# *The Increase in the Number of Income Earners and Its Impact on Household Income*

Ayal Kimhi and Kyrill Shraberman*

***Abstract***

*The Israeli economy is growing but real wages have not risen since the early 2000s. Reductions in the income tax burden during that time helped some households improve their situation, but many earners remain beneath the tax threshold and so their households are not affected by changes in tax rates. In parallel with the stagnation of wages, the average number of earners per household has risen, so that the overall income of the average household has grown in real terms, even though the additional earners earn much less than the main earners. Working-age young adults living in their parents' households constitute the largest part of the increase in the number of marginal earners; this may also be a result of the cost of housing, which prevents those young adults from establishing their own households. The increase in the number of earners, whether it is the reason for the wage stagnation or a result of it, cannot continue indefinitely; therefore in-depth analyses into the reasons for the stagnation of real wages must be undertaken to better understand the consequences for households which rely on the labor market for their livelihood.*

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## *Introduction*

At the beginning of the previous decade, the Israeli economy experienced a deep recession, reflected by two consecutive years (2001-2002) of negative economic growth (Yashiv, 2013). Reasons for the recession included the second intifada and the global high-tech crisis. As a result of the recession and the budgetary deficit, the Israeli government had to implement a policy of fiscal restraint, which manifested itself in deep cuts in welfare allowances and in other ways. The end of the recession, beginning in 2003, was reflected by the renewal of growth and a sharp decline in unemployment, which dropped from a peak of more than 13 percent in 2003 to below 8 percent by 2008 (Yashiv, 2013).

Upon the resumption of growth, the labor market began to recover. The significance of the rise in labor market participation rates, and the simultaneous drop in unemployment, is that new positions were created in the economy, so that the labor market managed to absorb both a large share of the unemployed and new entrants into the labor market. In terms of supply and demand, there is no doubt that coming out of the recession brought about an increase in demand for labor.

However, Kimhi and Shraberman (2014, Figure 17), have shown that the labor market in Israel is undergoing a process of polarization. The relative share of high-wage occupations rose, as did the relative share of low-wage occupations, while the relative share of mid-range wage occupations declined. Changes in the relative share of occupations, and the unequal rise in real wages at the various wage levels, led to a decline in the inequality of labor wages (Kimhi and Shraberman, 2014, see Figures 3 and 7).

This chapter will focus on the increase in the supply of labor in Israel following the recession of the previous decade and its implications for the standard of living of households, referring mainly to income from work. First, the changes in the number of earners in the average household will be presented; including an examination of the role that the rise of the retirement age played in these changes, and then the implications for household incomes will be examined.

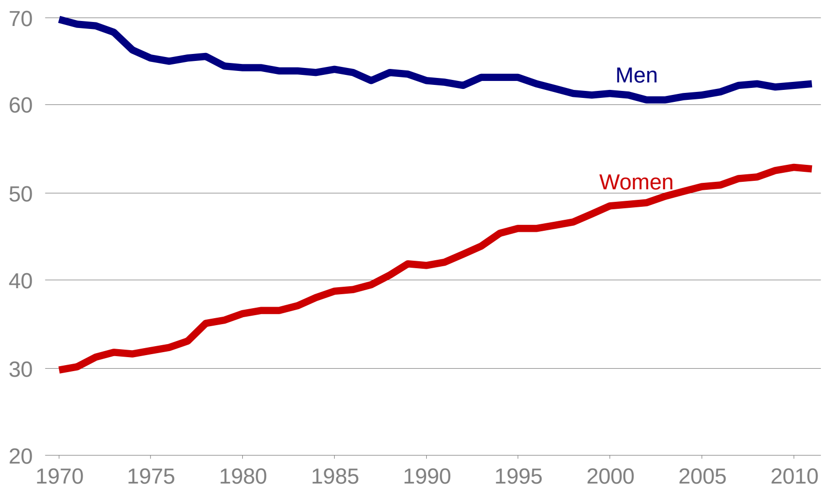
## 1. *Changes in Labor Force Participation and in Real Wages*

Upon resumption of economic growth after the recession, the downward trend seen in the participation rate of men in the labor force reversed. Figure 1 shows that while women's participation rose consistently over the years, men's participation rate was on a downward trend until 2003, and then changed to a rising trend. The exit from recession is usually characterized by a rise in demand for labor by employers, which should lead to a rise in wages if the labor supply (the number of workers) does not rise at a similar rate.

Figure 1

**Labor force participation rates in Israel**

age 15 and over, by gender, 1970-2011



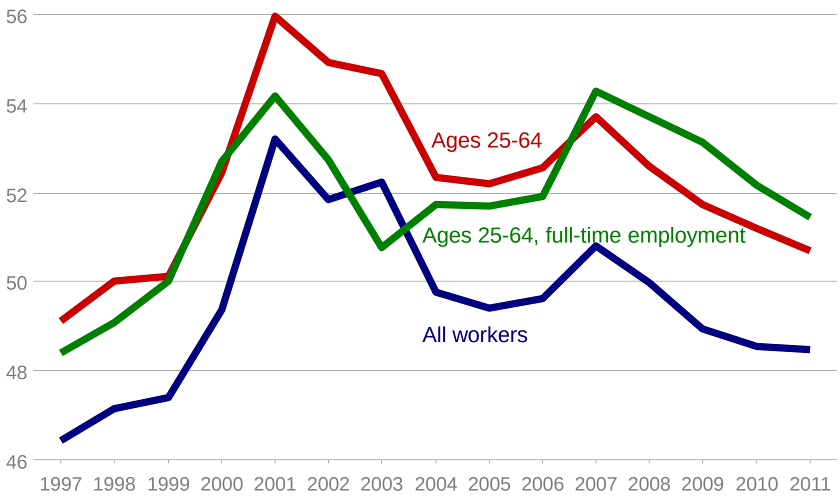

Source: Ayal Kimhi and Kyrill Shraberman, Taub Center
Data: Bank of Israel

As can be seen in Figure 2, however, real wages from labor rose between 2004 and 2007, and then returned to a downward trend. The conclusion is that the rise in demand for workers was higher than the rise in supply until 2007, after which the supply of labor grew faster than the demand. It must be noted that the reference is to average wages. The rise in labor force participation was most likely among low-wage workers, so that it is possible that the wages of those who worked continuously continued to rise, even though the average wage dropped.

