STUDY ON THE GEOGRAPHIC COVERAGE OF ISRAELI DATA

Statistics Directorate

Organisation for Economic Co-operation and Development

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EXECUTIVE SUMMARY AND MAIN FINDINGS

Note from the Secretariat

1. This Report presents findings and recommendations from a Study of Israeli official statistics, undertaken in response to a recommendation from the OECD Committee on Statistics (CSTAT), after that country's accession to the Organisation.

Background

2. In the Formal Opinion of CSTAT on the accession of Israel to the OECD of 11 March 2010, the Committee raised certain questions concerning the geographic coverage and the basis on which Israeli statistics were collected and compiled. In order to address these questions, the Committee called for a post-accession study to be undertaken.

3. The Terms of Reference, approved by CSTAT, set out the approach to be taken and the purposes or components of the Study, as follows:

- to establish the fundamental concepts applied in delineating the geographic and/or population units used for survey coverage and calculation of national aggregates and, where applicable, to determine whether these conform to international statistical standards; and,
- to assess the quantitative impact on aggregates of including units in the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

4. The Study was led by the OECD Statistics Directorate with participation of the Directorate for Employment, Labour and Social Affairs. Experts from three member countries, Australia, Norway and the United Kingdom also participated on the Study Team. The Israeli Central Bureau of Statistics cooperated fully through the provision of data and metadata and by responding to queries and demands from Study Team during three missions to Israel as well as through correspondence.

Compliance with international standards

5. A thorough review revealed no international guidelines that deal explicitly with the compilation of official statistics where the precise borders or boundaries of a country are unclear or in dispute in such circumstances. Nevertheless, there are international handbooks and manuals that provide definitions of key terms and other relevant instructions as well as guidance on displaying metadata, particularly for national accounts and population data.

Macroeconomic statistics

6. For macroeconomic statistics, the *1993 System of National Accounts* manual (SNA93), and the *Balance of Payments Manual, Version 5* (BPM5) were the principal references used to assess compliance of Israeli macroeconomic statistics. The CBS applies SNA93 and BPM5 today and did so at the time of the accession review. Nevertheless, compliance with the 2008 System of National Accounts manual (SNA08) and the *Balance of Payments Manual, Version 6* (BPM6) were also assessed.

7. The fundamental concepts that establish the scope for the SNA are institutional units, residence, economic territory and total economy.

8. "The economic territory of a country consists of the geographic territory administered by a government within which persons, goods and capital circulate freely."

9. The Golan Heights, East Jerusalem and Israeli settlements in the West Bank lie within the geographic territory administered by the Israeli government and the CBS includes all institutional units that are resident in these territories in the economic territory of Israel.

Thus, Israeli macroeconomic statistics comply with the key concepts of institutional units, residence, economic territory and total economy of SNA93 and BPM5.

10. In the revised manuals SNA08 and BPM6, "economic territory" is defined more broadly as *"any geographic area or jurisdiction for which statistics are required," and "the area under the effective economic control of a single government". Moreover, "The definition of economic territory no longer has the requirement that persons, goods, and capital circulate freely."*

Israel's aggregate macroeconomic statistics also comply with the guidelines contained in SNA08 and BPM6.

11. The SNA93 also contains important guidelines on the distinction between enterprises and establishments. The concept of the establishment unit does not apply explicitly to geographic scope. However, since it affects the ease and accuracy with which a country can produce sub-national estimates, it was relevant for this Study.

The SNA93 recommendation on the distinction between enterprises and establishments has not been fully implemented in Israel.

Population statistics

12. Beyond macroeconomic statistics, guidelines on population measurement and censuses were considered. The UN Principles for Censuses do not advise on how a country's territory is to be defined but rather stress that the territory be "precisely defined". Furthermore, the UN Guidelines underscore the importance of clearly defining coverage and explicitly identifying any boundary changes.

13. When a country's boundaries have changed, for purposes of both internal consistency and international comparability, the UN Guidelines recommend that the "country of birth" be recorded according to national boundaries existing at the time of the census.

14. In considering Israel's compliance with the UN Guidelines on population statistics, it is noted that the Israeli authorities clearly describe the location and geographical area of the State of Israel in the Statistical Abstract. The Abstract further specifies that Israeli population statistics cover a precisely defined territory and include every person present and/or residing within its scope, in accordance with UN principles.

15. Regarding place of birth, Israeli statistics measure country of birth according to borders at the time of the Census, with the exception of the USSR, Yugoslavia and Czechoslovakia.

16. The final set of UN guidelines referred to above deal with the need to describe coverage clearly in both text and maps. The geographic area of "Israel" is clearly defined in text and in maps, though the non-contiguous character of the Israeli localities in Judea and Samaria [West Bank] make it difficult to portray this aspect of Israeli geographic scope on a map.

Thus, it is concluded that Israeli practices on geographic and population coverage in the census of population comply with the UN principles.

Geographic structure and scope of Israeli statistics

17. The Study reviews relevant Israeli metadata and considers whether it is consistent and unambiguous. For clarity, geographic scope (inclusion of post-1967 areas) and population group scope (residence vs. nationality) were considered separately.

Treatment of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank in the geographic hierarchy

18. The CBS uses a geographic hierarchy of six Districts, fifteen Sub-districts and fifty Natural Regions for collection and dissemination of statistics. The place of the Israeli settlements in the West Bank in this hierarchy is unclear. All references in the Statistical Abstract refer to "6 districts", which thus excludes the Israeli settlements in the West Bank as a District. In the Key to Codes for Maps, though, "Judea and Samaria" (West Bank) is listed under the heading "District", though the maps themselves do not delineate or list Judea and Samaria (West Bank) as a district. Nevertheless, while the place of the Israeli settlements in the West Bank in the geographic hierarchy is unclear, statistics provided at the District level are normally available for the "Israeli settlements in Judea and Samaria" as well.

19. Within the CBS geographic hierarchy, the entire area of the Golan Heights is identified as a distinct Sub-district, entitled the Golan Sub-district. Statistics available at the Sub-district level are also available for the Golan Sub-district.

20. East Jerusalem has no separate status or boundaries within the official geographic hierarchy. It is part of the Jerusalem Sub-district and there is no distinction between East and West Jerusalem in the geographic structure. As such, statistics are not published for "East Jerusalem" in official CBS tables.

It is recommended that the CBS review and clarify the place of Israeli settlements in Judea and Samaria (West Bank) in the official geographic hierarchy used for collection and dissemination of statistics.

Documentation on geographic and population group scope by subject domain

21. References to the inclusion of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank in Israeli statistics are worded differently in the explanatory notes on different subjects in the Statistical Abstract. In particular, confusion is possible concerning the inclusion of Israeli settlements in the West Bank. Furthermore, some references are to "Israeli localities in Judea and Samaria" while others mention only "Judea and Samaria".

22. In considering all CBS metadata more broadly, in some cases extensive, precise statements are included, with reference to all three of the post-1967 areas. In other cases, a reference only appears if there is a need to explain a break in a series. This does not mean that inclusion of the post-1967 areas is ever concealed. Inclusion of these areas is evident if maps, map codes, fundamental descriptions of the "State of Israel" and other metadata are all taken together.

23. As such, the Study Team concludes that while sufficient information on geographic scope is provided, a clearer, more consistent approach is advised.

It is recommended that the CBS review its metadata on geographic coverage and adopt standard wording and guidelines on when and how to include the relevant references in order to ensure comprehensive and consistent treatment, and transparency for users.

Nationality vs. residence: Documentation on population group scope

24. In conducting its accession review of Israel, CSTAT expressed the concern that Israel might only measure the activities of people (or institutional units) of certain nationalities, rather than of all residents. This concern arose in part because of references to coverage of "the Jewish population" or "Jewish localities" in published metadata and in statements by officials.

