

Who Benefits the Most? The Unequal Allocation of Transfers in the Israeli Welfare State*

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Objective. This article critically examines contradictions within the Israeli welfare system, and asks how welfare transfers affect poverty for different social groups. *Methods.* Using data from Israel's 1996 Income Survey conducted by the Central Bureau of Statistics, the analysis focuses on households with working-age heads, and compares poverty rates, before and after transfers among three groups: (1) recent immigrants; (2) Arabs; and (3) ultra-orthodox Jews (*Haredim*), distinguishing between couple- and female-headed households. *Results.* The results show that social welfare policy is more effective in aiding recent immigrants, who are entitled to special benefits, than aiding Arabs. The findings also show that transfers have a stronger effect in reducing poverty among female-headed families than among couple-headed families, thus reducing the gap between these two types of households. *Conclusions.* Israeli welfare policy reduces poverty, but this effect differs substantially by social group. While formally Israel is considered a universalistic welfare state, for historical and ideological reasons certain social groups, such as Jewish immigrants, have been favored and granted extra benefits, while others, such as Arabs, were neglected.

Introduction

Welfare states are riddled with internal contradictions. The democratic welfare state held the promise of equality, in the form of a fair and equitable redistribution of resources and opportunities (Esping-Andersen, 1990), yet the definition of what is fair and equitable is highly disputed, and a wide range of strategies of redistribution has developed. A central point of contention is the degree to which social welfare should target the needy or pro-

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vide universal benefits to the entire population. Both targeting and universal policy have been criticized. Universal policy has been deemed unfair, because returns are not directly related to contributions to social insurance, while targeting has raised concerns that providing aid solely to the poor creates a disincentive to work and, as such, has the effect of enhancing, rather than reducing, poverty. Indeed, Korpi and Palme (1998) find that universal social welfare programs are more successful in reducing poverty and inequality than targeted programs, and they coin this “the paradox of redistribution strategies.” Another critique of targeting aid has been that it creates a minimum level of services and a stigma to those who use them, whereas universal aid ensures more widespread support and a high level of services (Ellwood, 1988).

Scholars have created typologies of welfare states, and have compared countries, showing that the effectiveness of income redistribution on inequality and poverty differs by the degree to which the country’s welfare regime is universal, earnings-related, or generous (Korpi and Palme, 1998; Esping-Andersen, 1990; Kenworthy, 1999). Because they set out to create theoretical classifications, these studies tend to highlight differences between countries rather than investigate the internal contradictions they themselves note. In this article, we focus on the internal contradictions within a single country and argue that while a universal system of transfers may achieve higher effectiveness in reducing poverty, it may not benefit all groups equally. We examine the extent to which certain demographic attributes serve as the legitimate basis of entitlement to universal benefits in Israel, and ask whether the effectiveness of policy on reducing poverty differs by social group. The study focuses on Israel, a socially diverse country characterized by a democratic welfare state that guarantees universal benefits to its citizens. We show that for historical and ideological reasons, sometimes even in the name of universalism and equality, certain groups have been favored and granted extra benefits, while others have been grossly neglected.

Inequalities Within a Welfare System

Entitlement to even the most universal programs is bound by strict eligibility criteria, such as citizenship or legal residency. Korpi and Palme (1998:669) find that within a single country, different programs may be guided by different “institutional forms.” Universal welfare states tend also to have special programs that target the poor: Norway and Germany, for example, are social-democratic universal welfare states that have means-tested income maintenance programs for the needy in addition to their universal programs (Doron and Gal, 2000). Similarly, in Israel, old-age pensions and child allowances are universal, while income-maintenance grants are means tested.