Figure 2

**Average real hourly wage for employees**

in shekels, 2011 prices, 1997-2011



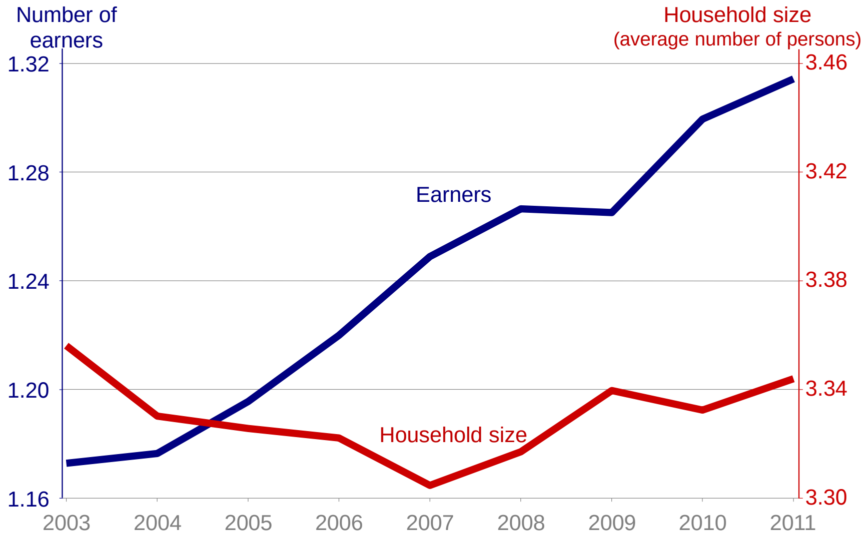

Source: Ayal Kimhi and Kyrill Shraberman, Taub Center
Data: Central Bureau of Statistics, *Income Surveys*

## 2. *Changes in the Number of Income Earners*

One of the manifestations of the rise in labor supply is the rise in the average number of earners per household. Figure 3 shows that the number rose from 1.18 to 1.32 between 2003 and 2011, while the size of the average household did not change substantially. The increase in the number of earners undoubtedly helped households increase their total income and minimally improve their standard of living.

Figure 3

**Number of earners and household size for the average Israeli household, 2003-2011**



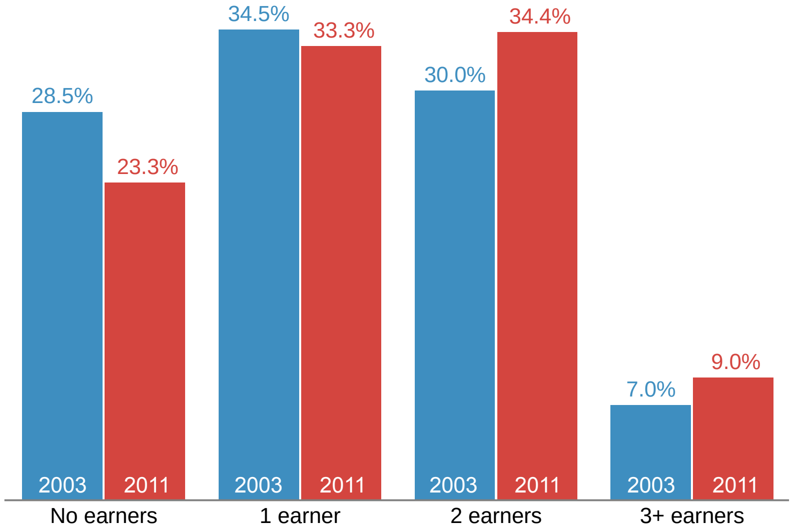

Source: Ayal Kimhi and Kyrill Shraberman, Taub Center
Data: Central Bureau of Statistics, *Household Expenditure Surveys*

Figure 4 shows the distribution of households by number of earners in 2011 compared to 2003. The most substantial change is the drop in the number of households without earners. One possible reason that these households joined the labor force is the cut in allowances, which was part of the policy that brought Israel out of the recession. As part of the overall reduction in government spending, child allowances and supplementary income benefits were cut, the regular adjustments of other benefits were canceled, and terms of entitlement for unemployment allowances were tightened (Bank of Israel, 2004). It can be assumed that at least some of the households that did not have earners in 2003 moved in the following years to the group of households with a single earner. However, the rate of households with a single earner also dropped from 2003 to 2011, so that apparently there was a parallel, and no less significant, trend of households with a single earner in 2003 to increase their number of earners by 2011.

As the figure shows, most households that increased their number of earners moved to the category of two earners. The rate of households with more than two earners also grew during that period.

Figure 4

**Household distribution by number of earners, 2003 and 2011**

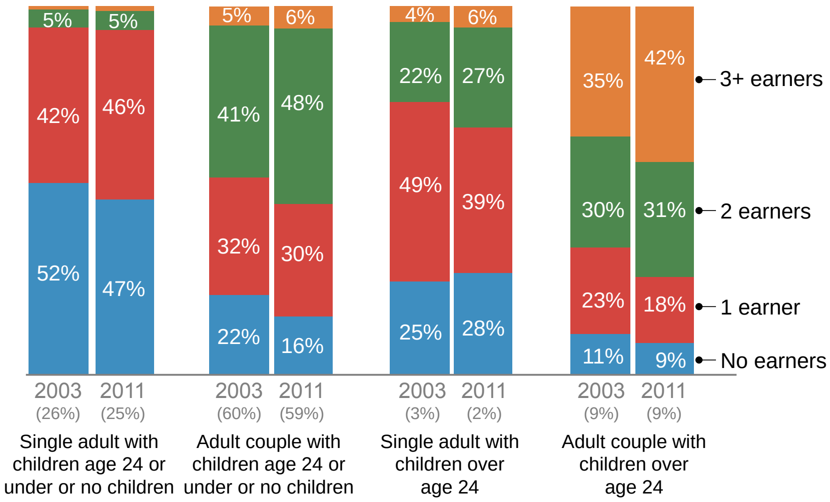



Source: Ayal Kimhi and Kyrill Shraberman, Taub Center
Data: Central Bureau of Statistics, *Household Expenditure Surveys*

Figure 5 looks at the increase in the number of earners by household demographic composition. As a first step, households were divided by the family status of the head of household: single adult (without partner) or coupled adults. In the second step, each group was divided into two subgroups: (1) households without children over age 24; (2) households with children over age 24.[1] Households with parents of the head of household or the partner's parents were not included.

