Wolff looked at the top 1 percent of wealth-holders in 1992 and found that, 94.2 percent of them were white, even though whites comprised only 75.3 percent of all households; in contrast, only 0.1 percent of the top wealth-holders were African-Americans, even though they comprised 12.6 percent of all households; 0.9 percent were Hispanic, while their overall percentage was 7.6; and 4.8 percent were Asians, while their overall percentage was 4.6. Edward N. Wolff, *Who Are the Rich? A Demographic Profile of High-Income and High-Wealth Americans*, in DOES ATLAS SHRUG? THE ECONOMIC

Similar patterns can be found throughout the industrialized countries. Performing a direct comparison is difficult because, except for the United Kingdom, all other European countries do not draw statistical classifications along similar lines.⁹ Nonetheless, as Amy Chua points out: “a general pattern of lower economic status for ethnic minorities vis-a-vis the ethnic majority is evident throughout the industrialized Western countries.”¹⁰

One could argue that discrimination is the cause of these differences throughout the Western world,¹¹ but if we further broaden our examination and look at the rest of the world we

CONSEQUENCES OF TAXING THE RICH 74, 80 (Joel B. Slemrod ed., 2000); see also David Brand, *The New Whiz Kids: Why Asian Americans are Doing So Well, and What it Costs Them*, TIME, Aug. 31, 1987, at 42 (giving various explanations of the success of Asians in the United States).

9. See Richard Berthoud, *Poverty and Prosperity among Britain's Ethnic Minorities*, 10 BENEFITS 3, at 4 (2002), available at http://www.iser.essex.ac.uk/pubs/reports/pdf/benefits_berthoud.pdf (“We can no longer assume that straightforward colour-based discrimination in recruitment or promotion is the primary reason for what are now known as ‘ethnic penalties’ in employment.”). Sixty percent of Pakistanis and Bangladeshis live below the poverty line—four times as many as among the white community. *Id.* at 6, tbl. 1. At the same time, other minority groups are doing much better, and the “better-off Chinese households tend to have higher incomes than those in any other ethnic group, including whites—the 90th percentile in the Chinese community is 20 percentage points above the white figure.” *Id.* at 5.

10. See Amy L. Chua, *Markets, Democracy, and Ethnicity: Toward a New Paradigm for Law and Development*, 108 YALE L.J. 1, 28 n.133 (1998-1999).

11. If this is true, the Israeli case—to which I am leading—is of no special importance, and the “international norm of discrimination” is what should be at the center of public and academic attention. Moreover, the income gaps between Jews and Arabs in Israel, see *infra*, Part II, are smaller than the economic gaps between majority and minority ethnic groups in many other Western countries. For example, the economic ethnic gaps between whites and Hispanics in the United States, see 2002 U.S. STATISTICAL ABSTRACT, *supra* note 7, at 436 tbl.658 (stating that the median income of a family of Hispanic origin was only 66 percent of the median income of a white family), and whites and the Pakistani and Bangladeshi minorities in the United Kingdom, see Berthoud, *supra* note 9, at 4-5 (stating that Pakistanis and Bangladeshis have two to three times the rate of unemployment as whites, and that Pakistani and Bangladeshi employees earn less money than any other ethnic group—around 30 percent below the national average), are much wider than the economic gap between Jews and Arabs in Israel, see Plaut & Plaut, *supra* note 2, at 54. I believe that discrimination does exist to a certain extent—much more in the past than today—in many of these countries, especially in Europe and in Israel. But discrimination is not the main reason for this worldwide, and Israeli, phenomenon.

will notice an interesting phenomenon that seems to suggest the supremacy of other plausible explanations: In many developing countries, ethnic minorities dominate the economic elite.¹² The reasons for economic dominance clearly vary from country to country, but the two major explanations are historical circumstances, such as colonialism, and cultural differences.¹³ Arguments regarding discrimination are not usually relevant in the context of economically dominant minorities except in the famous counter-intuitive way, namely, that the secret to the economic success of certain minority groups is their exclusion from positions of political influence that drove them with “peculiar force into economic activity.”¹⁴

12. See Kevin Davis et al., *Ethnically Homogeneous Commercial Elites in Developing Countries*, 32 L. & POL'Y INT'L BUS. 331, 336 (2001) (“[E]thnic Chinese in Southeast Asia; Ceylon Tamils in Sri Lanka; whites and South Asians in East Africa; (East) Indians in Fiji and Guyana; whites in Zimbabwe and South Africa; the Tutsi in Rwanda and Burundi; Ibos in Nigeria; Lebanese in francophone West Africa, the Dominican Republic, Haiti, Jamaica and Trinidad; “taller, lighter-skinned, Spanish-blooded aristocrats” in Bolivia, Mexico, Peru, and most Central American Countries; Russian-speaking groups in Kazakhstan, Uzbekistan, Turkmenistan, and Kyrgyzstan; and various minorities in particular Indian states such as the South Indians in Maharashtra, the coastal Andhras in Telangana, and the Bengali in Assam.”).

13. See Chua, *supra* note 10, at 30 (“It is often said that these ‘middleman’ minorities are ‘culturally’ predisposed to entrepreneurial success as a result of group differences in work habits, savings propensities, or attitudes toward education and commerce. Thus, the Chinese in Southeast Asia (and elsewhere) are said to be driven by an ‘intense profit motive’ relatively absent among Malays and Filipinos; the Vietnamese are ‘frugal,’ ‘industrious,’ and ‘inventive’ compared to the supposedly more artistically oriented Cambodians; Indians in the Caribbean and throughout East Africa operate on tiny profit margins, live extremely cheaply, and are felt to be ‘single-mindedly devoted to work and accumulation.’ Relatedly, a good deal of recent scholarship explains the success of Chinese, Indian, Korean, and Lebanese communities in terms of their solidarity and ‘social networking,’ in contrast to the Thai, who, for example, ‘don’t trust one another’ and ‘relate to one another only in a hierarchical way.”). For a classic in cross-cultural psychology, see GEERT HOFSTEDE, *CULTURE’S CONSEQUENCES: COMPARING VALUES, BEHAVIORS, INSTITUTIONS, AND ORGANIZATIONS ACROSS NATIONS* (2d ed. 2001). See also *CULTURE MATTERS: HOW VALUES SHAPE HUMAN PROGRESS* (Lawrence E. Harrison & Samuel P. Huntington eds., 2000) for a broader view of the connections between culture and progress.

14. See Chua, *supra* note 10, at 32 (citing MAX WEBER, *THE PROTESTANT ETHIC AND THE SPIRIT OF CAPITALISM* 39 (Talcott Parsons, Routledge 1992) (1930) (referring to Poles in Russia and Eastern Prussia, Huguenots in France, Nonconformists and Quakers in England, and Jews generally)).

In sum, income disparities seem to follow ethnic groups in most of the countries in the world. Historical and cultural reasons are currently more plausible explanations of this worldwide phenomenon than is discrimination.