Studies have demonstrated that welfare programs may impose various forms of exclusionary practices. For example, Bell (1965) argues that, historically, welfare laws in the United States were interpreted to deny aid to African-American families as a result of racist attitudes toward African Americans. In many counties Aid for Dependent Children (ADC) rules were unpopular and considered unfair among case workers because illegitimate children were eligible for ADC, while needy legitimate children of (white) two-parent families were ineligible (Bell, 1965). This situation changed in 1961, when federal funds were allocated to states that extended aid to children in two-parent families. In the same vein, in Israel, special "military veteran benefits" served as a symbol of institutional discrimination against the Arab minority until they were abolished in 1994 (Rozenhek, 1999). These benefits provided additional child allowance for large families, and were limited to families where a member had served in the military, making most Arab families ineligible as they are not drafted into military service.¹

Certain welfare programs, especially those whose benefit levels are determined by work status, have been critiqued in that they indirectly provide different benefits by gender and race due to the relationship between work status, gender, and race (Casper, McLanahan, and Garfinkel, 1994; Sainsbury, 1996; Orloff, 1993). In this article, we further this line of investigation and examine the extent to which different social groups in Israel benefit differently from social transfers, indirectly through their social and demographic attributes, and directly through group membership.

The Israeli Setting

Poverty rates in Israel fluctuated in the past decade from a low of 12.8 percent in 1989 to a high of 18 percent in 1994, leveling at an average of about 16 percent in 1997 (National Insurance Institute, 1998). These poverty rates are similar to those in the United States (17.7 percent) and the Netherlands (16 percent) in 1991, lower than the United Kingdom (27 percent) and Italy (26 percent), and higher than Canada (11 percent), Finland (8.1 percent), Norway (4 percent), or Sweden (11 percent) (Kenworthy, 1999:Table 1).

The confluence of several factors contributed to an increase in poverty and income inequality in Israel during the early 1990s (Dahan, 2001; Achdut, Lavi, and Sola, 2000). First and foremost, the mass migration to Israel following the fall of the Soviet Union affected the demographic structure of Israeli society and contributed to a rise in unemployment and underemployment. Second, the expansion of the hi-tech industry accelerated, creating a market for highly paid technologically skilled workers, contributing to

¹ Druze and Bedouins are not excluded by law from serving in the Israeli military.

an increase in the overall level of wage inequality. Finally, unskilled and low-income jobs were filled by guest workers, contributing to the rise of unemployment among the low-skilled population (Amir, 1999). The government responded to these economic changes by issuing “The law to reduce poverty and income inequality” in 1994. This law increases income-maintenance grants to needy families, benefiting especially those most vulnerable to poverty—the elderly, the disabled, and lone parents.

Three social groups in Israel are at high risk of experiencing poverty and welfare dependence: recent immigrants from the former USSR, Arabs, and ultra-orthodox Jews (*Haredim*). In the following, we outline these groups’ main characteristics.

Recent Immigrants in Israel

From the fall of the Soviet Union to the year 2000, one million immigrants had entered a nation of about five million inhabitants, so that today one of every six Israelis is a Russian immigrant. The arrival of this large group of immigrants within a single decade has had far-reaching political, demographic, and economic consequences, raising unemployment rates and reducing the bargaining power of low-income workers (Dahan and Ben Porath, 1996). Working-age immigrants from the former Soviet Union tend to be highly educated; 32 percent have university education in comparison to 13 percent of veteran Israelis (Israel Central Census Bureau of Statistics, 1998). As a consequence of the temporary surplus of highly qualified job seekers in certain sectors, many skilled immigrants encountered difficulties in finding employment in their profession and accepted employment in low-status and low-income jobs (Stier and Levanon, 2001).

In addition to its effect on the economy, the wave of immigration also affected the demographic structure of Israeli society. Compared to the veteran population, recent immigrants tend to have smaller families, fewer children, and a relatively high divorce rate, leading to a high proportion of single-parent families. In 1989, only 3.4 percent of veteran Jewish women were divorced, compared to 9 percent among the Russian immigrant women arriving in 1990. The number of divorced women (and men) has grown substantially since then and stood at 14.7 percent among those arriving in 1995 (Sicron, 1998). Almost one-third (32 percent) of immigrant families from the former Soviet Union are headed by a woman, and today more than 30 percent of all lone parents in Israel are immigrants from the former Soviet Union (Central Bureau of Statistics, 1999).