25. These various metadata entries seemed to suggest that non-Jewish members of the population were not included and that scope decisions were based on nationality, religion or ethnic origin, rather than on residency. However, the present Study has confirmed that this is not the case. All residents of all geographic units covered in Israeli statistics, including the Golan Heights, East Jerusalem and Israeli settlements in the West Bank are included in all statistics.

26. The CBS has begun to revise metadata to clarify that all residents are included in data collections. Nevertheless, numerous examples of the potentially misleading references to Jewish localities or Jewish population remain**.**

It is recommended that the CBS review its metadata on entries referring to Jewish localities or Jewish population to ensure that any possible confusion concerning scope by nationality is eliminated.

Basic demographic characteristics of areas

27. The post-1967 areas have much younger and faster growing populations than do the areas of pre-1967 Israel. However, neither the demographic characteristics nor the growth rates of the three post-1967 areas are uniform.

28. Both the Israeli settlements in the West Bank and East Jerusalem have high proportions of those under age 15 in their populations, at 41.5% and 37.0%, respectively for 2009, compared to 26.7% in pre-1967 Israel. The proportion of those under 15 in the Golan Heights is 30.1%.

29. The population of the Israeli settlements in the West Bank grew by 95.4% over the period 1997 to 2009. Growth over the same period was 37.3% for East Jerusalem and 27.1% for the Golan Heights. In contrast, population growth in pre-1967 Israel was 26.2%.

Inclusion of the post-1967 areas increases the population of pre-1967 Israel by 11.5%. Furthermore, when the post-1967 areas are included the average annual rate of population growth of pre-1967 Israel over the period 1997 to 2009 increases by 0.2 percentage points and the proportion of under 15 increases by 1.2 percentage points.

Socio-economic data and impact of post-1967 areas on aggregates

Labour force survey and data

30. The Israeli LFS follows well-established sampling methods and respondents are selected at random from all residents.

31. Creation of special estimates for the Golan Heights and Israeli settlements in the West Bank was straightforward as the existing sampling units respect those boundaries. Custom reallocation of samples was required for East Jerusalem. The reallocation of samples for the special area estimates required for this Study was also conducted appropriately and no coverage bias was introduced

32. Labour market outcomes are poorer in the post-1967 areas than in pre-1967 Israel. In 2009, the labour force participation rate for the working age population in the post-1967 areas was 57.4% vs. 66.0% in pre-1967 Israel. Employment and unemployment rates stood at 52.6% and 8.4% in the post-1967 areas vs. 60.9% and 7.7% for pre-1967 Israel.

33. Labour market performance is not uniform across the three post-1967 areas. There are relatively high employment rates in the Israeli settlements in the West Bank and low participation rates, in particular for women, in East Jerusalem.

Inclusion of post-1967 areas has no major impact on labour market indicators. For 2009, when the post-1967 areas are included, the labour force participation rate of pre-1967 Israel declines from 66.0% to 65.1% while the employment rate drops from 60.9% to 60.1%. Furthermore, the unemployment rate rises by less than 0.1 percentage points; the pre-1967 Israel rate of 7.7% remains unchanged when the post-1967 areas are included. The limited impact is largely because a relatively low proportion of the working age, employed and unemployed populations are in the post-1967 areas.

Integrated income survey and data

34. The Israeli Income and Household Expenditure Surveys follow the same norms and principles as the LFS, with the same procedures for reallocation of sample units to produce the special estimates. The population coverage was deemed acceptable and unbiased.

Income inequality for households in post-1967 areas is 10% higher than for pre-1967 Israel. However, the inclusion of the post-1967 areas with pre-1967 Israel has little impact. Income inequality for the combined area is similar to that for pre-1967 Israel.

Using a standard income threshold to measure poverty in all areas, the poverty rate in the post-1967 areas is higher, at 23.4%, than for pre-1967 Israel, at 20.2%. Inclusion of the post-1967 areas yields a poverty rate of 21.7% for the combined areas.

Macroeconomic data and impact of post-1967 areas on aggregates

35. Israel does not calculate regional GDP for any areas of the country. Hence, a special methodology was developed to create the required special estimates. In consultation with the Study Team, a "top down" approach was chosen that involved using a wide variety of survey and administrative data sources to allocate the underlying series by area.

36. Available data sources only permitted estimates for a single year. While the data permitted a virtually complete allocation of GDP on the production and expenditure sides, only a partial allocation on the income side was possible.

The inclusion of the post-1967 areas increases GDP of pre-1967 Israel by 4% but per capita GDP declines by 6.5%. Viewed by industry, only public administration has a neutral impact on GDP per capita. For all other industries, the post-1967 areas drag down per capita GDP of pre-1967 Israel.

37. The pattern of private consumption expenditures differs between pre-1967 Israel and the post-1967 areas. Those in the post-1967 areas spend proportionally more on food, utilities and housing. Furthermore, on a per capita basis, those in pre-1967 Israel spend 50% more than those in post-1967 areas.

Nevertheless, inclusion of the post-1967 areas increases expenditure of pre-1967 Israel by 7.5% which contrasts with the 4% impact through the value added of industries in the post-1967 areas.

38. Only figures for compensation for employees, which make up roughly half of GDP on the income side, could be allocated to pre and post-1967 areas. The value of compensation for employees in the post-1967 areas is only 2.9% of the amount for employees in pre-1967 Israel. The differing demographics and labour force performance explain, in part, the lower amount.

CHAPTER 1: BACKGROUND AND MODUS OPERANDI

1. This Report presents findings and recommendations from a Study of Israeli official statistics[1], undertaken in response to a recommendation from the OECD Committee on Statistics (CSTAT), after that country's accession to the Organisation. This Chapter sets out the background for the Study, presents key elements of the Terms of Reference (ToR) and explains how these were implemented in practice by describing the basic approach taken.

Background

2. As part of Israel's accession to the OECD, which began in late 2007 and was completed in May 2010, Israel's policies and practices in a wide variety of fields, including statistics, were examined by 18 different OECD Committees.

3. The particular role of CSTAT was to examine the legal and institutional framework for statistics in Israel, to assess the quality of Israeli data and their comparability with data available from OECD Member countries and to ensure that data could be transmitted and integrated into OECD databases on a regular and ongoing basis.

4. The CSTAT assessment determined that Israel had a legal and institutional framework for statistics that was comparable to that of OECD member countries. The review also determined that Israeli data met the OECD's requirements and standards for quality and comparability in many fields. Furthermore, where Israel did not already meet OECD standards, CSTAT was satisfied that properly funded and supported programmes were in place to implement the necessary improvements to permit Israel to produce data comparable to those of OECD members within a reasonable period.

5. However, in the Formal Opinion on the accession of Israel, the Committee raised certain questions concerning the geographic coverage and the basis on which Israeli statistics were collected and compiled. In order to address these questions, the Committee recommended that a post-accession study be undertaken.

Conducting the Study: The Approach Followed

6. Following the decision by the OECD Council in May 2010 to invite Israel to become a member of the Organisation, Terms of Reference for the Study were developed and approved by CSTAT. These Terms of Reference set out the approach to be taken and the purposes or components of the Study, as follows:

- to establish the fundamental concepts applied in delineating the geographic and/or population units used for survey coverage and calculation of national aggregates and, where applicable, to determine whether these conform to international statistical standards; and,

[1] The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

- to assess the quantitative impact on aggregates of including units in the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

7. Work on the Study began after Israel became a member of the Organisation on 7 September 2010. The Study Team was led by the Statistics Directorate with participation of the Directorate for Employment, Labour and Social Affairs. In order to ensure that OECD members were involved in the work, the OECD Chief Statistician invited interested countries to name experts to join the Study Team. Three experts, Keith Blackburn of Australia, Mike Hughes of the United Kingdom and Olav Ljones of Norway participated at all stages of the Study and contributed to the report.