Figure 5

**Distribution of Israeli households by number of earners and household demographic characteristics,* 2003 and 2011**




* Percentages in parentheses are the share of each group out of all households. The percentages do not sum to 100 percent; households that include the parents of the head of household were not included. Children under the age of 24 may be included in any of the categories and are not counted as adults.

Source: Ayal Kimhi and Kyrill Shraberman, Taub Center

Data: Central Bureau of Statistics, *Household Expenditure Surveys*

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[1] Dividing by the presence of children over the age of 24 is arbitrary, and based on the fact that most children under this age who are living with their parents do not contribute substantial financial support to the household.

Among single adult households without adult children there was a rise in the rate of single earners and a drop in the rate of households with no earners.[2] Among coupled households with children age 24 or under or no children, there was a drop both in the rate of households without earners and in the rate of households with a single earner. The main increase among this population was in the rate of households with two earners (from 41 to 48 percent), although there was also a small rise in the rate of households with three earners or more. Among single adult households with adult children, there was actually a rise in the rate of households with no earners. Conversely, there was a significant drop in the rate of households with a single earner among that population – from 49 to 39 percent – while there was an increase in the rate of households with two earners or more. Among coupled households with adult children, there was a drop in the share of households with no earners and a single earner, a mild rise in the rate of households with two earners, and a more substantial rise (from 35 to 42 percent) in the rate of households with three earners or more.

The conclusion is that the growth in the number of earners extends across all types of households. In some cases, it is the head of household and/or partner who join the labor force, and in other cases it might be adult children living with their parents who share in the support of the household.

Besides looking at the changes in the distribution of households by number of earners, the changes in the income of those households must also be examined. Figure 6 presents the changes in gross real income per earner (alongside the gross per capita income) in households divided by the number of earners. Particularly in households with a single earner, there was a rise in income per earner between 2003 and 2011, while this figure grew only slightly in households with two earners, and did not grow at all in households with three earners or more. The very small

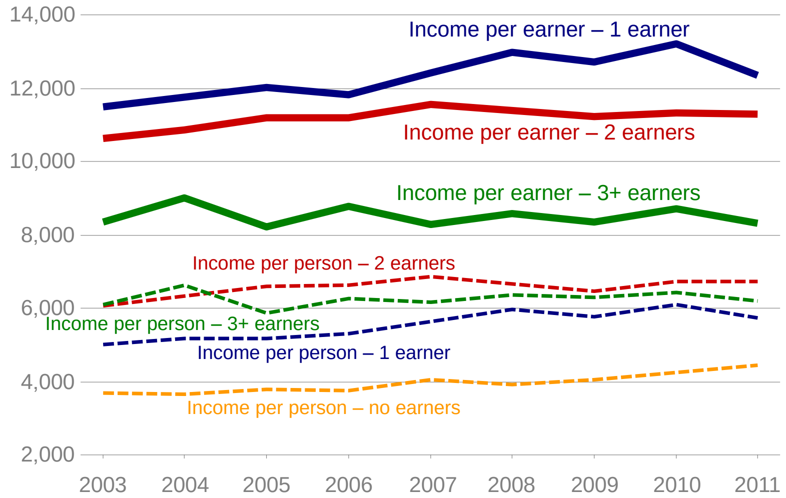
2 In the case of more than one earner in a single adult household, this figure apparently refers to household members aged 15-24, who are not considered adults.

increase in income per earner reflects the stagnation in labor wages (Figure 2 above). The increase in the income of households with a single earner, along with the previous finding that the share of such households in the population has declined over the years, may be due to the fact that single wage-earner households with particularly low incomes were the ones who chose to increase their number of earners. This may also be the reason for the observation that households that remained with a single earner had relatively high incomes.

Figure 6

**Gross monthly income per person and per earner, 2003-2011**

by number of earners per household, in shekels, 2012 prices




Source: Ayal Kimhi and Kyrill Shraberman, Taub Center
Data: Central Bureau of Statistics, *Household Expenditure Surveys*

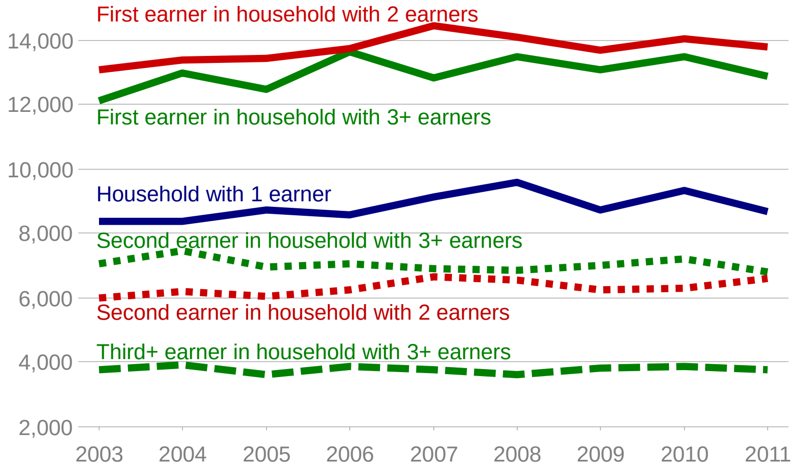
The income per earner in households with two earners was lower than that of households with a single earner, and the gap grew between 2006 and 2010, and then shrunk somewhat in 2011. Even if the first earner (that is, the one with the higher income) in households with two earners earned the same as in households with only a single earner, the second earner contributed less towards household income than the first earner (also by virtue of the definition of the ranking of earners within the household). This phenomenon was even more evident in households with three earners or more. Since the income per earner in these households is considerably lower than in households with two earners, the marginal earners contribute considerably less towards the household income.