Arabs in Israel

Though they are similar in number (Arabs compose about 18 percent of the Israeli population), Arabs and immigrants differ in most socioeconomic

and demographic attributes. The majority of Arabs in Israel are Muslim and tend to live in small villages and have larger families than Jews and Christian Arabs (fertility rate for Muslims is 4.7, while for Christians and Jews it is 2.6, Israel Central Bureau of Statistics, 1998).² Arabs are overrepresented among the poor due to their large families, low levels of education (median years of schooling among Arabs is 10.4, in comparison to 12.3 among Jews), and low rates of female labor force participation (13 percent of Muslim women are active in the labor force, in comparison to 51 percent of Jewish women (Israel, 1998)). In addition, Arabs in Israel tend to be concentrated in peripheral areas characterized by limited economic opportunities and relatively low government investment in infrastructure and development, and they also face discriminatory practices in the Israeli labor market (Al Haj and Rosenfeld, 1990; Awad, 1998; Mesch and Stier, 1997; Lewin-Epstein and Semyonov, 1993; Lewin and Stier, 2000). The combination of all these factors contributes to the low level of economic well-being and high levels of poverty among Arabs in Israel.

Ultra-Orthodox Jews (Haredim) in Israel

Israel has a small and unique group that also tends to have high poverty rates, the *Haredim*, a group of ultra-orthodox Jews characterized by high fertility rates, high levels of education, and low rates of male labor force participation. Dahan (1998) finds that *Haredi* households in Jerusalem have on average 5.5 members, in comparison to 3.3 in the rest of the Israeli population (including non-Jews), and that 62 percent of *Haredi* heads of household do not participate in the labor force. The educational level of *Haredim* is remarkably high; *Haredi* heads of household in Jerusalem have an average of 23 years of education, in comparison to a mean of 13 years among the non-*Haredi* Jewish population in the city (Dahan, 1998). This education, however, is “other worldly,” not geared to being translated into income (with the exception of exclusive license to perform certain religious rites and ceremonies). *Haredim* do not pay tuition for their religious studies and are granted an exemption from military service as long as they are full-time students (and have no earnings from employment).³ In this sense, the *Haredim* in Israel may be viewed as a classic case in which policy may (unintentionally) increase poverty. The availability of income-maintenance grants enables them to pursue full-time studies, while at the same time the exemption from military service, which is conditioned on having no earnings from employment, forces them to live in poverty.

²The data we use in this article do not enable us to distinguish between Muslim and Christian Arabs.

³In contrast, secular Israeli Jewish men are drafted to mandatory military service for three years at the age of 18, and serve in reserves until age 45.

Institutional Contradictions in Israel's Universal Welfare Policy

The Israeli government welcomes Jewish immigrants for ideological reasons; for a democratic Israel to maintain its Jewish identity, it must maintain a Jewish majority. Arabs' high fertility rate is perceived by some as a "demographic threat" and Jewish immigration as a demographic defense against it. Moreover, the *raison d'être* of Israel as a Jewish nation is to provide an asylum to Jews. Therefore, Jews enter Israel under the "Law of Return" and receive the privileges of citizenship upon arrival. Most Jewish immigrants to Israel are also entitled to an "absorption package" and to substantial tax deductions to facilitate the transition into Israeli society and to compensate for the losses they incur due to immigration. Recent immigrants also receive assistance in rent, loans for the purchase of housing, access to public housing, and are eligible for income maintenance while they are studying Hebrew, participating in job-training programs, or looking for work.