As mentioned above, a narrow perspective can also support the argument made in this Article. When looking at the different groups within the Arab population in Israel we find that Christian Arabs are significantly better off in terms of education and economic well-being than Moslem Arabs.¹⁵

There is no reason to assume that Israeli Jews discriminate against Christian Arabs to a lesser extent than they discriminate against the other Arab groups: first, because individual Jews do not distinguish between Christian and Moslem Arabs, and, second, because the main argument about Arab discrimination is that the Israeli government discriminates against Arabs because Israel is the Jewish state.¹⁶

Differences in preferences between Christian and Moslem Arabs can explain the differences in economic well-being between the two populations. Christian Arabs have on average a much lower number of children per family; they make much greater investments in education; a larger percentage of them live in the big cities; and they have higher rates of women participating in the labor market.¹⁷

If differences in preferences seem to plausibly explain the economic differences between Christian and Moslem Arabs in Israel (since discrimination is not plausible in this context), might those same differences explain at least some of the socio-economic gap between the Jews and Arabs in Israel in general?

15. See Bernard Sabella, *The Situation of Palestinian Christians: Some Food For Thought*, Jan. 2004, at <http://www.al-bushra.org/latpatra/sabella8.html> (last visited Apr. 2, 2004). So are the Druze, but I choose not to use them as an example, because one could argue that the Israeli government treats them more favorably compared to Moslem Arabs because they participate in the Israeli army. See Zeidan Atashi, *The Druze in Israel and the Question of Compulsory Military Service*, Jerusalem Ctr. for Pub. Aff., Oct. 15, 2001, at <http://www.jcpa.org/jl/vp464.htm> (last visited Oct. 30, 2004).

16. See, e.g., Amal Jamal, *Beyond "Ethnic Democracy": State Structure, Multicultural Conflict and Differentiated Citizenship in Israel*, 24 NEW POL. SCI. 411, 413-14 (2002).

17. See Sabella, *supra* note 15.

In the succeeding parts of this Article, I attempt to explain and support my overall argument in more detail. Part II begins with an explanation of how economic well-being is measured in Israel and how poverty is defined. It then proceeds to describe the pattern of income distribution in Israel and focuses on who are the poor and what seems to characterize them. Part III explores a number of factors that could explain the relatively greater poverty rates among the Arab population in Israel.

II. INCOME DISTRIBUTION AND POVERTY IN ISRAEL

A. *Measuring and Ranking Economic Well-Being*

Defining and measuring economic well-being, or standard of living, is a very difficult task. An individual's economic well-being depends on many tangible and intangible sources and factors, such as preference for leisure (consumption), job satisfaction, income flows, level of assets, inheritance expectations, housing conditions, human capital, cost of living and taxes, availability and level of public services and goods, and more. The standard used by the research department at the National Insurance Institute of Israel (the equivalent of the Social Security Administration in the United States) is that of Disposable Income.¹⁸ This is also the predominant indicator of resources used in such studies all over the world.¹⁹

Disposable income is the market income (from work as well as from ownership of physical production means and financial assets) plus transfer payments (received without relation to economic efforts, such as social security benefits or support from institutions and individuals in Israel and abroad), less direct taxes (income tax, national insurance contributions, and health insurance contributions).²⁰

18. ANNUAL SURVEY OF THE NATIONAL INSURANCE INSTITUTE OF ISRAEL at E12, E47 (2001) (using the term "net income" instead of "disposable income"), at http://www.btl.gov.il/English/pirsumim/annual_survey/skira_2001.pdf (last visited Oct. 31, 2004) [hereinafter NII 2001 ANNUAL SURVEY].

19. See, e.g., Harry Greenwell et al., *An Introduction to Poverty Measurement Issues*, Discussion Paper No. 55, Nat'l Ctr. for Soc. & Econ. Modelling, (Canberra, Austl.), Dec. 2001, at 12, available at <http://www.natsem.canberra.edu.au/pubs/dps/dp55/dp55.pdf> (last visited Nov. 13, 2003).

20. *Id.*

Ranking people by their personal income does not make much sense in a world where families often share their incomes. For example, a ranking of personal incomes would place all non-working partners of high-income earners in poverty. The assumption that in most families the income earned by each member of the family is shared between all family members is widely accepted in academic research:²¹ “In effect, what is assumed is that because all family members share their income they all have the same standard of living.”²²

Since the term “family” is vague, in poverty and inequality research, a group that is assumed to share its income is sometimes referred to as the “income unit.”²³ An income unit is a single person, with or without dependant children, or married (registered or *de facto*) couples with or without dependant children.²⁴

Family size involves “economics of scale, whereby the growth of a family by an additional person increases its needs not by an equivalent, but rather by a lesser, proportion.”²⁵ As the NII explains:

[T]he additional income required by a family in order to maintain a fixed standard of living decreases with the increase in the number of family members. To enable a comparison between the standard of living of families of different sizes, an “equivalence scale” was developed by which the needs of each such family can be measured against the needs of a family of a given basic size. More specifically, the equivalence scale translates the number of persons in a family into the number of “standard” persons (or the number of “standard adults”) in that family. The scale is based on a two-member family, which is assigned a value of two standard persons. According to this scale, a family with one member has a value of 1.25 standard persons. In other words, the needs of a

21. *Id.* at 15.

22. *Id.* at 15-16.

23. *Id.* at 16.

24. *Id.* at 16-17 (describing and comparing the benefits and problems of various possible definitions of income unit); *see also* A.B. ATKINSON, *THE ECONOMICS OF INEQUALITY* 46-47 (2nd ed. 1983).

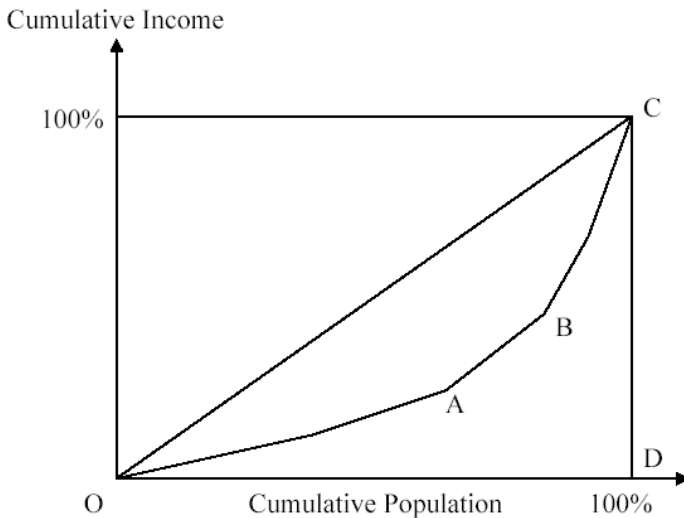
25. NII 2001 ANNUAL SURVEY, *supra* note 18, at E48.

one-member family are not assessed as equivalent to one half the needs of a two-member family, but as greater. Similarly, the needs of a four-member family (which has a value of 3.2 standard persons) are not set at double the needs of a two-member family (which has a value of 2 standard persons), but at less than double (only 1.6 times greater).