Figure 7 shows that in households with two earners or more, the monthly income of the main earner ranged from an average of NIS 12,000-14,000 (for the years 2003 and 2011, in 2012 prices), whereas the monthly income of the second earner ranged from NIS 6,000-7,000 during the same period, while the income of the third and more earner was below NIS 4,000. A comparable comparison of hourly wages leads to a similar conclusion. These findings are in keeping with the basic economic theory of working: when households seek additional sources of income, the members of the household whose earning power is lower than the value of their alternative occupation (such as housework, caring for children, grandchildren or elderly parents) – and apparently lower than that of the current earners – join the labor force.

Figure 7

**Gross monthly income per earner by rank, 2003-2011**

by number of earners per household, in shekels, 2012 prices




Source: Ayal Kimhi and Kyrill Shraberman, Taub Center
Data: Central Bureau of Statistics, *Household Expenditure Surveys*

Figure 6 shows that the per capita income in households with two earners is a little higher than in households with a single earner, even though the number of persons in these households is larger (Figure 8). This is also true of households with more than two earners, and in general it can be stated that the per capita income in households with earners does not change much depending on the number of earners. This leads to the conclusion that the bigger households are those forced to rely on the income of more earners in order to maintain an adequate standard of living, even if the income of the marginal earner is relatively low.[3]

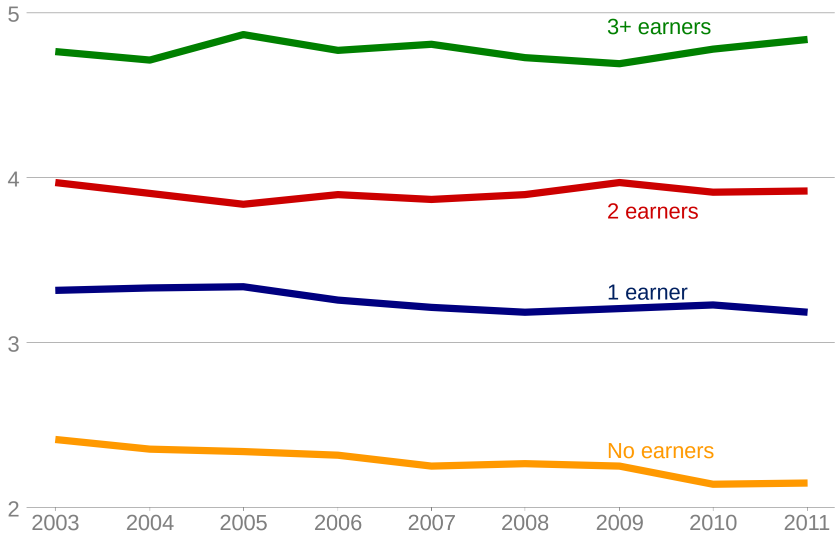
[3] It should be noted that the causality might be the other way around: it is possible that marginal earners with low incomes cannot afford to live in separate households.

The exceptions are households without earners, whose per capita income is substantially lower than that of households with earners.

Figure 8 also shows that in households with one earner or no earners, the average number of persons dropped between 2003 and 2011. The drop reflects the fact that households that moved from the category of a single earner to the category of two earners or more were apparently bigger than the ones that stayed in the category of a single earner. In any case, the decline in average family size among households with a single earner helped these households raise their standard of living over the designated period.

Figure 8

**Average number of persons in household by number of earners, 2003-2011**



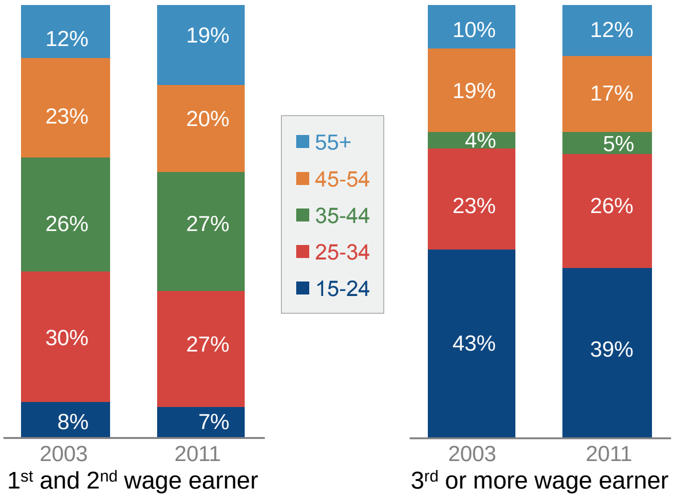

Source: Ayal Kimhi and Kyrill Shraberman, Taub Center
Data: Central Bureau of Statistics, *Household Expenditure Surveys*

A review of the age distribution of earners (Figure 9) shows that the marginal earners (third and upwards) in the household are relatively younger than the main (first and second) earners. About 40 percent of marginal earners are under the age of 25, whereas less than 10 percent of the main earners are in that age group. Conversely, few marginal earners belong to the 35-44 age group: 5 percent or less, compared to more than 25 percent of the main earners. Apparently, the relatively young marginal earners are the adult children of the household heads, whereas relatively older marginal earners are presumably their parents. A look at the relationship of the marginal earners to the head of household shows that about 60 percent of the marginal earners are children of the head of household, and about 5 percent are parents of the head of household and the remaining 35 percent is mostly partners of the head of household.[4]