Israel implements universal child allowances, which increase with family size. Large families (defined as three children or more) were eligible for the military veteran benefit, which provided additional allowance for the third child onward. Historically, these "military veteran benefits" were introduced in 1970 to increase transfers to poor Jewish immigrants from Asia and North Africa, who tended to have large families (Doron, 2000). Special arrangements were made so that Jewish immigrants and ultra-orthodox Jews were eligible to the full allowance even if they did not have a military veteran in the family (Rozenhek, 1999). Later (in 1994, implemented in 1997), this law was amended so that additional child allowances for large families became truly universal to all citizens, independent of military service (for details, see Rozenhek, 1999).

Households with low income or no income are eligible for income-maintenance grants. In contrast to child allowances, which are universal, this program is means tested and has a work requirement. With the exception of the disabled and mothers of young children, who are not expected to work, the program demands that recipients actively search for employment (National Insurance Institute, 1998:106). The Law to Reduce Poverty and Income Inequality (1994, extended in 1995) substantially raised the level of income-maintenance grants to lone parents, recent immigrants, and couple-headed families where the head of household is at least 45 years old (National Insurance Institute, 1998:108).

We have shown that institutional arrangements discriminate against Arabs and favor recent Jewish immigrants and, to a certain extent, *Haredim*, and that policy favors lone parents and large families. Hence, in addition to the direct effect of favoritism and discrimination, there are also demographic differences among these groups that may account indirectly for their differential receipt of welfare benefits and their ability to escape poverty. For example, recent immigrants are more likely than Arabs or *Haredim* to be lone

parents and to benefit from recent increases in allowances for lone parents, while the latter groups are more likely to be large families and to benefit from child allowances. Next, we set out to investigate the effect of Israel's welfare policy on reducing poverty among households headed by working-age men and women. We compare the efficacy of transfers on reducing poverty among immigrants, ultra-orthodox Jews, and Arabs, controlling for differences in their social and demographic attributes. Multivariate methods are used to compare the differences in the odds of benefiting from state transfers, net of social and demographic attributes.

Method, Data, and Variables

We use data from Israel's 1996 Income Survey, conducted by Israel's Central Bureau of Statistics. This is a nationally representative sample of about 6,000 households.⁴ The Income Survey collects information regarding sources of household income as well as demographic characteristics of household members, enabling us to distinguish between households living above and below the poverty line, and distinguishing between income before and after transfers. We distinguish between couple- and female-headed households because they are two distinct populations; the determinants of their poverty differ and their employment patterns differ as well. We expect poverty rates to be higher among female-headed households than among households headed by a couple because women's economic activity tends to be limited by child-care responsibilities, women earn less on average than men, and because these women do not have another working-age adult in the household to contribute to its income.⁵

Calculating the Poverty Line

Israel's National Insurance Institute (NII) has adopted the relative approach to defining poverty, and Israel's official poverty line is defined, similar to that of many other Western states, as half the median disposable income of all households (income after tax and transfers). The poverty line is adjusted by household size, using an equivalency scale granting diminishing weights for each additional household member (NII, 1998:41). Israel's NII compares the percent of households below the poverty line before and after tax and transfers to show the effect of transfer policy on reducing

⁴The Income Survey does not collect income on households where the head is self-employed, thus excluding 15 percent of all households from the present analysis.

⁵Couple-headed households are defined as households with two adults, one of whom is defined as the household head; the other is defined as the "partner." Female-headed households are defined as households where the head is a nonmarried woman with no partner living in the household. Note the difference between our definition of female-headed household and the law's definition of "Lone-Parent," i.e., a household with children under age 21.