8. Israeli officials from the Central Bureau of Statistics (CBS) cooperated actively in the Study. First, they provided extensive metadata on the geographic coverage of registers and survey frames and on the methods used to conduct surveys or compile macro-economic estimates. They also provided the required sub-national estimates to permit the Study Team to determine the impact on various official statistics aggregates of including the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

9. The basic statistical requirement was for the CBS to produce statistics that covered only the territory within the pre-1967 borders of Israel, *i.e.*, excluding the Golan Heights, East Jerusalem and Israeli settlements in the West Bank, for a large number of economic and socio-economic topics. In order to carry out this work, the Israeli statisticians produced estimates for each of the named territories as well as for pre-1967 Israel. These detailed territorial estimates were also made available to the Study Team to assist them in understanding the characteristics of the areas and in analysing the impact of including or excluding them. Furthermore, the CBS provided breakdowns of the aggregates for pre-1967 Israel into regions to facilitate comparisons and analysis. Where sample sizes and data quality so permit, some of these detailed area statistics are included in the Report.

10. Additional information on the decisions concerning variables, geographic breakdowns and time period coverage is provided in subsequent Chapters of the Report.

11. In addition to numerous email exchanges, missions to Israel took place in November 2010 and January 2011, in order to clarify the metadata and data requirements and to agree on numerous details such as estimation methodologies, time periods and level of detail for the data. A final mission took place in May 2011 to verify that the technical information and data used in the report were correct.

A note on terminology and data

12. This Study examines data and metadata for a number of different geographic areas and sub-areas. In order to ensure consistency throughout the report and avoid confusion, the standard terminology that is used to refer to the areas in question throughout the Report is described in the next paragraph. More detailed descriptions and explanations of geographic areas and the official geographic hierarchy used by the CBS, are provided in Chapter 3.

13. The data and metadata examined in this report were provided by the Israeli Central Bureau of Statistics. Some data cover geographic areas in the official geographic hierarchy of the CBS while other data relate to specific custom areas that were agreed to by the OECD and Israel for the purposes of this Study. The use of the data, metadata and terminology in this report is without prejudice to the status of any areas under the terms of international law.

i. **Total Economic Territory** is the term used for the economic territory of Israel that includes the Golan Heights, East Jerusalem and Israeli settlements in the West Bank. It is the aggregate of pre-1967 Israel and the post-1967 areas, described below.

ii. **Golan Heights** accords with the Golan sub-district in the CBS geographic hierarchy.

iii. **East Jerusalem** is a sub-component of the Natural Region "Jerusalem" in the official CBS geographic hierarchy, but East Jerusalem does not coincide with any area in the CBS geographic structure.

iv. **Israeli settlements in the West Bank** is the aggregate of the non-contiguous settlements administered by Israel in the area known as the West Bank. It is shortened to "West Bank settlements" for labels in tables and charts. While the term "West Bank" is used by the OECD when reporting on data for the Israeli settlements in this area, CBS metadata and data use the terminology "Judea and Samaria" to refer to the same area.

v. **Post-1967 Area**s is the aggregate of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank.

vi. **Pre-1967 Israel** is the area of the Total Economic Territory of Israel excluding the post-1967 areas, (*i.e*. excluding the Golan Heights, East Jerusalem and Israeli settlements in the West Bank). Pre-1967 Israel is decomposed into North, Centre and South.

vii. **North** is an area created for this Study. It consists of the Northern District minus the Golan Sub-District of the official CBS geographic hierarchy.

viii. **Centre** is an area created for this Study. It consists of the Haifa, Central, Tel Aviv and Jerusalem Districts, from the official CBS geographic hierarchy, excluding East Jerusalem.

ix. **South** corresponds to the Southern District from the official CBS geographic hierarchy.

14. Finally, it should be noted that measures of impact are calculated relative to values for pre-1967 Israel, throughout this Study.

Contents of the Report

15. In addition to the Executive Summary and this introductory Chapter, the report comprises the following sections.

- Chapter 2 sets out the relevant international standards or guidelines that were considered in reviewing and assessing the coverage of Israeli statistics and considers whether Israeli practices comply.
- Chapter 3 examines geographic structure and coverage of Israeli statistics and how such coverage is explained in metadata.
- Chapter 4 provides brief overview descriptions of the individual areas covered in the report using basic population data, and information on commuting between home and work.
- Chapter 5 presents labour force, income distribution and poverty information for pre-1967 Israel and for the post-1967 areas. Data for different areas are compared and the impact of including data for the post-1967 areas on various aggregates is analysed. Finally, the sources and quality characteristics of the registers and sampling frames are discussed.
- Chapter 6 provides similar content to that of chapter 5 but for various national accounts estimates pertaining to pre-1967 Israel and to the post-1967 areas.

CHAPTER 2: COMPLIANCE OF ISRAELI STATISTICS WITH INTERNATIONAL STANDARDS AND GUIDELINES

16. This Chapter sets out the relevant international standards or guidelines that were considered in reviewing and assessing the coverage of Israeli statistics and considers whether Israeli practices comply.

A. Relevant International Statistical Standards and the Statistical Territory

17. As noted, the Study's purposes include the requirement to determine the geographic and population coverage of Israeli statistics and to decide whether such coverage complies with international standards. The present Chapter presents the results of research to identify the relevant international concepts and standards that should guide the producers of official statistics regarding the inclusion or exclusion of geographic or economic units or of population. It also assesses whether Israeli statistical practices comply with the relevant standards and guidelines.

18. Standards and guidelines are very important for the production of official statistics since they help to ensure consistent treatment and thus international comparability of the resulting data. While there are many situations at present and in the past, where the precise borders or boundaries of a country are unclear or in dispute, a thorough review has revealed no international guidelines that deal explicitly with compilation of official statistics in such circumstances. Nevertheless, there are international handbooks and manuals that provide definitions of key terms and other relevant instructions as well as guidance on displaying metadata, particularly for national accounts and population data.

B. Guidelines for Macroeconomic Statistics

19. For macroeconomic statistics, the *1993 System of National Accounts* manual (SNA93), and the IMF's *Balance of Payments Manual, Version 5* (BPM5) are the principal references that are used to assess compliance of Israeli macroeconomic statistics. SNA93 and BPM5 were the versions in place during the accession review of Israeli statistics and they remain in use for the preparation of Israeli official statistics today.

20. However, new versions of both these manuals have now been published and most countries, including Israel, will begin implementing the revised guidelines within the next few years. Thus, it is also useful to consider whether Israeli practices on geographic and population coverage comply with SNA08 and BPM6.

21. The SNA93 Manual clearly defines the fundamental concepts of "economic territory", "residence" and "institutional unit" that are in turn used to establish the notion of the "total economy" of a country and numerous other key macroeconomic concepts, (see below). Furthermore, the principles for economic territory, residence and all other related concepts are fully harmonised across the major international macroeconomic statistical handbooks SNA93, BPM5 and the IMF's Monetary and Financial Statistics Manual, 2000.

Concepts of institutional unit, residence, economic territory and total economy from SNA93

22. In the SNA93, "*Conceptual clarity requires that the everyday concept of a person or firm in a country be replaced by the precise notion of an institutional unit being resident in an economic territory*[2]. The institutional unit is the building block for all economic statistics. Individual persons are one type of institutional units. Individuals may also be grouped to form households, firms and other legal, government or social entities. Many additional complexities are addressed by the SNA93 but are not relevant to this Study.