Figure 9

**Age distribution of earners**

by ranking of earner in household,* 2003 and 2011




* Households with 3 or more earners

Source: Ayal Kimhi and Kyrill Shraberman, Taub Center

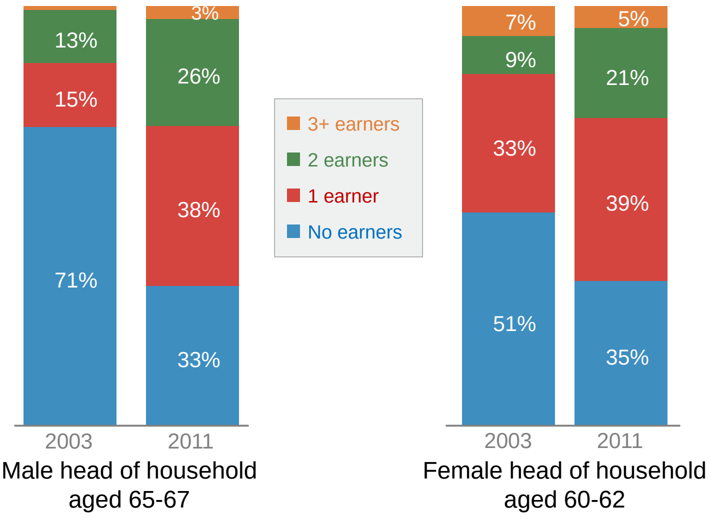
Data: Central Bureau of Statistics, *Household Expenditure Surveys*

[4] Note that Figure 9 includes all households, whereas Figure 5 omits those including the parents or partners of the head of household.

The change in the retirement age in 2009 raised men's retirement to 67 and women's age of retirement to 62. As such, Figure 10 presents the share of earners per household for those households affected by the change: men ages 65-67 and women ages 60-62. The figure shows that, of households headed by men aged 65-67, the rate of households with no earners dropped by more than half. Among households headed by women aged 60-62, there was also a substantial drop in the rate of households with no earners. Meanwhile, there was an increase in the rate of households in all of the other categories except for the category of three earners or more in the case of women. The conclusion is that the rise in the retirement age contributed to the increase in the number of earners, although this conclusion is relevant only for a limited cohort.

Figure 10

**Distribution of households where the head of household was affected by the change in retirement age, by number of earners, 2003 and 2011**

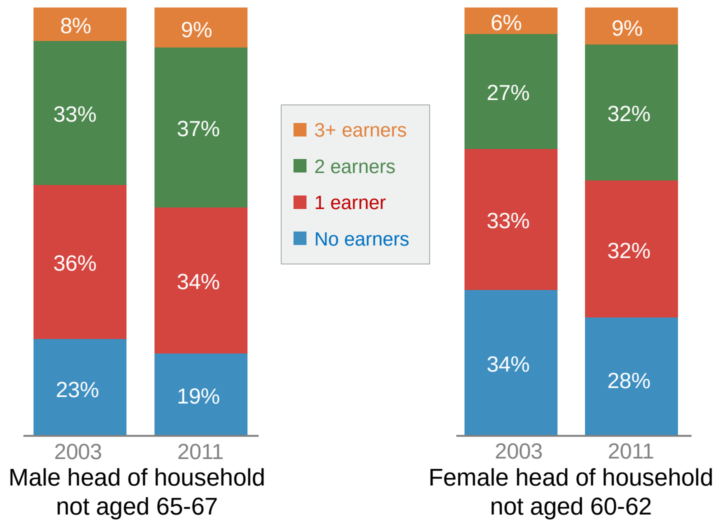



Source: Ayal Kimhi and Kyrill Shraberman, Taub Center
Data: Central Bureau of Statistics, *Household Expenditure Surveys*

Figure 11 shows that the increase in the share of households with two earners or more is also evident in households headed by individuals who were not affected by the rise in the retirement age, meaning that the explanation based on the rise of the retirement age does not preclude the explanation based on the economic need to increase the household's total income. This finding is not surprising since the share of households whose heads were affected by the retirement age represent no more than a small percent of the total number of households.

Figure 11

**Distribution of households where the head of household was not affected by the change in retirement age, by number of earners, 2003 and 2011**




Source: Ayal Kimhi and Kyrill Shraberman, Taub Center
Data: Central Bureau of Statistics, *Household Expenditure Surveys*

## 3. Changes in Household Income

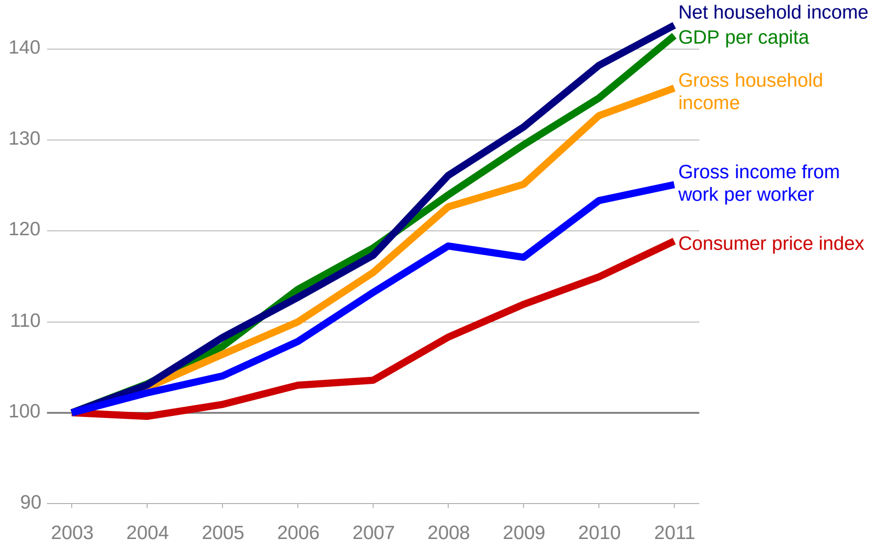
Figure 12 shows that average income from work (including salaried work and self-employment) in Israel increased by 25 percent between 2003 and 2011, a little more than the rise in the consumer price index during that period, which was just below 19 percent.[5] Average real income from work grew only a little more than 5 percent during that period, but the cumulative growth of the economy (the growth of the per capita GDP) reached more than 40 percent (19 percent in real terms), meaning that income from work eroded relative to the average standard of living.