poverty and reports that in the past decade, policy reduced the poverty rate from about 30 percent to about 13 to 16 percent (National Insurance Institute, 1998:76). However, we argue that using the same (posttax and transfers) poverty line before and after tax and transfers inflates the percent of families living in poverty before state involvement, in effect inflating the effect of transfers on reducing poverty. In our analysis, we attempt to provide a more conservative measure of the effect of policy on reducing poverty. To calculate posttax and transfers poverty rates we use the official poverty line (published annually by the NII), which is calculated based on *posttax and transfers* income. However, in contrast to the NII and the official approach, we calculate a *pretax and transfers* poverty line, based on pretax and transfers income. Income before tax and transfers is calculated as the sum of household income from earnings, property, and capital before taxes. The poverty line before tax and transfers is defined as 50 percent of the median income before tax and transfers, adjusted by family size, similar to the procedure applied for the official posttax and transfers poverty line. We measure poverty rates before tax and transfers based on our calculated poverty line, and poverty rates after tax transfers based on the official poverty line. This procedure creates a relatively conservative measure of the effect of tax and transfers on poverty rates.

Findings

To calculate the distribution of poverty, we calculated two poverty lines (adjusted by family size), before and after tax and transfers. The poverty line before tax and transfers is 796 NIS, lower by about 15 percent than the poverty line after tax and transfers (938 NIS). Table 1 shows the percent distribution of poverty rates before and after tax and transfers, by household type. Several findings are made clear in Table 1. First, both pre- and post-transfer poverty rates are higher among female-headed households than among households headed by a couple. Second, tax and transfers have a stronger effect in reducing poverty among female-headed families (from 39 to 21 percent) than among couple-headed families (from 17.4 to 13 percent). It seems that Israel's tax and welfare systems are successful both in reducing poverty and in reducing the poverty gap between these two types of households. The percentage of families lifted out of poverty by tax and transfers policy in Israel is similar to European welfare states. For example, the percentage of Israeli couple-headed families lifted out of poverty by tax and transfers is similar to the percentage in the Netherlands in 1987 (20 percent), higher than West Germany, the United Kingdom, Canada, and the United States (McFate, Smeeding, and Rainwater, 1995:Table 1.10). The percentage of female-headed families lifted out of poverty in Israel is similar to that reported in France 1984 for lone parents (47 percent) (McFate, Smeeding, and Rainwater, 1995:Table 1.10).

TABLE 1

Percent Distribution of Poverty Rates for Working-Aged Population^a
Before and After Tax and Transfers, by Household Type

	Couple Headed	Female Headed
Before transfers	17.4	38.9
After transfers	13.1	20.7
Point difference	4.3	18.2
% change	24.7	46.8
N	3,818	966

^aHeads of household younger than 65.

The Israeli welfare system does not uniformly affect all population groups. Table 2 shows poverty status, before and after tax and transfers, for four population groups: recent immigrants (defined as those arriving in Israel after 1989), Arabs, ultra-orthodox (*Haredim*) Jews, and veteran non-*Haredi* Jews. *Haredim* are defined as men whose last school attended was a Yeshiva (orthodox religious school). This is a crude proxy for ultra-orthodoxy, as it may include orthodox Jews who are not *Haredim* as well as men who became nonreligious later in life. Moreover, this indicator does not capture all ultra-orthodox, as some never attended a Yeshiva. This variable is only relevant for Jewish males, as women (and, of course, non-Jews) do not attend Yeshivot, so it is relevant for couple-headed households only. Notwithstanding these limitations, this variable is a good predictor of poverty, and is the best proxy for religiosity among Jews currently available in income surveys (Dahan, 1998).

Table 2 presents market generated (pretax and transfers) poverty rates, official posttax and transfers poverty rates, and the percent reduction in poverty due to tax and transfers for each group. *Haredim* have the highest level of poverty both before and after transfers (66 percent and 52 percent). These high poverty rates result from their chosen lifestyle, which leads most men to refrain from work and invest their time in religious studies. State support reduces their level of poverty by about 22 percent, but still half the *Haredi* families remain poor. The comparison between recent immigrants and Arabs reveals the unequal effect of the Israeli welfare state. Market (i.e., pretax and transfers) poverty is similar for the two groups, 26 percent of Arab and 23 percent of couple-headed immigrant families are poor. Yet, after tax and state transfers the poverty level of immigrants declines about one-third to 14.2 percent while that of Arabs remains almost unchanged (25.4 percent). Among the veteran non-*Haredi* Jews, the level of poverty is lowest before state intervention (11 percent), and it is further reduced to 7.4 percent after tax and transfers.