23. The SNA93 states that: "*The concept of residence is the same as that used in the Balance of Payments Manual (BPM). An institutional unit is said to be resident within the economic territory of a country when it maintains a centre of economic interest in that territory - that is, when it engages, or intends to engage, in economic activities or transactions on a significant scale either indefinitely or over a long period of time, usually interpreted as one year*."[3]

24. The SNA93 further states that: "*The concept of residence used here is not based on nationality or legal criteria (although it may be similar to concepts of residence which are used for exchange control, tax or other purposes in many countries). Moreover, the boundaries of a country which may be recognized for political purposes may not always be appropriate for economic purposes and it is necessary to introduce the concept of the "economic territory" of a country as the relevant geographical area to which the concept of residence is applied.*"[4]

25. According to the SNA93, "*The economic territory of a country consists of the geographic territory administered by a government within which persons, goods and capital circulate freely*."[5]

26. In addition, "*The total economy is defined in terms of institutional units. It consists of all the institutional units which are resident in the economic territory of a country. The economic territory of a country, although consisting essentially of the geographical territory, does not coincide exactly; some additions and subtractions are made. The concept of residence in the System is not based on nationality or legal criteria.*"[6]

27. The Golan Heights, East Jerusalem and Israeli settlements in the West Bank lie within the geographic territory administered by the Israeli government and the CBS includes all institutional units that are resident in these territories in the total economic territory of Israel. **Thus, Israeli macroeconomic statistics comply with the key concepts of residence, institutional units, economic territory and total economy of SNA93 and BPM5.**

28. In the revised manuals SNA08 and BPM6, the guidelines concerning territory, residence, institutional unit and total economy remain harmonised and fundamentally unchanged. The material pertaining to these concepts has been expanded and much of the relevant information is now contained in the BPM6 manual, with cross-references in SNA08. However, it is noteworthy that the concept of "economic territory" is now defined more broadly as "*any geographic area or jurisdiction for which statistics are required,*" and "*the area under the effective economic control of a single government.*"[7]

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2 SNA93, Para 17.22
3 SNA93, Para 1.28
4 SNA93, Para 14.8
5 SNA93, Para 14.9
6 SNA93, Para 2.22
7 SNA08, Para 4.10

Furthermore, the BPM6 manual explicitly notes: "*The definition of economic territory no longer has the requirement that persons, goods, and capital circulate freely.*"[8]

29. **Accordingly, Israel's aggregate macroeconomic statistics also comply with the guidelines contained in SNA08 and BPM6.**

Guidelines on establishments

30. The SNA93 also contains important guidelines on the distinction between enterprises and establishments. The concept of the establishment unit is important when defining industries and in the geographic allocation of production.

31. In particular, the SNA93 states that: "*A single enterprise, especially a large corporation, may engage simultaneously in many different kinds of productive activities, there being virtually no upper limit to the size of an enterprise. If enterprises are grouped together on the basis of their principal activities, at least some of the resulting groupings are likely to be very heterogeneous with respect to the type of production processes carried out and also the goods and services produced. Thus, for analyses of production in which the technology of production plays an important role, it is necessary to work with groups of producers who are engaged in essentially the same kind of production. This requirement means that some institutional units must be partitioned into smaller and more homogeneous units, which the System defines as establishments. Further, the System defines industries as groups of establishments. In the System, production accounts and generation of income accounts are compiled for industries as well as sectors.*"[9]

32. In Israel, a register based on the enterprise unit is used. It does not record establishment units of all multi-establishment enterprises and, with some exceptions, it does not yet contain information about the activities or production of all local units. This has two consequences. First, industry analysis of disaggregated macroeconomic statistics is compromised. Second, data collections are unable to provide reliable information on the location of production. Whilst this does not affect the total GDP published in respect of the Total Economic Territory, it did affect the Study Team's ability to estimate production in pre-1967 Israel.

33. **Thus, the SNA93 recommendation on the distinction between enterprises and establishments has not been fully implemented in Israel.** The practical implications for the estimates are discussed further in Chapter 6 on the impact of macro-economic data.

C. Guidelines for Population Statistics

34. Moving beyond macroeconomic statistics, what other international standards provide guidance on the geographic delineation of a country's official statistics and the treatment of relevant units?

35. One of the cornerstones of official statistics is the population census. The Guidelines, Principles and Recommendations for Population and Housing Censuses, Revision 2, 2008, (UN Principles for Censuses, 2008), developed by the United Nations Department of Economic and Social Affairs do not advise on how a country's territory is to be defined but rather stress that the territory be "precisely defined":

[8] BPM6, Appendix 8, p. 293.
[9] SNA93, Para 5.2

> *"The census should cover a precisely defined territory (for example, the entire country or a well-delimited part of it). The population census should include every person present and/or residing within its scope, depending upon the type of population count required."* [10]

36. The guidelines also recommend that countries apply a threshold of 12 months to determine place of residence.[11]

37. The UN Manual also contains relevant guidelines on questions pertaining to the measurement of place-of-birth when a country's boundaries have changed:

> *"For purposes of both internal consistency and international comparability, it is recommended that information on the country of birth be recorded according to national boundaries existing at the time of the census. If there have been boundary changes affecting the country of birth of a person, it is important that persons who have remained in the territory where they were born, but whose "country of birth" may have changed because of boundary changes, not be counted as foreign-born because of the failure to take account of the new configuration of the country where they live."*[12]

38. Finally, the UN Guidelines underscore the importance of clearly defining coverage and explicitly identifying any boundary changes. In section 3.22, the Manual repeats the importance of clearly describing geographical structures used and spelling out any boundary changes since the previous census.

> *"Metadata is a key element of census dissemination to ensure that the underlying concepts are well understood and that the results are well interpreted. All tabulations should include the following metadata ... geographic hierarchies used; changes since the previous census with regard to ... geographic boundaries."*[13]

39. Similarly, the Manual underscores the importance of maps to "*locate and show the boundaries of all administrative areas for which data are reported in census publications.*" [14]

40. In considering Israel's compliance with guidelines on population statistics, it is noted that the Israeli authorities clearly describe the location and geographical area of the State of Israel in the Statistical Abstract:

> *"1. The State of Israel is located in the south-western edge of Asia, east of the Mediterranean Sea. To its north are the Lebanon and the Anti-Lebanon mountains, to its east - the Syrian and Arabian Deserts, and to its south - the Sinai Peninsula and the Gulf of Elat.*
>
> *The State of Israel is located between Latitudes north 29030' - 33020'. Longitude 35030', east of Greenwich, runs through it from north to south.*
>
> *2. Up to 14 V 1948, the day of the establishment of the State of Israel, the entire area of Palestine was under the jurisdiction of the British Mandatory Government.*
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> *3. After the above date, the area under the jurisdiction of Israel was determined according to the international borderline with Egypt and Jordan, and cease-fire lines with Syria and Lebanon. As*

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10 UN Principles for Censuses, 2008, Para 1.10
11 UN Principles for Censuses, 2008, Para 1.463
12 UN Principles for Censuses, 2008, Para 2.94
13 UN Principles for Censuses, 2008, Para 3.22
14 UN Principles for Censuses, 2008, Para 3.29

> *of July 1967, Israel's area includes East Jerusalem and as of December 1981- the Golan Sub-District as well."* [15]

41. The abstract further specifies that Israeli population statistics cover a precisely defined territory and include every person present and/or residing within its scope, in accordance with UN principles. The census metadata indicate that the census measures the "*population that resided in Israel (including Israeli localities in the Judea and Samaria Area* [West Bank]*) on the determinant date."*[16] The census and population metadata also clearly indicate that all residents are included and describe the treatment of tourists, visitors or residents staying abroad on the determinant date.