[5] Figure 2 shows the average hourly wage of salaried workers only, whereas Figure 11 presents the average monthly income from work per earner for all employed household members, including the income of the self-employed. Therefore, there is no contradiction between the slight decrease in wages presented in Figure 2 and the slight increase in household income from work presented in Figure 11.

Figure 12

**Consumer price index, GDP per capita and income, 2003-2011**

Index: 2003=100

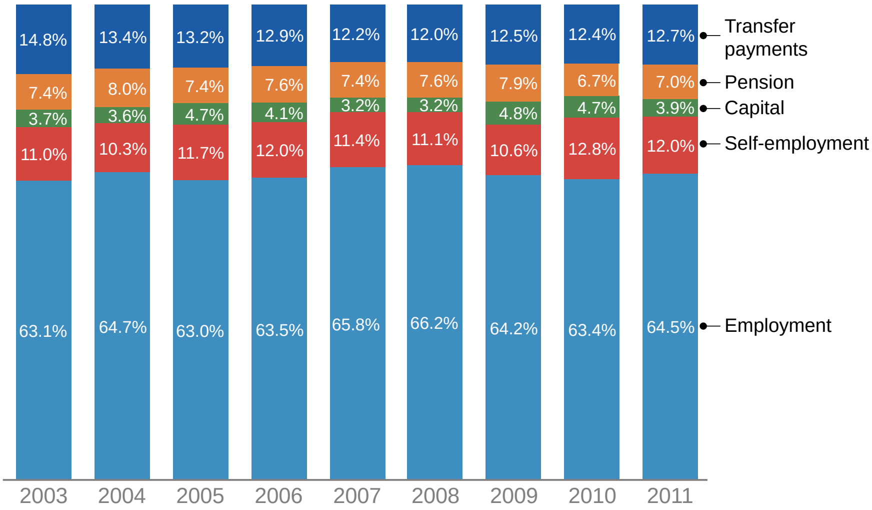



Source: Ayal Kimhi and Kyrill Shraberman, Taub Center
Data: Central Bureau of Statistics, *Household Expenditure Surveys*

The gross income per household grew at a higher rate than that of income from work per worker; a fact that arises at least partly from the increase in the average number of earners per household. Another possible explanation is that there was a bigger rise in income from sources other than work, but Figure 13 shows that this explanation is not valid. The distribution of sources of income for households did not change dramatically between 2003 and 2011: the portion of income from work (salaried or self-employed) grew from 74.1 percent to 76.5 percent throughout that period, mainly at the expense of the portion of income from transfer payments, which shrank.

Figure 13

**Distribution of gross income for Israeli households, by source, 2003-2011**



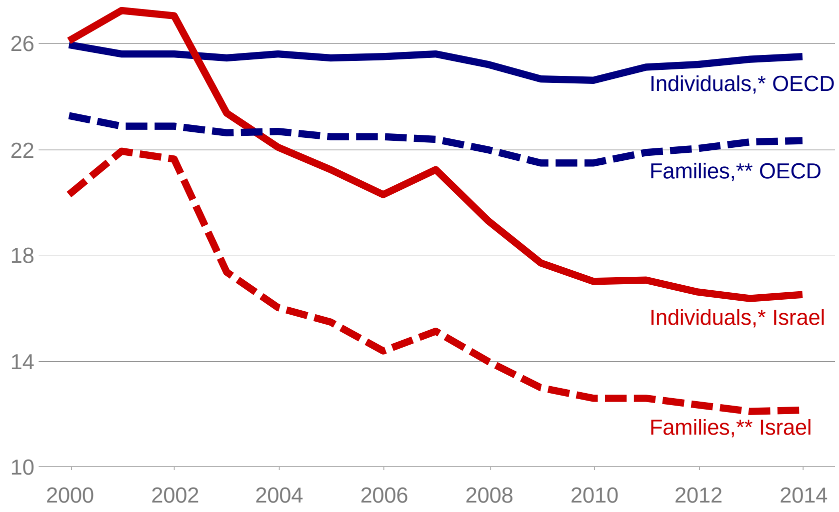

Source: Ayal Kimhi and Kyrill Shraberman, Taub Center
Data: Central Bureau of Statistics, *Household Expenditure Surveys*

Despite the increase in the number of earners, the increase in gross income per household is still lower than the increase in per capita GDP. The net income per household grew at a higher rate, though, identical to the growth rate of the per capita GDP during those years (Figure 12). The conclusion that may be drawn from the fact that the net income of households grew at a faster rate than the gross income is primarily rooted in taxation policy.

Figure 14 shows that the rates of income tax and National Insurance Institute payments imposed on the income of individuals and families in Israel have been in a downward trend since 2001. The average tax rate imposed on individuals without children earning average wages dropped from 27 percent in 2001 to 16 percent in 2013, whereas the average tax rate imposed on a couple with two children, one of whom earns the average wage and the other who earns 67 percent of the average wage, dropped from 22 percent in 2001 to 12 percent in 2013. During this same period, the average tax rates in OECD countries changed very little. This drop in tax rates benefited households and helped them increase their net income beyond the increase in their gross income.[6]

Figure 14

**Average rates of income tax and social security contributions in Israel and the OECD, 2000-2014**




* Individual without children earning average wage

** Couple with two children, one earning average wage and the other earning 2/3 of average wage

Source: Ayal Kimhi and Kyrill Shraberman, Taub Center

Data: Central Bureau of Statistics, *Household Expenditure Surveys*

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6 Since tax rates in Israel are progressive, it can be assumed that changes in the taxation policy have different impacts on workers with different income levels. Such an analysis is beyond the goals of the present study, but there is no doubt that the changes in income tax rates have no impact on workers whose wages do not reach the minimum tax threshold, which is about half of salaried employees in Israel.