Both pre- and posttransfer poverty rates are higher among female-headed families than families headed by a couple. Policy is particularly effective in reducing poverty among immigrant households headed by a female (from

TABLE 2
Pre- and Posttax and Transfers Poverty Rates by Population Group
and Household Type

	Recent Immigrants	Arabs	<i>Haredi</i> Jews	Veteran (Non- <i>Haredi</i>) Jews
Couple-Headed Households				
Pretax/transfers poverty rate	23.1	26.8	66.3	10.8
Posttax/transfers poverty rate	14.3	25.4	51.9	7.4
% poverty reduction	38.1	5.2	21.7	31.5
N	623	508	187	2497
Female-Headed Households				
Pretax/transfers poverty rate	61.6	55.2	— ^a	30.3
Posttax/transfers poverty rate	26.1	37.9		17.1
% poverty reduction	57.6	31.3		43.6
N	211	87		677

^aNot available.

62 to 26 percent). State transfers are also successful in reducing poverty rates among female-headed Arab households (from 55 to 38 percent) but this reduction in poverty is modest compared to recent immigrants and veteran non-*Haredi* Jews. Recent immigrant households seem to enjoy the effect of welfare transfers more than any other group, while Arab households seem to be least affected by transfers. Multivariate techniques are necessary to examine whether these differences remain in effect after controlling for number of children and employment status, both of which are correlates of transfers, poverty, and population group.

To identify the groups that benefit most from welfare transfers, we define a dependent variable that differentiates between those who were poor before and after state intervention, those who were poor before transfers but exit poverty due to transfers, and those who were nonpoor both before and after transfers. Our main independent variable is “population group,” which distinguishes between Arabs, ultra-orthodox Jews (*Haredim*), recent immigrants, and veteran non-*Haredi* Jews (reference category). Other important independent variables are number of children under age 18 in the household, the number of additional wage earners in the household, and employment status. Employment status is measured as a binary variable indicating that at least one parent is employed (reference category) or neither partner works. To facilitate the comparison between female- and couple-headed households, we have attributed the woman’s ethnicity to couple-headed households.⁶ Table 3 lists the variable definitions.

⁶For consistency, we use the woman’s attributes (education, age, and ethnicity) rather than the man’s attributes in couple-headed households. As there is a high correlation between partners’ age, education, and ethnicity, using wives’ attributes rather than husbands’ should not have an effect on predicting poverty.

TABLE 3

Operational Definition of Variables Used in Multinomial Logistic Regression

Variable	Definition
Independent Variables	
Woman's education	Years of schooling
Woman's age	Binary variable: 1 = 18–35, 0 = 36–64
Population group	A set of four binary variables: Recent Immigrant (1 = arrived after 1989); Arab; <i>Haredi</i> Jew (1 = man's last school attended was Yeshiva); Veteran (Non- <i>Haredi</i>) Jew (omitted category)
Number of children under age 18	A set of three binary variables: 0 children; 1–2 children (omitted category); 3 children or more
Number of additional wage earners in household	Continuous variable
Employment status (couple-headed households)	A binary variable: 1 = neither parent works; 0 = either one parent or both parents work (omitted category)
Employment status (female-headed households)	A binary variable: 1 = woman does not work; 0 = woman works
Poverty Line (for defining dependent variable)	
Before tax & transfers	Binary variable 1 = poverty (income below half of the median before tax and transfers, standardized by household size); 0 = above poverty
After tax & transfers	Binary variable 1 = poverty (income below half of the median after tax and transfers, standardized by household size); 0 = above poverty
Dependent Variable (Three Categories)	
Nonpoor both before and after tax & transfers	Household above poverty line both before and after tax & transfers
Poor before tax & transfers, nonpoor after tax & transfers	Household below poverty line before tax & transfers, above poverty line after tax & transfers (reference category in multinomial regression)
Poor both before and after tax & transfers	Household below poverty line both before and after tax & transfers