B. *Measures of Inequality*

The most prevalent index of income inequality within a country is the Gini Index (also known as the Gini Coefficient).²⁶ It measures the degree of inequality in the distribution of family income in a country.²⁷ The index is calculated from the Lorenz curve, in which cumulative (family) income is plotted against the cumulative population (of families) arranged from the poorest to the richest.²⁸

FIGURE 1: GINI INDEX



The index is the ratio of (a) the area between a country's Lorenz curve and the 45-degree helping line (OABC) to (b)

26. ATKINSON, *supra* note 24, at 53.

27. *Id.*

28. *Id.* at 16, 53.

the entire triangular area under the 45-degree line (ODC).²⁹ The more equal a country's income distribution is, the closer its Lorenz curve to the 45-degree line and the lower its Gini index.³⁰ If income were distributed with perfect equality, the Lorenz curve would coincide with the 45-degree line and the index would be zero; if income were distributed with perfect inequality, the Lorenz curve would coincide with the horizontal axis and the right vertical axis and the index would be 1.³¹ For example, the Gini Index in Sweden was 0.250 (in 1992); 0.408 in the United States (in 1997); and 0.335 in Israel (in 2001).³²

C. *Defining Poverty*

The concept of poverty is a matter of considerable academic dispute. Perhaps the only point of general agreement is that people who live in poverty must live in a state of deprivation, a state in which their standard of living falls below some minimum acceptable standard.³³

Some countries, such as the United States, use an *absolute* standard based on a specific income figure that is seen as necessary to provide a minimum level of basic necessities such as food and housing. In the United States, the index is based on the Department of Agriculture's early 1960s Economy Food Plan and reflects the different consumption requirements of families based on their size and composition.³⁴ The poverty thresholds are updated every year to reflect changes in the Consumer Price Index.³⁵

29. *Id.* at 53.

30. *Id.*

31. *Id.*

32. See CENT. INTELLIGENCE AGENCY, THE WORLD FACTBOOK 2002, available at <http://www.cia.gov/cia/publications/factbook/fields/2172.html> [hereinafter CIA 2002 WORLD FACTBOOK].

33. See James E. Foster, *What is Poverty and Who are the Poor? Redefinition for the United States in the 1990's: Absolute Versus Relative Poverty*, 88 AM. ECON. REV. 335, 335 (1998) (discussing disagreements on how to identify this minimum threshold).

34. See *id.* at 338; Robert K. Triest, *Has Poverty Gotten Worse?*, 12 J. ECON. PERSP. 97, 98 (1998); Isabel V. Sawhill, *Poverty in the U.S.: Why Is It So Persistent?*, 26 J. ECON. LITERATURE 1073, 1075 (1988).

35. Linda Barrington, *Estimating Earnings Poverty in 1939: A Comparison of Orshansky-Method and Price-Indexed Definitions of Poverty*, 79 REV. ECON. & STAT. 406, 409 (1997) (noting that since the 1960s the United States has adjusted

Most other countries, including Israel, use a *relative* poverty index. A family is considered poor when its living conditions are significantly inferior to those of the society as a whole. The poverty line is defined as the level of income equivalent to 50 percent of the median disposable income.³⁶ A family whose disposable income is lower than one half of the median disposable income (adjusted for family size according to equivalence scale) is thus regarded as poor.

D. *The Poor in Israel*

Seventeen point six percent of the families in Israel were below the poverty line in 2000.³⁷ The lowest 20 percent of the population earned only 3.5 percent of the economic income in Israel while the top 20 percent earned 53.9 percent of the economic income.³⁸ After tax and transfers, the inequality was reduced so that the lowest 20 percent of the population had 6.8 percent of the income and the top 20 percent of the population had 41.5 percent of the income.³⁹ This means that labor market inequality in Israel is very high and the burden on the government to decrease inequality gaps through the operation of the tax and transfer system is substantial.

The tax-and-transfer system has different effects on the different groups of population. Using data from 2000, prior to the tax-and-transfer system's intervention, similarly high poverty rates prevailed among households headed by an elderly person (61.5 percent); households with four or more children (57.6 percent); new immigrants (43.4 percent); non-Jewish households (55.9 percent); and single parents (52.7 per-

the poverty line for inflation); *see also* Sawhill, *supra* note 34, at 1075 (stating that poverty thresholds are projected backward and forward by indexing them for price changes using the Consumer Price Index).

36. Median income is defined as the level of income that is more than that which is earned by 50 percent of families and less than that which is earned by the other 50 percent of families. NII 2001 ANNUAL SURVEY, *supra* note 18, at E47.

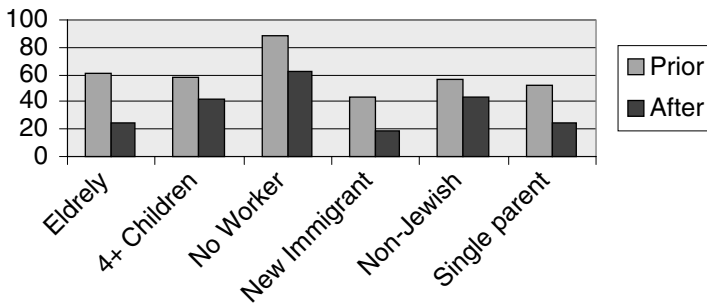
37. NII 2001 ANNUAL SURVEY, *supra* note 18, at E50-E51.

38. *Id.* Prior to income distribution, the Gini coefficient was 0.509 in 2000, a very high figure compared to international standards. *See* CIA 2002 WORLD FACTBOOK, *supra* note 32.