Theoretically, an increase in income at a similar rate to the rise of prices would allow households to maintain their normal standard of living. Therefore, the question is what made households increase their supply of labor by increasing the number of earners, so that their income grew beyond the increase in the consumer price index. The immediate reason is the continued growth in the rate of women's participation in the labor force, as illustrated by Figure 1. Nonetheless, the figure also shows that men's participation rate also grew since 2003, contrary to the previous trend, making this explanation insufficient. Two possible reasons can be cited. One is that the perception of the cost of living is largely influenced by prices that are not represented in the consumer price index, and particularly housing prices. The sharp rise in housing prices (Gruber, 2014) lowered households' sense of their economic power, even if they did not intend to buy an apartment in the immediate future, and this may have also created an additional motive to increase income.[7]

Another possible reason is the differential changes in labor wages and cost of living. Kimhi and Shraberman (2014, Figure 7) show that, among other things, the wages among middle-wage salaried workers eroded relative to workers with lower or higher wages. It may be that the majority of the increase in the number of earners came from households with middle-wage workers. Furthermore, Kimhi and Shraberman (2014, Figure 18) show that the share of labor in national income in Israel has been on a downward trend since 2001 (see the Spotlight in this chapter). The significance of this finding is that a growing share of national income is being transferred into the hands of the wealthy. The wealthy are naturally the people with high wages, causing further erosion of the income of the middle class (which has income from capital to a more limited extent) relative to the wealthy.

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[7] However, the rise in housing prices should actually increase the sense of economic security of households owning one apartment or more.

## Spotlight: *An International Perspective*

In recent years, the issue of the erosion of wages relative to the growth of product appeared on the global agenda. Karabarbounis and Neiman (2014) reported a drop in the share of labor in national income in most of the developed countries in the last decade, reaching an average of five percentage points between 1975 and 2010. They also showed that about half of that decline was derived from the relative cheapening of capital assets. Figure 15 shows a comparison of the share of labor in the income of the business sector[8] (that is without the public sector) in Israel and other countries. In Japan and the Eurozone, the share of labor has been on the decline since 1995.[9] In Israel, as in the US and in the UK, the share of labor in the revenues of the business sector was on the rise until 2001 and then began to drop. The decline in Israel and in the US came to a halt in 2005, whereas in the UK it continued until 2008. That year, following the global crisis that mainly hurt income from capital, there was a rise in the share of labor in most countries except Israel.

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[8] Labor share in income is measured as Unit Labor Costs (ULC). ULC measure the average cost of labor per unit of output. They are calculated as the ratio of total labor costs to real output, or equivalently, as the ratio of average labor costs per hour to labor productivity (output per hour). As such, a unit labor cost represents a link between productivity and the cost of labor in producing output (OECD-Stat).

[9] In Japan, the downward trend has been present since the 1970s. Similar data for the Eurozone is unavailable.

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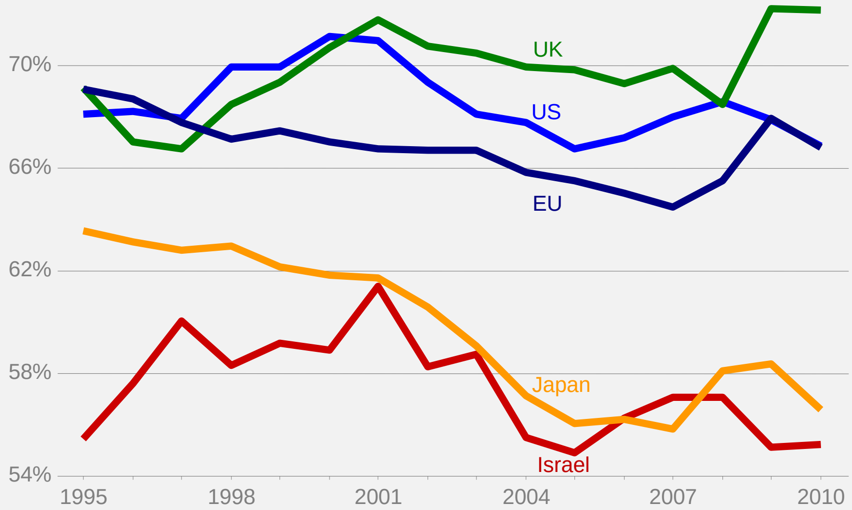
The turning point came in 2001, the year Israel was hit by the deepest recession it experienced in the last decades. The share of labor in the income of the business sector continued to drop even after the recession ended in 2003.

Figure 15

**Labor share in business sector income***

Israel relative to selected OECD countries, 1995-2010




* Labor share in income is measured as ULC (unit labor costs) that represent the relation between labor productivity and labor wage costs.

Source: Ayal Kimhi and Kyrill Shraberman, Taub Center

Data: OECD

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Summers and Balls (2015) claim that the slowdown in the increase of wages and income in some of the developed countries, led by the US, began even before the 2008 financial crisis, but got worse as a result of it, at a time when the cost of living continued to rise. They explain the slowdown in the increase of wages in terms of four factors:

A. Globalization allowing for the offshore transfer of production processes, reducing the bargaining power of employees relative to employers;

B. The technological advancement that led to the replacement of workers by machines, especially at low and medium wage levels;

C. The drop in the power of professional unions;

D. The drop in the commitment of business owners to their employees, especially those not in senior management positions.

Figure 16 presents the average annual change of median real wages of full-time salaried employees in the years 2001-2013 in 20 OECD countries. Only half of the countries recorded a wage rise of more than an annual average of 1 percent. Divided into two sub-periods, this shows that in most countries the wage increase in the years 2009-2013 was much lower than in the years 2001-2009, apparently as a result of the global economic crisis. In Israel, which was less affected by the crisis than other countries, no meaningful difference was found between the two sub-periods, and median real wages showed an insignificant drop during that period. Although the drop was not quantitatively significant, the very fact that the median real income did not rise for nearly a decade and a half is extremely significant.