TABLE 4
Multinomial Logistic Regression Coefficients (Standard Errors)
Predicting Poverty Status After Tax and Transfers, by Household Type

	Couple-Headed Household		Female-Headed Household	
	Poor Before and After Tax & Transfers ^a	Nonpoor Before and After Tax & Transfers	Poor Before and After Tax & Transfers	Nonpoor Before and After Tax & Transfers
Population Group ^b				
Recent immigrant	-0.187 (0.212)	-1.442* (0.194)	-0.536* (0.237)	-2.084* (0.256)
Arab	0.564* (0.264)	-0.141 (0.254)	0.285 (0.340)	-0.947* (0.393)
<i>Haredi</i>	0.408 (0.273)	-1.964* (0.292)		
Woman's education	-0.064* (0.021)	0.137* (0.021)	-0.005 (0.024)	0.176* (0.030)
Woman's age (18-35)	0.554* (0.198)	0.115 (0.183)	0.536* (0.233)	-0.372 (0.234)
Number of Children				
No children	-0.912* (0.250)	0.352 (0.228)	-0.120 (0.235)	0.790* (0.231)
3+ children	0.170 (0.225)	-0.844* (0.228)	0.325 (0.400)	-1.761* (0.528)
Additional earners	-0.136 (0.493)	1.833* (0.407)	0.209 (0.402)	1.517* (0.329)
Employment Status ^c				
No one works	0.485* (0.199)	-3.210* (0.208)	0.931* (0.241)	-2.525* (0.245)
Constant	1.114	0.306	-0.519	-0.224
Chi square	1604.058		618.214	
Df	18		16	
P value	0.000		0.000	
N	505	3095	201	583

^aPoor before–nonpoor after transfers serves as the reference category.

^bVeteran non-*Haredi* Jews is the omitted category.

^cEither the household head, or spouse, or both work is the omitted category.

*P < 0.05.

Table 4 presents multinomial logistic regression coefficients predicting poverty status after transfers by household type. The table shows that there are differences between Arabs and Jews, controlling for household characteristics and economic activity. Among couple-headed households, recent immigrants and *Haredim* are as likely as veteran Jews to remain poor after transfers ($b = -0.247$ and 0.408 respectively, but not significant) while Arabs have significantly higher (log) odds of being poor after transfers ($b =$

0.681), controlling for employment status and number of children. These findings suggest that (1) although their market income is relatively low, the special support recent immigrants receive upon arrival to Israel compensates for the price of their immigration and closes the gap with veteran Jews, (2) the combination of income maintenance and child allowances closes the gap between *Haredim* and other veteran Jews,⁷ and (3) Arabs benefit less from transfers than veteran Jews, possibly due to extra child allowances to large families for which they are ineligible.

Similar to the findings regarding families headed by a couple, immigrant female-headed families have lower odds of remaining poor after transfers than veteran Jews, probably because of the generous support immigrants receive from the state. In contrast to couple-headed families, female-headed Arab families have the same odds as veteran Jews to remain below the poverty line after transfers, maybe because, as lone parents, they are eligible for increased income-maintenance grants, or because ineligibility for extra child allowances to large families does not have an effect here, due to small sample size.⁸

Employment status is, of course, related to the odds of being poor. Having no employed member in the household increases the odds of being poor after transfers and reduces the odds of being nonpoor before and after transfers. Additional wage earners in the household do not have an effect on being poor after transfers, but significantly increase the odds of being nonpoor before and after transfers. Having no children (in comparison to one or two children, the reference category), reduces the odds of being poor after transfers among couple-headed families and increases the odds of being nonpoor before and after transfers among female-headed families. Having three or more children significantly reduces the odds of being nonpoor before and after transfers both among couple- and female-headed families. Most importantly, the generous child allowance system for large families does not change the odds of these families to be poor after transfers; other things being equal, large families are as likely to remain poor as they are to exit poverty after receiving state support.⁹ Finally, women's education reduces the odds of being poor after transfers among couple-headed families and increases the odds of being nonpoor among both couple- and female-headed households.¹⁰