42. With respect to the guideline that a 12-month threshold should be applied for determining place of residence, Israel also complies:

> *"Israel conducts a de jure census. It counts people at their usual place of residence. At the national level this is defined, for persons listed in the Population Registry, as those present in Israel or absent for less than one year; and for those not listed in the Population Registry, as persons who have lived in Israel for one year or longer."*[17]

43. Regarding place of birth, the Israeli practice is as follows:

> *"Country of birth is defined by borders at the time of the estimate, with the exception of the USSR, Yugoslavia and Czechoslovakia. Data on those countries relate to the political situation before their dissolution."*[18]

44. With the exception of the countries in Para 44 above, the Israeli practice conforms to the UN guidelines. The exceptions are not considered to be serious non-compliance issues since the metadata are transparent.

45. The final set of UN guidelines referred to above deal with the need to describe coverage clearly in both text and maps. It has already been cited that the Israeli census covers "Israel (including Israeli localities in the Judea and Samaria Area)". The geographic area of "Israel" is also clearly defined in text and in maps, though the non-contiguous character of the Israeli localities in Judea and Samaria [West Bank] make it difficult to portray this aspect of Israeli geographic scope on a map.

46. **Thus, it is concluded that Israeli practices on geographic and population coverage in the census of population comply with the UN principles.**

47. Chapter 3 reviews Israeli metadata on geographic and population scope across a wide range of Israeli statistics and considers whether it is consistent and unambiguous.

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15 Statistical Abstract of Israel 2010, p. 185
16 Statistical Abstract of Israel 2010, p. 180
17 The 2008 Israel Integrated Census of Population and Housing, Basic conception and procedure, Israeli Central Bureau of Statistics, February 2005, p. 2.
18 Statistical Abstract of Israel 2010, p. 28

CHAPTER 3: GEOGRAPHIC STRUCTURE AND SCOPE OF ISRAELI STATISTICS

48. This Chapter addresses the following questions concerning the intended scope of Israeli statistics.

- What is the official geographic structure used for collection and presentation of Israeli statistics?
- What is the geographic scope of Israeli statistics? Is the scope the same for all series or are there variations?
- Has geographic scope changed over time?
- Whatever the geographic scope of Israeli statistics, are all residents within the targeted territories included or are certain population groups excluded in some or all series?
- Does the publicly-available metadata clearly and consistently inform users on geographic and population group scope?

49. Questions concerning the actual coverage of Israeli statistics, or the extent to which the intended scope is realised in practice, are discussed in relation to the specific programs used to collect statistics. This applies in particular to the labour force, income and expenditure surveys presented in Chapter 5.

Sources of information on the scope of Israeli official statistics

50. Information on the scope of Israeli official statistics, in terms of both geographic and population groups included, was obtained through examination of published metadata and through responses provided by CBS officials to written and oral questions from the Study Team.

51. While metadata on scope appear in numerous documents pertaining to specific series, the Study Team took as its fundamental source the explanatory notes in the Statistical Abstract of Israel. This compendium is by far the most frequently and widely consulted statistical publications of the Israeli CBS. Other metadata sources were also consulted to clarify Statistical Abstract references or to provide more detailed information on specific survey instruments. Based on all these reviews, the Study Team took the position that the Statistical Abstract serves effectively as a compendium of Israeli metadata.

52. The Study Team assessed the metadata of the Statistical Abstract to determine whether explanatory notes on scope are clear, consistent and convey adequate information to properly and fully inform users.

Fundamental Description of the Geographic Extent of Israel or the State of Israel

53. As noted in Para 41, the fundamental description of the land area covered by “Israel “or “the State of Israel” is provided in the generic Explanatory Notes in the Statistical Abstract. That description clearly indicates that Israel’s geographic area, as defined by the Israeli authorities, includes East Jerusalem, since July 1967, and the Golan Sub-District, since December 1981. The Israeli Settlements in the West Bank are not mentioned in the description of the “State of Israel", though they are mentioned in metadata on specific statistical programs.

The geographic structure for Israeli official statistics

54. The CBS uses a geographic hierarchy of Districts, Sub-districts and Natural Regions for collection and dissemination of statistics. The definitions appear in various places in the Statistical Abstract and while the descriptions are not contradictory, they are not fully consistent. The reader must consult explanations in various places in order to get a complete picture of the scope of the districts and sub-districts.

55. The explanatory notes to the section on geophysical characteristics include mention of East Jerusalem and the Golan Heights:

> *"The districts and the sub-districts were defined according to the official administrative division of the State of Israel. According to this division, Israel has six districts, which are divided into 15 sub-districts. As of 1967, the area of East Jerusalem has been included in the Jerusalem District. In 1982, Golan sub-district was attached to the Northern District."*[19]

56. However, the description of the geographic divisions in the explanatory notes on population include mention of Judea and Samaria (West Bank), but not East Jerusalem or the Golan Heights:

> *"**District and sub-district** were defined according to the official administrative division of the state, which includes 6 districts and 15 sub-districts. In 1972, Judea, Samaria and the Gaza Area were added, in order to characterize the Israeli localities and the population in those areas. As of August 2005 - Judea and Samaria Area.*
>
> ***Natural region:** Within the frame of the official division into 15 sub-districts, a more detailed sub-division was made into natural regions. Each natural region is part of one sub-district or, in some cases, identical to a whole sub-district. Natural regions are continuous areas, as homogeneous as possible in their physical structure, climate and soil, as well as in the demographic, economic and cultural characteristics of their population…. Judea, Samaria and the Gaza Area were not divided into natural regions."*[20]

57. This does not mean that inclusion of East Jerusalem in the population statistics is uncertain or unclear. There are other explanatory notes that spell out clearly that the populations of these areas are included. However, there are inconsistencies between the different geographic descriptions.

58. The division of Israel into districts and sub-districts is illustrated on Map 1. The following six districts are listed and numbered in the Statistical Abstract and in other CBS reference documents.