39. NII 2001 ANNUAL SURVEY, *supra* note 18, at E54. After income distribution, the Gini coefficient was reduced to 0.350 in 2000, which is around the European standard. *See* CIA 2002 WORLD FACTBOOK, *supra* note 32.

cent).⁴⁰ The after-tax-and-transfer poverty rates were dramatically lower in the cases of the elderly (24.4 percent); the new immigrants (18.4 percent) and the single parents (25.1 percent).⁴¹ Poverty rates among families with more than three children (41.8 percent) and non-Jewish (42.9 percent) remained relatively high.⁴² The only category that had a higher representation in the poor population than these two categories was that of households that were not headed by a worker nor by an elderly person, which was reduced from 88.1 percent to 62.4 percent.⁴³

FIGURE 2: MEASURING THE POOR IN ISRAEL BEFORE AND AFTER THE TAX-AND-TRANSFER SYSTEM, 2000⁴⁴



From the individual's or family's point of view, what matters most is the after-tax-and-transfer income, i.e., the disposable income. The households that have the greatest probability of being poor are therefore those headed by non-workers, non-Jewish households (90 percent of which are Arabs), and families with more than three children.⁴⁵

Some of these categories overlap to a great extent. For example, the Ultra-Orthodox Jews and the Moslem Arabs tend to have large families and low participation rates in the labor market; although, in the case of the Moslem Arabs, the women are the ones who tend not to work, while in the case of the

40. NII 2001 ANNUAL SURVEY, *supra* note 18, at E55.

41. *Id.*

42. *Id.*

43. *Id.*

44. *Id.*

45. *Id.*

Orthodox Jews, the males tend to stay out of the labor market.⁴⁶

TABLE 1: DATA ON POVERTY IN 1999⁴⁷

Category	Percentage of Poor in the Category
Total	17.8
Families with at least one worker—total	9.3
Families with one worker	18.2
Families with two workers or more	2.1
Families with no worker	62
Jews	14.1
Non-Jews	42.3
Head of family had 12 or more years of schooling	10
Head of family had less than 12 years of schooling	23.8
Head of family is below the age of 65 (for men) and 60 (for women)	15.9
Head of family is at or above the age of 65 (for men) and 60 (for women)	25
Families with no children	16.1
Families with children	19.3
Families with up to 3 children	14.7
Families with more than 3 children	41.6
Single parent	23.7

Several factors influence the probability of poverty, but a central variable is the number of family members participating in the labor market. More than 62 percent of the families that

46. See, e.g., Bank of Israel, ANNUAL REPORT 126-27 (2002), available at http://www.boi.gov.il/deptdata/mehkar/doch02/eng/pe1_3.pdf.

47. ANNUAL SURVEY OF THE NATIONAL INSURANCE INSTITUTE OF ISRAEL at 30 (2000), at http://www.btl.gov.il/English/pirsumim/annual_survey/skira_2000.pdf (last visited Oct. 31, 2004); Karnit Flug & Nitsa Kasir, *Poverty and Employment and the Gulf Between Them*, 1 ISR. ECON. REV. 55, 62 (2003) (updating figures appearing in Flug & Kasir, *infra* note 104).

are not headed by an elderly person and have no bread-winner are poor.⁴⁸ Twenty percent of the families with one earner are poor, and only 2 percent of the two-earner families are poor.⁴⁹ Hence, the surest way to avoid poverty in Israel is to be a two-earner family.

The probability of poverty decreases as education increases. The probability of poverty of a household whose head has zero to eight years of education is three times higher than that of a household whose head had eleven to twelve years of schooling.⁵⁰

The probability of poverty increases with the number of children. Families with more than three children are three times more likely to be poor than families with three or less children.⁵¹

The probability that Ultra-Orthodox Jewish families and Arab families will be poor is higher than that of other families even when controlling for the size of the family and years of schooling. In the case of the Ultra-Orthodox, this probably implies that potential employers perceive that the quality of their education is lower.⁵² In the case of the Arabs, discrimination in the labor market seems to be a major reason, but is not necessarily the only one. Low quality of education is one plausible explanation offered in the literature,⁵³ and other reasons will be detailed below.

48. NII 2001 ANNUAL SURVEY, *supra* note 18, at E55.

49. *Id.*

50. Flug & Kasir, *supra* note 47, at 62.

51. Yaser Awad & Nirit Israeli, *Poverty and Income Inequality: An International Comparison, 1980s and 1990s* (Nat'l Insurance Inst., July 1997), available at <http://www.lisproject.org/publications/liswps/166.pdf>.

52. Ultra-Orthodox Jews spend a large proportion of their school time studying religion. See Eli Berman, *Sect, Subsidy, and Sacrifice: An Economist's View of Ultra-Orthodox Jews*, 115 Q.J. ECON. 905, 908 (2000) (noting that Ultra-Orthodox men study full-time in religious seminaries that provide little practical training). The irrelevance of religious studies to most occupations seems to be a plausible assumption.

53. The quality of education offered in many Arab localities was found to be relatively low. See Chaim Adler & Nahum Blass, *I Ha-Shivyon Ba-Khinukh Ha-Yisraeli [Inequality in Education in Israel]*, in HAKTZA-AT MASHABIM L'SHERUTIM KHEVRATIYIM [RESOURCE ALLOCATION FOR SOCIAL SERVICES] 155 (Yaakov Kop ed., 1996); Victor Lavi et al., *Ha-Pe-arim Ha-Hesegim Ha-Limudiyim Bein Kvutzot Vkhlusin B'Yisra-el V'Ha-Drakhim L'Tzimzumam [The Gaps in Educational Achievements Among Population Groups in Israel and the Ways to Decrease Them]*, in HON ENOSHI, TASHTIT FIZIT V'TZMIKHA KALKALIT

III. POVERTY OF THE ARAB POPULATION AND ITS SOURCES

A. *Fertility Rate and Population Age*

At the end of 2001, 1.2 out of 6.5 million Israeli citizens were Arabs.⁵⁴ Eighty-one point eight percent of the Arab population in Israel were Moslem, 9.2 percent Christian, and 8.68 percent Druze.⁵⁵ The Arab population's growth rate—3.4 percent annually⁵⁶—is one of the highest in the world, even higher than the growth rate in neighboring Arab countries (1998 growth rates were 2.8 percent in Syria and Jordan and 2.1 percent in Egypt).⁵⁷

The average number of children per Moslem woman in the 1960s was more than nine, and Druze women had on average more than seven children per woman.⁵⁸ With modernization, and especially with the increase in the level of women's education, the birth rate started decreasing, but since the 1980s the decrease has stopped among Moslem women in Israel.⁵⁹ Therefore, today the average number of births per Moslem woman is 4.71, 3.02 per Druze woman, and 2.53 per Christian woman (which is the same as the average, collectively, for Jews, non-Arab Christians, and those not classified by religion).⁶⁰ The number of children per woman is positively correlated with her years of schooling and her participation in the labor market. A population census conducted in 1995 in Israel found that Arab women between thirty-five and thirty-

[HUMAN RESOURCES, PHYSICAL INFRASTRUCTURE AND ECONOMIC GROWTH] (Ben-Bassat ed., The Israel Democracy Institute, 1999).

54. STAT. ABSTRACT ISR. 2002, at 10 tbl.2.1 (State of Isr. Cent. Bureau Stat., 2002) [hereinafter 2002 STAT. ABSTRACT ISR.].

55. See *id.* The Christian group was composed mainly of Greek Orthodox, Greek Catholics, and Roman Catholics. *Id.*

56. See *id.* ch. 2, at 11 tbl.2.2.

57. See Onn Winckler, *Fertility Transition in the Middle East: The Case of the Israeli Arabs*, 9 ISR. AFF. 39, 63 tbl.6 (2003). Moslem Arabs account for the high growth rate of Israeli Arabs. The Moslem Arab growth rate in Israel for 1996-2001 was 3.6 percent, while the Druze grew at 2.4 percent, and the Christians at 1.8 percent. See 2002 STAT. ABSTRACT ISR., *supra* note 54, at 11-12 tbl.2.