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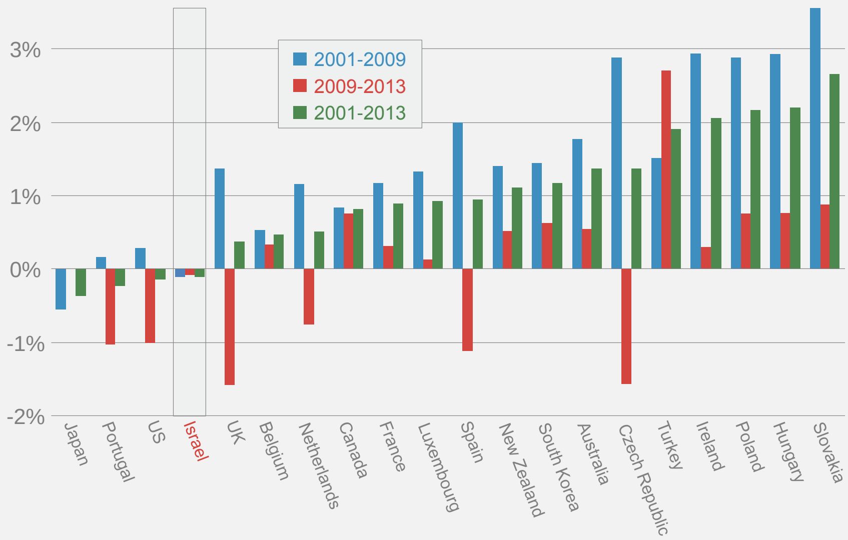
Figure 16

**Annual average change in the real median annual wage for full-time employees***




* For OECD countries with data except for Estonia and Greece where there were unusual changes

Source: Ayal Kimhi and Kyrill Shraberman, Taub Center

Data: OECD

## 4. Summary and Conclusions

Real wages in Israel are at a standstill and have even been on the decline since the beginning of the new millennium. In contrast, the economy continues to grow. Households manage to increase their income so that it keeps pace with the growth rate in a number of ways. First, reductions in income tax levels during this period increased the share of income that remains in the hands of the workers, at the expense of the share that is transferred to the state. It should be noted, however, that the main beneficiaries of these reductions are relatively high income workers, whereas employees beneath the tax threshold do not benefit from them at all. Second, there was an increase in the number of earners per household, so that the share of households with fewer than two earners declined whereas the share of households with two earners or more increased. The increase in the number of earners extended over all types of households. The additional earners earned substantially less than the main earners, particularly in households with more than two earners, which supports the hypothesis that the increase in the number of earners is the result of economic necessity. Most of the marginal earners are working-age young adults who belong to their parents' households. The question is whether this is a mixture of a number of phenomena. On the one hand, young adults living with their parents join the labor force, and on the other hand, young people who were already employed continue living with their parents because of the rise in housing prices. The postponement of the age of marriage and the rise in divorce rates may have also had an impact on the housing patterns of young adults. The data used for this study do not make it possible to separate out these phenomena, and therefore this question will have to await further study.

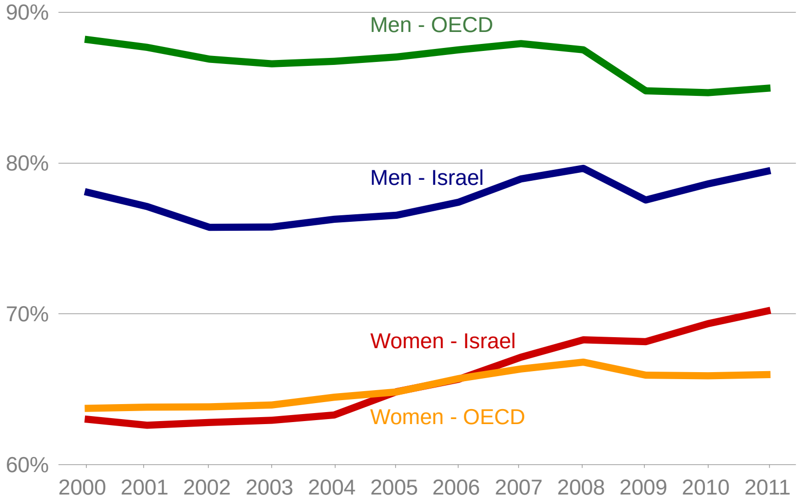
The research also found a rise in the number of older adults who joined the circle of earners. Part of this increase was a result of raising the retirement age, which caused older adults to remain in the labor force. Even among households headed by adults who are not at retirement age, though, there was an increase in the number of earners.

In conclusion, the increase in labor force participation is a welcome phenomenon, even if the reason for it is economic need. As Horowitz (1951) wrote in the context of the mass immigration to Israel after the country was founded, "full employment, even though it may not be the sole and final criterion, is a very important factor. A large percentage of these earners [...] may not be fully integrated into a productive economy yet, **but the very fact that they have become productive and working is extremely valuable**" (p. 6, emphasis in the original).

The stagnation of average real wages may be the result of the increase in participation in the labor force, mainly by workers with low potential wages such as women and young adults. However, that is not to say that this phenomenon should not be cause for concern, for two reasons. First, as Kimhi and Shraberman (2013) show, the increase in the employment rate of elderly men in Israel is significant, and it is higher today than the average in OECD countries; however, the employment rate of men in Israel lags behind the OECD average among those in prime employment ages (Appendix Figure 1). Second, employment rates in Israel have nearly exhausted their growth potential, except in specific population groups, such as ultra-Orthodox men and Muslim women. Therefore, the increase in the number of earners cannot serve forever as a means for households to contend with the stagnation of real wages. Although the stagnation of real wages might stop when the economy reaches full employment, there is no guarantee of that, and thus, the reasons for the stagnation of average real wages must be re-examined in depth.

# *Appendix*

Appendix Figure 1
**Employment rates, ages 25-54**
Israel relative to OECD, by gender, 2000-2011




Source: Ayal Kimhi and Kyrill Shraberman, Taub Center
Data: OECD

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