⁷This finding is not robust and is sensitive to model specification. The coefficient for *Haredim* becomes statistically significant when the cut-off point for large families is defined as four rather than three children. This instability may be due to small sample size. We elect to present the more conservative findings (no effect) in Table 4.

⁸Of the 978 female-headed households in the sample, only 87 are Arab, and of them, only 15 have three children or more.

⁹We also tested for interaction effects of having a large family and being Arab, to account for their ineligibility for large child allowances, but the interaction was statistically insignificant (analysis not shown).

¹⁰This finding is puzzling and is perhaps because better-educated women are more aware and better equipped to demand the full amount of transfers to which they are entitled.

Summary and Conclusions

Welfare policy attempts to reduce inequality and alleviate poverty by transferring income from the wealthy to the poor. In this study we have shown that, similar to other universal welfare states, Israeli welfare policy is effective in reducing poverty, though its effect differs substantially by group membership. At one extreme are recent immigrants, who combine the generous social transfers to which they are entitled with relatively high rates of employment and, consequently, benefit the most from policy. At the other extreme are *Haredim*, who remain poor after transfers because the same policy that allows them to dedicate their lives to religious study prohibits work activity, thus (unintentionally) ensuring them a life of poverty. Our findings suggest that transfers are more effective in aiding new immigrants than aiding Arabs, who are overrepresented among the group remaining poor after transfers. Our findings also show that transfers have a stronger effect in reducing poverty among female-headed families (almost by half) than among families headed by a couple, so that transfers contribute to reducing the gap between couple- and female-headed households, similar to European welfare states (McFate, Smeeding, and Rainwater, 1995).

There is an interesting relationship between group membership and household type. Recent immigrants are overrepresented among female-headed households, which benefit substantially from transfers, whereas working-aged Arabs tend to live in households headed by a couple. Different levels of benefits are provided to different groups directly, by defining certain groups (mainly immigrants) eligible to special benefits and tax cuts to which other groups are not entitled, and indirectly by providing generous benefits to households with specific demographic attributes that coincide with group membership.

These findings highlight internal inconsistencies within the welfare state. While the Israeli welfare state is based on universalism, for ideological and political reasons, policy treats some groups as more deserving than others. Providing “additional benefits” to certain groups circumvents the legal requirement of providing universal and equal benefits based on citizenship (or family size or income, depending on the specific type of transfer). Recent immigrants receive all the privileges of citizenship upon arrival and are eligible for extra support. The special benefits to recent immigrants are grounded in the universal welfare state regime, which sets out to compensate them for the price of their immigration and to facilitate their closing the gap with veteran citizens. In contrast, Arabs receive only the basic allowances for which they are eligible by law, without “extras.” Moreover, Arabs, who tend to have large families, are not eligible for precisely what they need the most—increased child allowances for large families. Since military veteran benefits have been canceled, and all large families are eligible for in-

creased child allowances, we expect a reduction in the gap between Arabs and Jews in the effect of welfare on reducing poverty rates in the future.

In this article we have demonstrated that the Israeli welfare state, which is primarily universal, has institutionalized different interpretations to “universal benefits.” Hence, under the guise of universalism, different levels of benefits are provided to different groups because certain groups (mainly immigrants) are eligible for special benefits to which other groups are not entitled. Thus we argue that universalism is a relative concept; differential services and different levels of benefits may be provided to different groups. That such findings have not been reported for other countries may be because Israel is a unique case, but it may also be because the situation has yet to be investigated. Understanding internal contradictions within universal welfare state regimes remains a challenge for future research.

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