58. See Winckler, *supra* note 57, at 61 tbl.4.

59. See *id.* "In contrast to the Israeli Muslims, a reduction in fertility levels has prevailed since the mid-1980s in almost all of the Arab countries, with the exception of Yemen and Sudan—the two poorest Arab countries." *Id.* at 48.

60. See 2002 STAT. ABSTRACT ISR., *supra* note 54, at 28, 31-32 tbl. 3.13.

nine years old who lacked education had, on average, six children, while those who studied more than twelve years had only 3.5 children.⁶¹ Moreover, women in that age group who worked—and those who work are on average more educated than those who do not—had on average 3.6 children, compared to 5.1 per non-working women.⁶²

Due to the high fertility rate in Israel, the Arab population is very young. Forty percent of the population is fourteen years old or younger,⁶³ and 51 percent of the population is younger than twenty, compared to 34 percent of the Israeli Jewish population.⁶⁴ As a result, the *economic dependency ratio index*, which measures the ratio of the children (ages 0-14) and the elderly (above 64) to the population at working ages (15-64), is 1.3.⁶⁵ This means that every Arab citizen in Israel of working age is economically responsible for providing for 1.3 people in addition to herself. This index is 0.6 among the Jewish population, in spite of a much higher percentage of elderly people in the Jewish population.⁶⁶

The age variable alone can explain much of the economic disparity between the Jewish and Arab populations. A simple way to illustrate the importance of taking the age difference into account is by hypothesizing the following two population groups.⁶⁷ Group A consists of people who are twenty years old, while all the members in group B are forty-five years old. The existence of large income differences between the two groups is most likely to be testimony to the importance of age and experience in explaining earnings.⁶⁸ Comparing the incomes of two separate ethnic group populations, such as the Jews and the Arabs in Israel, where one is significantly younger than the other, is almost meaningless without controlling for

61. ARAB POPULATION IN ISRAEL, *supra* note 2, at 6.

62. *Id.* at 6.

63. *See id.* at 3 tbl. A-4.

64. *Id.* at 3. The figure for Arabs aged twenty and younger should be disaggregated by religion for a more complete picture: Thirty-eight percent among Christian Arabs, 46 percent among the Druze, and 53 percent among Moslem Arabs. *Id.*

65. Ramsis & Cohen, *supra* note 1, at 547.

66. *See id.*

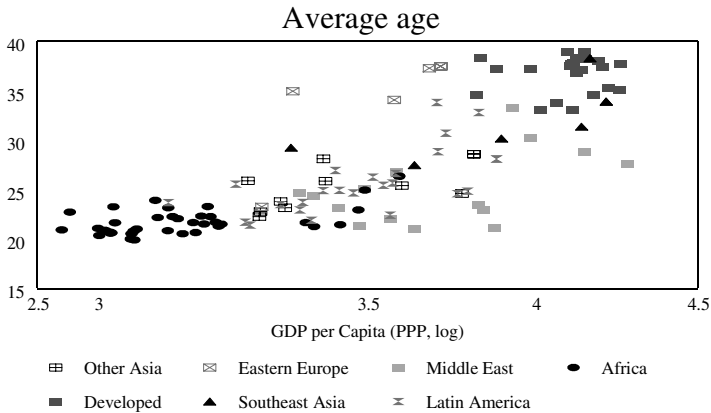
67. The example is based on Plaut & Plaut, *supra* note 2, at 48.

68. *See id.*

age.⁶⁹ The population age factor is one of the major explanations for the economic differences between developed and developing countries.⁷⁰

FIGURE 3: CORRELATION BETWEEN AVERAGE AGE AND AVERAGE INCOME⁷¹

Higher average age, higher incomes



Fuente: Cálculos OCE-BID basado en Proyecciones de Población Naciones Unidas (1998)

69. Consider a family of two parents and one child with an income of \$12,000 annually. To keep the example simple, ignore the equivalence scales mentioned in Part II, and calculate the disposable income per person in that family to be \$4,000 per year. Upon the birth of a second child, each one of the three previous family members suffers a decrease in personal disposable income of \$1,000, or 25 percent. This illustrates why large families such as Arab Moslem families are very likely to be poorer than the much smaller Jewish families and why the poorest populations in Israel are the Ultra-Orthodox Jews and the Bedouins, who have on average more than seven children per woman. See NII 2001 ANNUAL SURVEY, *supra* note 18, at E50-51; Berman, *supra* note 52, at 907.

70. See, e.g., TATYANA P. SOUBBOTINA & KATHERINE A. SHERAM, BEYOND ECONOMIC GROWTH: MEETING THE CHALLENGES OF GLOBAL DEVELOPMENT 45-47 (2000).

71. Office of the Chief Economist, Inter-American Development Bank (based on data compiled by the U.N. Population Fund) (on file with author).

B. *Women's Participation in the Labor Market*

While the participation rate of Arab men in the labor market—61 percent—is equal to that of Jewish men, Arab women's participation rate is much lower—15 percent as opposed to 53 percent among Jewish women.⁷² During the prime ages of 25 to 34, only 22 percent of Arab women participate in the labor market, compared with 79 percent of Jewish women.⁷³ The low participation rate of Arab women is attributed to customary traditions still prevailing in Arab society and to the large number of children per household.⁷⁴

There is a strong positive correlation between years of schooling and labor market participation rate. The participation rate of Arab women that studied more than fifteen years reaches 64 percent, which is 7 times higher than that of women who studied five to eight years.⁷⁵ The participation rates also vary among the different Arab groups. Christian Arab women have a 26 percent participation rate, Druze 17 percent, and Moslem only 13 percent.⁷⁶ Only 6 percent of Bedouin women participate in the labor market.⁷⁷

As was shown in Part II, only 2 percent of the two-earner households in Israel are poor, compared to the average of 17.7 percent across all households; therefore, families in which both spouses work are practically guaranteed to be above the poverty line. Unfortunately, the vast majority of Arab households are not composed of two working spouses.

The importance of the two factors mentioned above, namely, Arab demography and women's rate of participation in the labor market, is very significant in explaining the differences in economic well-being between Jews and Arabs in Israel. Efraim Kleiman argued that the combination of 1.3 dependency ratio compared with 0.6 in the Jewish population and the lower participation rates of Arab women in the labor market compared to Jewish women means that, even if the earnings per worker in both population groups were identical, the per capita income of the Arab population would be only a

72. ARAB POPULATION IN ISRAEL, *supra* note 2, at 9.

73. *Id.* para. 70, at 10.