1 Jerusalem district

2 Northern district

3 Haifa district

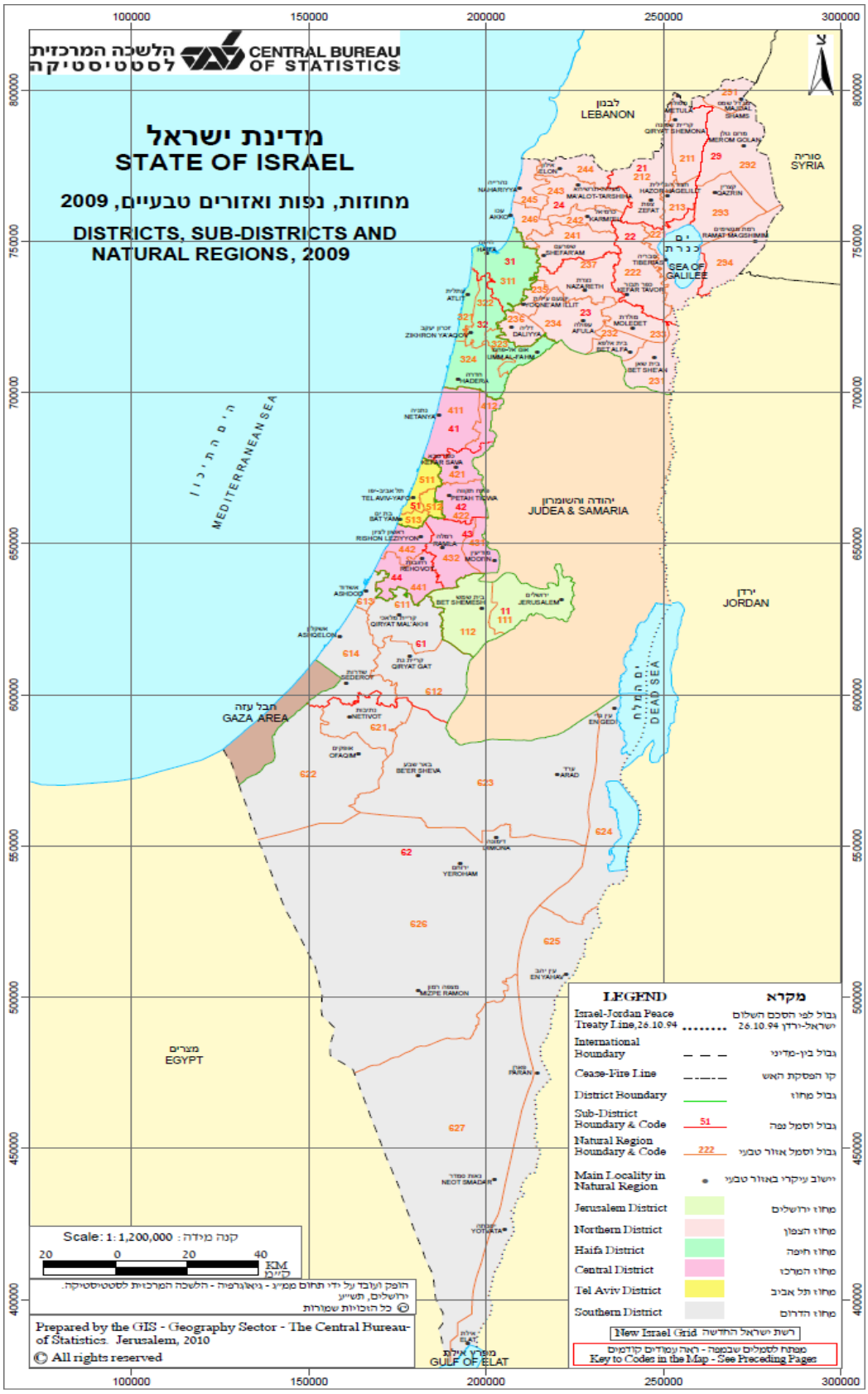
4 Central district

5 Tel Aviv district

6 Southern district

[19] Statistical Abstract 2010, p. 23
[20] Statistical Abstract 2010, p. 29

Map 1 Districts and Sub-districts of Israel



Treatment of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank in the geographic hierarchy

59. Before summarising the scope of official statistics across various subject domains, it is important to address the question of the treatment of the three post-1967 areas, the Golan Heights, East Jerusalem and Israeli settlements in the West Bank in the official geographic hierarchy.

60. The place of Judea and Samaria (West Bank) in the official geographic hierarchy of the CBS is somewhat unclear. Several references note that there are "6 districts", which would seem to exclude Judea and Samaria as a district. In the Key to Codes for Maps, though, Judea and Samaria is listed under the heading "District". While it is unclear whether "Judea and Samaria" is a formal District in the geographic hierarchy, it is clearly considered a distinct area and statistics provided at the District level are available for the "Israeli settlements in Judea and Samaria" as well. **Thus, it is recommended that the CBS review and clarify the place of Israeli settlements in Judea and Samaria (West Bank) in the official geographic hierarchy used for collection and dissemination of statistics.**

61. Within the CBS geographic hierarchy, the entire area of the Golan Heights is identified as a distinct sub-district, entitled the Golan sub-district and coded as sub-district number 29. It comprises four Natural Regions. Statistics available at the sub-district level are also available for the Golan sub-district.

62. On the other hand, East Jerusalem has no separate status or geographic boundaries within the official geographic hierarchy. It is part of the Jerusalem sub-district and there is no distinction between East and West Jerusalem in the geographic structure. As such, statistics are never published for "East Jerusalem" in official CBS tables.

Documentation on geographic scope by subject domain

63. The explanatory notes for virtually every one of the CBS's subject domains contain some references to geographic scope. The references to scope in the Statistical Abstract and other CBS official documentation have been thoroughly investigated to determine if they clearly and consistently inform users on the geographic and population groups that are within scope for Israeli statistics. CBS officials were questioned when additional clarifications were required. For ease of presentation, the question of "geographic scope" is treated separately from that of "population group scope". The latter is discussed under "Nationality vs. Residence" below.

64. With respect to geographic scope, the references to the inclusion of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank in Israeli statistics are worded differently in the explanatory notes on different subjects. In particular, confusion is possible concerning the inclusion of Israeli settlements in the West Bank. Since this area is not referenced in the fundamental definition of the State of Israel, mention of the settlements should appear for each subject, which is not always the case. Furthermore, some references are to "Israeli localities in Judea and Samaria" while others mention only "Judea and Samaria".

65. In considering the metadata more broadly, in some cases extensive, precise statements are included, with reference to all three of the post-1967 areas. In other cases, reference to any of the post-1967 areas is only made if there is a need to explain a break in a series. Inclusion of the post-1967 areas is never concealed, though. Inclusion of these areas is evident if maps, map codes, fundamental descriptions of the "State of Israel" and other metadata are all taken together.

66. As such, the Study Team concludes that while sufficient information on geographic scope is provided, a clearer, more consistent approach is advised, given the sensitivity and importance of this issue. **It is recommended that the CBS review its metadata on geographic coverage and adopt standard**

wording and guidelines on when and how to include the relevant references in order to ensure comprehensive and consistent treatment, and transparency for users.

Nationality vs. residence: Documentation on population group scope

67. When conducting its accession review of Israeli statistics, CSTAT expressed the following concern:

> *"Irrespective of what may constitute the economic territory of Israel, there may be an issue relating to the inclusion of economic activity that is measured according to a criterion of nationality and not according to a criterion of residency."*

68. The concern that Israel might only measure the activities of people (or economic units) of certain nationalities, rather than of all residents, arose in part because of references to coverage of "the Jewish population" or "Jewish localities" in published metadata and in statements by officials. For example, the following reference appears in the explanatory notes on Population from the 2009 Statistical Abstract:

> *"In 1972, Judea, Samaria and the Gaza Area were added, in order to characterize the Jewish localities and the Jewish population in those areas."*[21]

69. Another explanatory note that raises questions about data based on nationality vs. residence refers to agriculture data:

> *"As of 2003, 'agricultural crop areas by natural region', and 'agricultural crop areas by regional council' include only areas in Jewish localities."*[22]

70. Elsewhere in the metadata the classification of a locality as "Jewish or non-Jewish" is explained:

> ***"****Localities are classified as "Jewish" or "non- Jewish" according to the majority population in the locality. In most localities, there is a large majority either of "Jews" or of "Arabs".*

71. These various metadata entries seemed to suggest that non-Jewish members of the population were not included and that scope decisions were based on nationality, religion or ethnic origin, rather than on residency. However, the present Study has confirmed, through extensive discussions with CBS staff, that this is not the case. All residents of all geographic units covered in Israeli statistics, including the Golan Heights, East Jerusalem and Israeli settlements in the West Bank are included in all statistics.