74. See Ramsis & Cohen, *supra* note 1, at 550.

75. See ARAB POPULATION IN ISRAEL, *supra* note 2, at 10.

76. *Id.* at 10.

77. *Id.*

little more than one half of that of the Jewish population group.⁷⁸

C. Local Government Issues

The Arab citizens of Israel tend to live in their own localities. Seventy-one percent of the Arabs reside in 116 localities in which the population is comprised almost entirely of Arabs.⁷⁹ Eastern Jerusalem, with 209,000 Arabs at the end of 2000, accounts for most of the rest.⁸⁰ The Moslem and Druze tend to live in localities in which 90 percent of the population is Moslem or Druze respectively. Many more Arabs live in small localities than Jews.⁸¹

Studies confirm that population size has a major influence on the fiscal strength of local authorities.⁸² Local govern-

78. See Efraim Kleiman, *Mitdayen: Meshulavim O Nifradim, Ve-Ul'ai Pa-Am Shavim [Discussing: Integrated or Separated, and Maybe Someday Equal]*, 48 RIV'ON LEKALKALA [ECON. Q.] 648, 648-49 (2001) (also raising the need to account for the various sub-groups with varying economic status within the Jewish population and the influence of such categorization on hiring decisions compared to the Arab population).

79. ARAB POPULATION IN ISRAEL, *supra* note 2, at 3.

80. Around 80,000 Arabs live in eight other cities with a majority Jewish population. *Id.* at 3. There are many differences between the Arabs who live in Eastern Jerusalem and the rest of the Arab population in Israel. Eastern Jerusalem was annexed to the state of Israel only after the 1967 war, while the rest of the Arab population, with the exception of the small population in the Golan Heights, was part of the Israeli state since 1949—i.e., practically since its inception. Yoav Peled, *Ethnic Democracy and the Legal Construction of Citizenship: Arab Citizens of the Jewish State*, 86 AM. POL. SC. REV. 432, 435-36 (1992). Many Arabs living in Eastern Jerusalem refuse to apply for Israeli citizenship; they also repeatedly boycott the elections for city council even though they need not accept Israeli citizenship to vote in municipal elections. See *Palestinians Boycott Israeli Municipal Elections in Jerusalem*, Badil Resource Ctr., at <http://www.badil.org/Press/1998/press32-98.htm> (Nov. 12, 1998); *Israel Says Arabs Born in Jerusalem are Aliens*, MIGRATION WORLD MAGAZINE, 1997, at 7 (stating that Arab residents of East Jerusalem are designated permanent residents of Israel; they can individually apply for citizenship, but few do). Arabs are not represented at the local government level in Jerusalem even though they are 32 percent of the city's population. See ARAB POPULATION IN ISRAEL, *supra* note 2, at 3. In a way, Arabs in Eastern Jerusalem have isolated themselves and could be viewed as living in their own, dysfunctional locality.

81. See 2002 STAT. ABSTRACT ISR., *supra* note 54, at 36-38 tbl. 2.11.

82. See Eran Razin, *Fiscal Disparities Between Small and Large Municipalities in Israel*, 1/25 POLICY PAPER (Floersheimer Inst. for Policy Studies, Isr. 1999).

ance involves significant fixed costs that are divided by the number of residents and are therefore much more burdensome per person (or household) in small localities.⁸³ Moreover, small municipalities suffer from a lack of economies of scale in almost each and every public project they provide.⁸⁴

The disadvantage of small municipalities is exacerbated in periods of decentralization, such as the one Israel has been experiencing since the mid 1980s.⁸⁵ Local authorities assume more responsibilities, and, at the same time, less money is being transferred to them from the central government.

Since 1992, there have been only two categories of transfers from central to local governments. The first category can be seen as a reimbursement of costs borne by the local governments while providing services of national character, such as education and welfare. The government is supposed to reimburse approximately 75 percent of these costs.⁸⁶ The other 25 percent must be funded by local resources, either through local property tax or various charges.

83. A few small and strong local authorities do exist. Examples include Kfar Shmaryahu and Savion, two of the wealthiest localities in Israel, but they are the exception. The residents of the few small but wealthy localities in Israel are either singularly rich, or the locality benefits from significant tax collection from commercial land uses in its jurisdiction. *Id.*

84. *See id.*

85. *See* Richard M. Bird et al., *Fiscal Decentralization: From Command to Market*, in *DECENTRALIZATION OF THE SOCIALIST STATE: INTERGOVERNMENTAL FINANCE IN TRANSITION ECONOMIES* 1, 18-19 (Richard M. Bird et al. eds., 1995). Movement towards greater fiscal decentralization took place during this time period worldwide. Developed countries reshaped their fiscal structure to better handle the welfare crisis they were experiencing since the mid-1970s, and developing countries and Eastern European and former Soviet Union countries turned to various forms of decentralization as a means to cope with ineffective central governance policies. *See* Richard M. Bird & Francois Vaillancourt, *Fiscal Decentralization in Developing Countries: An Overview*, in *FISCAL DECENTRALIZATION IN DEVELOPING COUNTRIES* 1, 1 (Richard M. Bird & Francois Vaillancourt eds., 1998).

86. The central government does not deprive the Arab localities in providing 75 percent of the education costs, but it badly discriminates against them with regard to participation in welfare costs. *See* Eran Razin, *Fiscal Disparities Among Local Authorities in Israel in the Year 2000: Continuity and Change in a Period of Political Instability*, 1/45 POLICY PAPER 13 (Floersheimer Inst. for Policy Studies, Isr. 2002).

The second category is an equalization grant.⁸⁷ Wealthy localities are not supposed to receive any such grant; all other localities are supposed to receive a grant that is computed by taking into account their unique situation, e.g., geographical distance from the center, extent of dispersal, socio-economics of the residents, etc.⁸⁸ The formula is meant to compare the difference between a normative per capita expense (taking into account the costs in the specific geographical area) multiplied by the number of residents, and the municipality's revenue potential. According to this formula, Arab localities, being small and poor, receive much greater grants than Jewish localities.⁸⁹ In fact, the per capita equalization-grant transfers to Arabs are 3.5 times greater than to Jews.⁹⁰ This is not done on purpose, as the grant formula does not have an ethnicity factor.⁹¹ It happens because the formula takes the size and the socio-economic status of the residents into account.

The equalization grant does not come close to fully compensating small localities for the disadvantages of their small size. Moreover, the greater reliance on self-generated income as part of the decentralization process creates great disparities between localities that can generate such income and those that cannot. Arab localities suffer from a low rate of tax collection (e.g., tax evasion), even when the relatively low socio-economic level in Arab localities is taken into consideration.⁹² Consequently, Arab local authorities tend to lag behind Jewish authorities in the level of services and infrastructure that they are able to provide their residents.⁹³

87. See Eran Razin, *Fiscal Disparities Between Arab and Jewish Local Authorities—Is the Gap Narrowing?*, 1/38 POLICY PAPER (Floersheimer Inst. for Policy Studies, Isr. 1999).