72. The CBS has begun to take steps to clear up the confusion concerning measurement based on nationality vs. residence. Explanatory notes on population in the 2010 Statistical Abstract have already been revised to read:

> *"In 1972, Judea, Samaria and the Gaza Area were added, in order to characterize the Israeli localities and the population in those areas."*[23]

73. Nevertheless, numerous examples of the potentially misleading references to Jewish localities or Jewish population remain. **It is recommended that the CBS review its metadata on entries referring to Jewish localities or Jewish population to ensure that any possible confusion concerning scope by nationality is eliminated.**

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[21] Statistical Abstract 2009, p. 29
[22] Statistical Abstract 2010, p. 137
[23] Statistical Abstract 2010, p. 29

CHAPTER 4: THE BASIC DEMOGRAPHIC CHARACTERISTICS OF ISRAELI AREAS

Background

74. This Chapter reviews some basic demographic characteristics of all the areas used in the review and, where possible, considers changes over time.

75. For methodological reasons explained in Chapters 5 and 6 below, it was only possible for the CBS to create the special estimates for national accounts and socio-economic variables for pre-1967 Israel for specific and limited time periods. For the national accounts, the estimates pertain to one year only, 2007, while for labour force, poverty and income distribution estimates were provided for two successive years, 2008 and 2009.

76. The special estimates provided by the CBS permit analysis of the impact of including the post-1967 areas, but the lack of time series information precludes investigation of whether the weight or impact of the post-1967 areas is changing over time.

77. This Chapter presents some basic population data from 1997 to 2009, for all the sub-areas and aggregate areas to enable a basic understanding of the relative sizes of the areas and their population growth rates. Other basic data on commuting patterns between place of residence and place of work facilitates an understanding of the interrelationships between the geographic units under study.

78. Using basic demographic data, it is possible to paint a simple picture of the six sub-areas and three aggregate areas examined in the Study. The sub-areas, as defined and described in Para 15 are the Golan Heights, East Jerusalem and Israeli settlements in the West Bank, North, Centre and South. The aggregates are the ‘post-1967 areas’, ‘pre-1967 Israel’ and the ‘Total Economic Territory’ of Israel.

79. It is worth noting that the data on population by age and sex for the Golan Heights and Israeli settlements in the West Bank are official statistics of Israel produced on a regular basis and published in the annual Statistical Abstract, as well as in other bulletins.

80. The population statistics for East Jerusalem, however, are special estimates prepared by CBS for this Study. For East Jerusalem, the population was allocated to either east or west of the 1967 cease-fire line based on a series of decisions agreed to between the CBS and the Study Team. For statistical areas that lie completely on one side of the cease-fire line, the GIS system of the CBS automatically assigned the population to East or West Jerusalem. Some 368 800 persons, or almost 85% of the calculated East Jerusalem population, reside in statistical areas that clearly lie to the East of the 1967 cease-fire line. For those statistical areas that straddle the 1967 line, automatic assignment was used if 90% of the area. In other cases, manual assignments were made based on the location of 50% of the area, also taking into consideration the location of dwelling units.

Box 1. Main findings on population and demography

- The post-1967 areas have much younger and faster growing populations than do the areas of pre-1967 Israel. However, neither the demographic characteristics nor the growth rates of the three post-1967 areas are uniform.
- Both the Israeli settlements in the West Bank and East Jerusalem have high proportions of those under age 15 in their populations, at 41.5% and 37.0%, respectively for 2009. The proportion of those under 15 in the Golan Heights, at 30.1% is closer to the proportion in pre-1967 Israel, (26.7%).
- The population of the Israeli settlements in the West Bank grew by 95.4% over the period 1997 to 2009, for an average annual growth rate of 8.0%. Growth over the same period was 27.1% for the Golan Heights and 37.3% for East Jerusalem. In contrast, the North and Centre regions of pre-1967 Israel grew by 26.5% and 24.2%.
- While representing 11.5% of the population of pre-1967 Israel, the rapid growth and younger population of the post-1967 areas does have an impact. When the post-1967 areas are included the average annual rate of population growth of pre-1967 Israel over the period 1997 to 2009 increases by 0.2 percentage points and the proportion of under 15 increases by 1.2% points.

Basic demographic characteristics

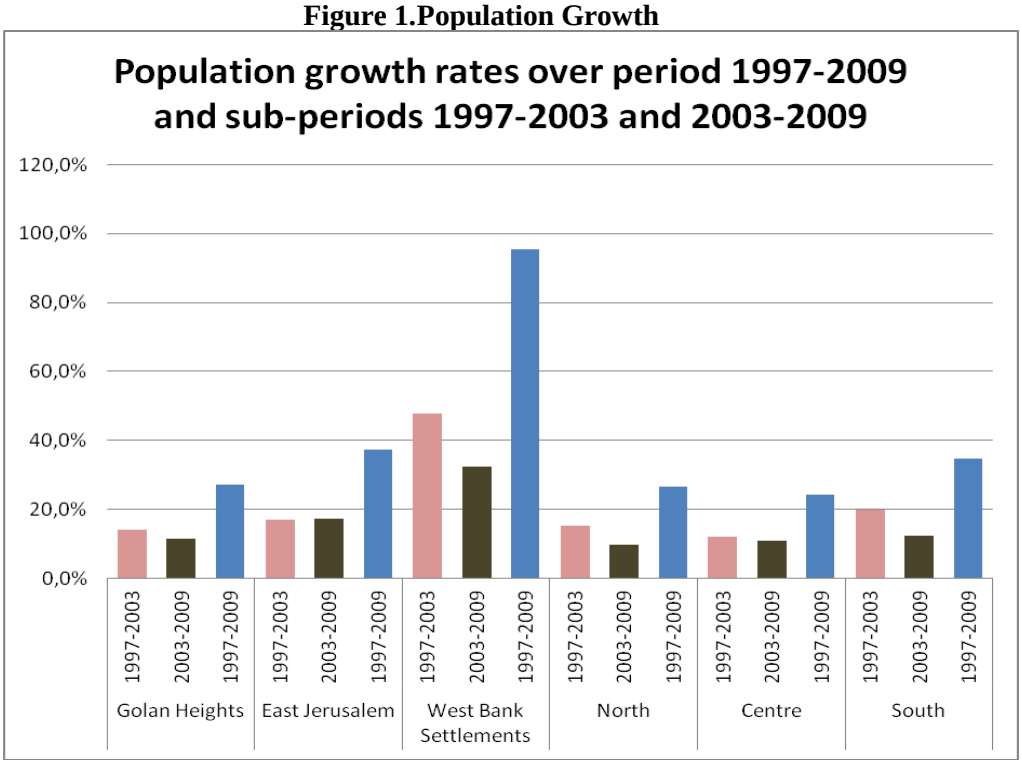
81. The six areas under study vary significantly in size. In 2009, the population of the Golan Heights was 40 800 or 0.6% of the pre-1967 Israel total. East Jerusalem and the Israeli settlements in the West Bank were larger, though at 6.6% and 4.3%, respectively, of the pre-1967 Israel population. All together, inclusion of the post-1967 areas increased the population of pre-1967 Israel by 11.5%. The 2009 population figures for all areas and their size relative to pre-1967 Israel are provided in Table 1.

Table 1. Population by Area, 2009

	Population (thousands)	% of Pre-1967 Israel
Golan Heights	40.8	0.6%
East Jerusalem	444.3	6.6%
Israeli Settlements in the West Bank	289.2	4.3%
Post-1967 Areas	**774.4**	**11.5%**
North Region	1 209.4	18.0%
Centre Region	4 425.2	65.9%
South Region	1 076.6	16.0%
Pre-1967 Israel	**6 711.2**	**100.0%**
Total Economic Territory	**7 485.6**	**111.5%**

82. The rate of growth of the population over the period 1997 to 2009 was significantly higher in the post-1967 areas, at 54%, than in pre-1967 Israel, at 26%. Growth in the post-1967 areas was driven in particular by growth in the Israeli settlements in the West Bank and East Jerusalem, as illustrated in Figure 1. In all areas except East Jerusalem, though, population growth decelerated in the second half of the period. In East Jerusalem growth rates were virtually unchanged over 2003-2009 relative to 1997-2003.