88. See *id.*

89. See *id.*

90. See *id.*

91. In fact, for many years the Ministry of Interior had discriminated against Arab localities, and even now the equalization grant that the Arab localities are receiving is lower in per-capita terms compared to Jewish localities of similar size and socio-economic status. *Id.* But, over the years, discrimination has drastically reduced. *Id.*

92. See *id.*

93. The much greater evasion of local taxes—and other local charges—in Arab localities, compared to Jewish localities, increases poverty rates among the Arab population since the local property tax in Israel has a progressive effect and transfers wealth within the localities. *Id.* at 11. In addi-

Another important factor, though a factor that might not necessarily reflect choice, is that most Arab localities are concentrated in the Northern part of Israel, and only 11 percent are in the Central and Tel Aviv regions, where 48 percent of the Jewish population lives.⁹⁴ These latter two regions are the center of the Israeli economy. While living away from the center reduces housing costs, it creates commuting costs⁹⁵ and might affect hiring decisions thus reducing the chances of Arabs being accepted for jobs in the center of Israel.

Lastly, Arabs tend to live in one-story houses while the vast majority of the Jewish population lives in apartment housing. Infrastructure costs, such as sewage, roads, pavements, electricity, communication, etc., are higher when residents live in private houses instead of being closer to each other in multi-level buildings. In a tiny, densely populated country such as Israel, this norm seems unreasonably expensive.⁹⁶

This again is not purely a question of choice, but it does reflect the Arab tradition of living within the extended family (*hamula*) in houses on their own land, built by themselves or by small (often family-related) constructors.⁹⁷ This norm is encouraged by the local Arab authorities, which tend to lower local charges levied on lot owners requesting a private construction permit and refrain from enforcing compliance with building-code standards.⁹⁸ As a result, the cost of do-it-yourself housing in the Arab sector is about 30 percent less than that of high-density housing.⁹⁹ As a result, developers of high-

tion to evasion, Arab localities suffer from lack of commercial centers within their jurisdictions compared to the Jewish localities. *Id.* at 5. The property tax rates imposed on commercial buildings are much higher than on residential properties. *Id.* at 7.

94. See ARAB POPULATION IN ISRAEL, *supra* note 2, at 4.

95. Jews and Arabs have roughly the same number of cars per 1,000 people. See *id.* at 11 tbl. J-1.

96. Israel is smaller than New Jersey. Moreover, the southern half of the country is the Negev desert, which is largely unsettled.

97. See generally Schnell Itzhak & Fares Amin, *Towards High-Density Housing in Arab Localities in Israel*, 3/18 POLICY PAPER 47-49 (Floersheimer Inst. for Policy Studies, Isr. 1996), available at <http://www.fips.org.il> (describing interviews with Arabs who chose to live in high density housing).

98. *Id.*

99. *Id.*

density housing find it very difficult to compete with private building.¹⁰⁰

There seems to be a need for central government intervention in the real estate market in Arab localities to resolve inefficiencies, probably by subsidizing land and offering greater access to mortgages to individuals who are interested in purchasing apartments. Still, local Arab governments should start enforcing building-code standards and tax collections from those who build their own houses and encourage the construction of high-density housing by shortening unnecessarily long permit procedures and reducing the taxes levied upon such construction projects.¹⁰¹

D. Education

Years of schooling and quality of education are very important factors explaining differences in earnings and, therefore, in economic well-being of an individual.¹⁰² As a result, the intersection between these factors has been widely studied. Pnina and Steven Plaut found that disparities in education explain the differences in earnings, therefore, they concluded that there is no ethnic discrimination in the labor market (but there is gender discrimination).¹⁰³ However, Karnit Flug and Nitsa Kasir could not explain the earnings disparities between Jews and Arabs even after controlling for all parameters they thought to be relevant, including schooling years and, therefore, assumed that the residual discrepancy could either prove the existence of labor market discrimination, or reflect lower quality of education among Arab workers.¹⁰⁴ Gharrah Ramsis and Refaela Cohen reached similar results and concluded that the Arabs suffer from discrimination in the labor market.¹⁰⁵ Ephraim Kleiman raised doubts regarding their methodology,

100. *Id.*

101. *Id.*

102. In the case of household income, the link between the individual's earnings and the household's economic well-being is less direct because of two other, and seemingly important, factors: the number of workers and the number of children in the household.

103. See Plaut & Plaut, *supra* note 2, at 66.

104. See Karnit Flug & Nitsa Kasir, *Al Oni, Avoda Vema Shebeineihem [Poverty and Employment and the Gulf That Lies Between Them]*, 48 RIV'ON LEKALKALA [ECON. Q.] 516, 523 (2001).

105. See Ramsis & Cohen, *supra* note 1, at 565.

criticizing their reliance solely on the number of years of education without taking into account the fields of study or distinguishing between a bachelor's degree and higher degrees.¹⁰⁶ In addition, Kleiman argues, it is possible that Arabs' lower level of knowledge of Hebrew (since Arabs' primary and secondary education is usually in Arabic) makes them less qualified for work in the Hebrew-speaking sector of the labor market, as compared to Jews with similar education level.¹⁰⁷

Overall, the huge gaps in education levels between Arabs and Jews in Israel are rapidly closing. Prior to the establishment of the state of Israel, the vast majority of Arabs in Palestine lived in villages with very limited schooling systems.¹⁰⁸ In 1935, for example, only 20 percent of the children who grew up in Moslem villages attended school (as opposed to 78 percent among the Christian population) and the majority of the Moslem population was illiterate.¹⁰⁹

In 1949, the State of Israel legislated the Compulsory Education Law covering children between five and fourteen years old.¹¹⁰ School is free, i.e., financed by the state, up until twelfth grade.¹¹¹ As can be shown from the table below, a very significant improvement in the education level of Arabs took place over the years, but even if it were equivalent to non-Arabs by now, it would take many years until its full effect on the labor market would be felt because most of the people at working age attended school during years in which the gaps were wider.¹¹²

106. See Kleiman, *supra* note 78, at 649-50.

107. *Id.* at 650

108. See Winckler, *supra* note 57, at 45.

109. See *id.*

110. Compulsory Education Law, 1949, 3 L.S.I. 125 (1949).

111. *Id.*

112. In 1998, only a third of the Arab population of working age had completed a primary education, and only 18 percent had completed a secondary education, or more than eight years of education. See Ramsis & Cohen, *supra* note 1, at 548-50.

TABLE 2: INCREASE (DECREASE) IN AVERAGE EDUCATION LEVELS OF ARABS IN ISRAEL¹¹³

Years of Schooling of Arabs in Israel								
	0	1-4	5-8	9-10	11-12	13-15	16+	Total
Year								
1961	49.5	13.9	27.5	7.6			1.5	100
1970	36.1	13.7	35.1	13.0	1.7		(0.4)	100
1980	18.9	10.0	33.9	16.0	13.5	5.5	2.2	100
1990	13.0	6.5	30.8	17.4	23.2	6.1	3.0	100
1998	6.9	5.6	21.1	18.5	28.2	12.2	7.5	100

In 2000, 97 percent of Arabs, age 6-13, studied at schools, as well as 79 percent of those age 14-17 (compared to 96 percent among the Jews).¹¹⁴ Twelve percent of Arab students drop out of school during the last three years of high school, as opposed to 6 percent of Jewish students.¹¹⁵ Most of the dropouts are males, and the parents' education has a marked effect on the likelihood that a child will drop out: "[sixteen percent] of the students whose fathers had fewer than nine years of education dropped out of school in 1998/99 compared with 10 percent of students whose fathers has at least nine years of education"¹¹⁶

Forty-six percent of Arab twelfth grade students in 1999 were entitled to the matriculation report (necessary to attend higher education) compared to 52 percent of the Jews.¹¹⁷ "The rate of students entitled to a matriculation certificate among Christians is much higher than among students of the other religions—Moslems, Druze and Jews."¹¹⁸

There is still a significant gap between Jews and Arabs in university enrollment rates. Out of all Arab twelfth grade students in 1991, by 1998 only 26 percent had begun to study in post-secondary schools, compared with 46 percent of Jewish

113. Winckler, *supra* note 57, at 62 tbl. 5.

114. A very significant improvement has taken place in the past thirty years, as the rate was only 29 percent in 1970. See ARAB POPULATION IN ISRAEL, *supra* note 2, at 8.

115. *Id.*

116. *Id.*

117. *Id.* This is a very significant improvement since 1994, when only 33 percent of Arab students were entitled to the matriculation report. *Id.*

118. *Id.*

students.¹¹⁹ The percentage of Christian Arabs studying in universities is about the same as that of Jews.¹²⁰

IV. CONCLUSION

This Article examined the causes for the low socio-economic status of the Arab minority relative to the Jewish majority in Israel. It showed that demographic differences, women's rates of participation in the labor market, education, and various local government issues could explain a great deal of the difference. The residual discrepancy is likely the result of less important factors (such as mastery of the Hebrew language) and discrimination.

In doing so, I heavily relied on four recent works by economists.¹²¹ All four works analyzed recent data sets. Karnit Flug and Nitsa Kasir from the Bank of Israel research department found that wages were determined mostly by the level of education.¹²² But, in the case of the Ultra-Orthodox Jewish and Arab populations, they found lower wages when controlling for education.¹²³ They concluded that this could either point to a lower quality of education, or, in the case of Arabs, to labor market discrimination.¹²⁴ Gharrah Ramsis and Refaela Cohen from the National Insurance Institute research department focused their work specifically on the causes of higher poverty rates among the Arab population in Israel.¹²⁵ They found the main reason to be inequality in occupation between Arabs and Jews and pointed at significant discrimination in the labor market.¹²⁶ Efraim Kleiman from the Hebrew University department of economics criticized the methodol-

119. *Id.* at 9.

120. In 1999, 4,300 Moslem Arabs, 900 Druze, and 2,000 Christian Arabs studied in universities in Israel. Arabs represent about 7 percent of the students in the universities. *Id.* Assuming that Jews and Christian Arabs share similar age distribution, based on similar birth rates, allows for a rough calculation that shows that they also have about the same rate of university enrollment.

121. See Ramsis & Cohen, *supra* note 1; Plaut & Plaut, *supra* note 2; Kleiman, *supra* note 78; Flug & Kasir, *supra* note 104.

122. Flug & Kasir, *supra* note 104, at 523.

123. *Id.*

124. *Id.*

125. Ramsis & Cohen, *supra* note 1.

126. *Id.* at 648-49.

ogy used by Gharrah Ramsis and Refaela Cohen stating that the differences in demographics and in women's participation rates in the labor market alone could mean that even if the earnings per worker in both population groups were identical, the per capita income of the Arab population would be only a little over one half of that of the Jewish population group.¹²⁷ Lastly, Pnina Plaut from the Technion-Israel Institute of Technology faculty of architecture and Steven Plaut from Haifa University business school found no ethnic labor market discrimination at all.¹²⁸

In sum, discrimination is by no means the only plausible explanation for the economic differences between Arabs and Jews in Israel. It is very likely to exist, and might even be significant, but reality is much more balanced than what might seem to be the case when looking only at the bottom line figures. The ethnic inequality gaps in Israel are similar to those in most other developed countries in the world.¹²⁹ There are many differences between Arab and Jewish populations in Israel that are likely to affect economic well-being. Some of them reflect pure differences in preferences, such as a much higher birth rate, much lower rates of women participating in the labor market, and bad local governance policies; while other differences could be the result of a combination of preferences, historical causes, and, most importantly, discrimination.

127. Kleiman, *supra* note 78, at 648-49.

128. See Plaut & Plaut, *supra* note 2, at 66.

129. A very interesting question, which might capture an insight that is relevant to developed countries in general, was raised in a discussion following a presentation in the Sapir Forum of 2000. The question was phrased by Joseph Zeira in the following way:

[W]hether poverty is a result of some characteristics of individuals or of ethnic groups, like Arabs and Jews, or whether it is inherent in the structure of modern economy that allocates certain menial jobs to poor workers. These jobs occupied by members of an ethnic minority, or, if that is missing, by foreign workers. Then poverty depends more on the economic structure than on the ethnic or social structure of the country. In other words, does poverty depend on the supply aspect of the labor market or on the demand aspect, or maybe on both?

Joseph Zeira, *The Sapir Forum: Poverty and Income Distribution in Israel*, 48 *ECON. Q.* 512, 515 (2001).

In terms of policy advice, it is clear that education is the primary key to improvement. The current trend of closing the educational gap between Jews and Arabs must be accelerated. The same is true regarding welfare budget allocations, where deficiency is even more acute. At the same time, great efforts should be taken to integrate Arabs into the Jewish sector of the labor market, especially in white collar and managerial jobs. The Arab population should promote integration from its side as well. Arabs should share equally in the burdens of citizenship, such as paying taxes in money and in-kind (namely, serving in the army, which is compulsory for Jews or Druze, or doing instead a period of National Service that could include volunteer work in schools, hospitals, and other welfare-promoting projects and could be performed in their own communities); have fewer children per family; increase women's participation rate in the labor market; support the merging of small localities to benefit from economies of scale; and adopt sound local government policies, such as promoting (with help from the central government) the construction of modern apartment buildings in Arab localities. In sum, there is much that the Israeli government could do to accelerate the pace at which the economic gap between Arabs and Jews is closing. But much more could be accomplished if the Arab citizens of Israel would change some of their preferences that have a huge adverse impact on their socio-economic status.