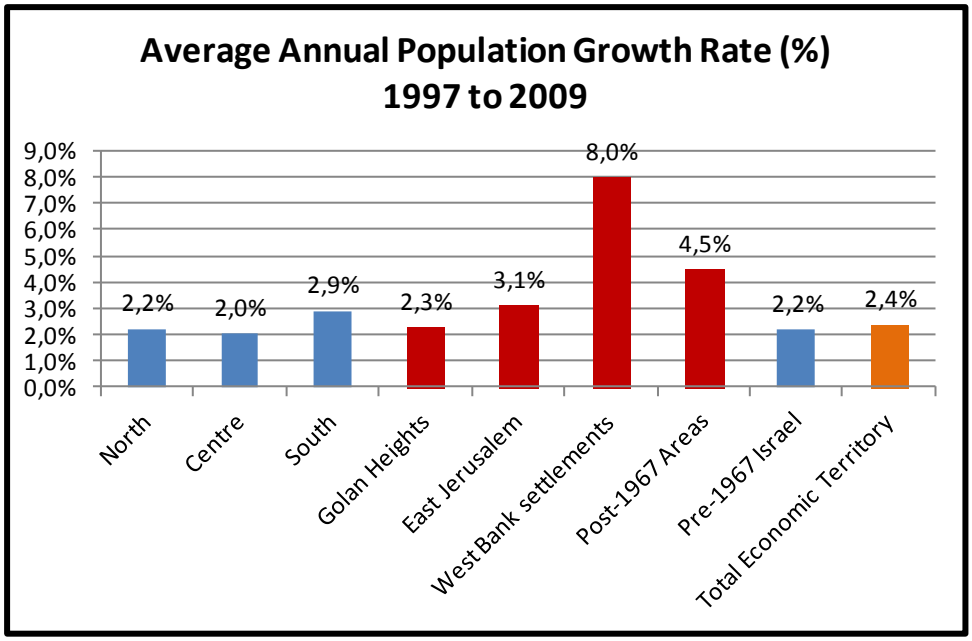
Figure 1.Population Growth



83. Figure 2 illustrates annual growth rates over the period. The Israeli settlements in the West Bank grew at an average rate of 8.0% while the annual growth for the combined post-1967 areas was 4.5% vs. 2.2% for pre-1967 Israel. When the post-1967 areas are included, the annual population growth for pre-1967 Israel rises by 0.2 percentage points to 2.4%.

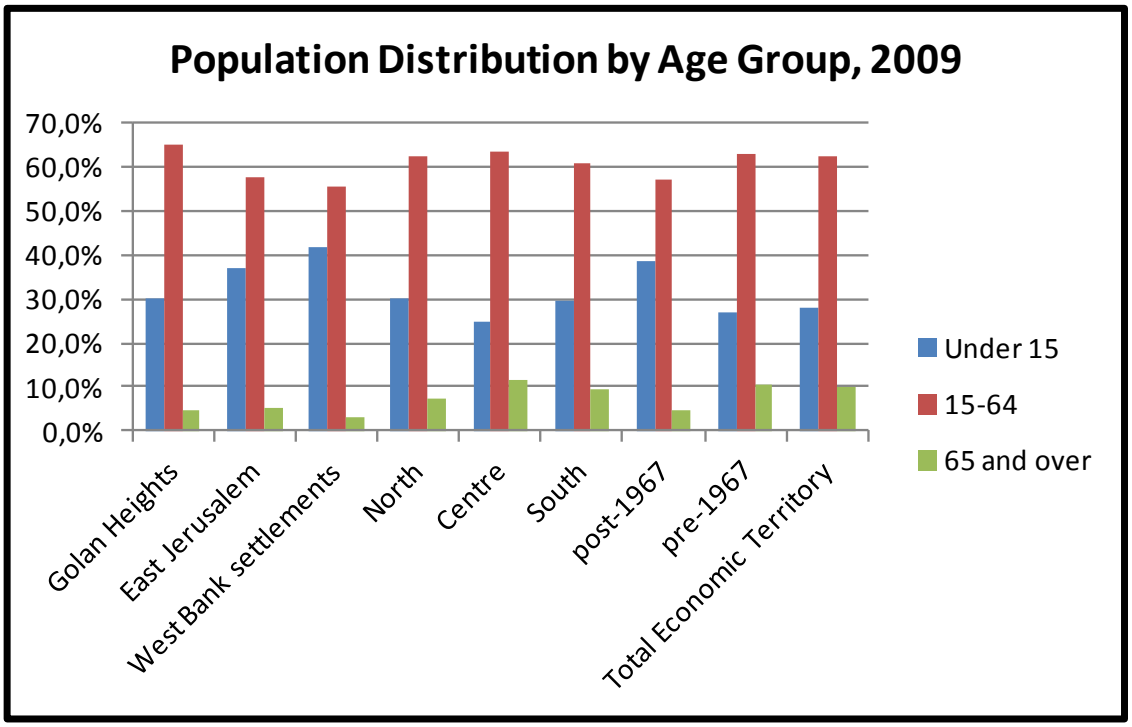
84. Other calculations show that the impact of the growth rate of the under 15 age group in the post-1967 areas was even slightly higher, raising to annual average growth rate for this group by 0.3 percentage points.

Figure 2.Annual Average Population Growth, 1997 to 2009



85. The age distribution of the population also varies across the areas. Based on data for 2009, the post-1967 areas have a higher proportion of young (under 15 years) inhabitants than the areas of pre-1967 Israel. This is most evident by contrasting the Israeli settlements in the West Bank, where 41,5% of the population were under 15, with the large Centre area, where 25% were in the youngest age group (Figure 3). The inclusion of the post-1967 areas increases the share of the under 15 group by 1.2 percentage points from 26.7% in pre-1967 Israel to 27.9% in the Total Economic Territory.

Figure 3.Population Distribution by Age



Commuting relationships between areas

86. Data from the 2008 census show relationships between where people live and work. Table 2 presents the place of work for the employed labour force living in pre-1967 Israel and the post-1967 areas.

87. As Table 2 illustrates, the vast majority (91.3%) of the employed labour force living in pre-1967 Israel also worked in pre-1967 Israel in 2008. However, pre-1967 Israel was also the workplace for just over 50% of those living in the post-1967 areas. Some 50.5% of those living in the Israeli settlements in the West Bank and over 52.4% of those living in East Jerusalem worked in pre-1967 Israel. The majority of residents of the Golan Heights who are in the employed labour work within the sub-district, but overall over 88% of the employed population of the Total Economic Territory work in pre-1967 Israel.

Table 2. Place of Residence and Place of Work, (2008 Census of Population)

	Place of Work				
Place of Residence	Pre-1967 Israel	East Jerusalem	West Bank settlements	Golan Heights	Other and Unknown
Pre-1967 Israel	91.3%	0.4%	0.4%	0.1%	7.9%
East Jerusalem	52.4%	25.7%	2.0%	0.0%	19.9%
West Bank settlements	50.5%	3.0%	37.7%	0.1%	8.7%
Golan Heights	25.1%	0.1%	0.3%	67.1%	7.4%
Post-1967 areas	50.1%	14.3%	17.5%	3.8%	14.3%
Total Economic Territory	88.1%	1.4%	1.7%	0.4%	8.4%

CHAPTER 5: PRESENTATION AND ANALYSIS OF SOCIO-ECONOMIC DATA AND IMPACT OF POST-1967 AREAS ON AGGREGATES

Introduction

88. As in many OECD countries, labour force surveys and income surveys are the main sources used in Israel to derive statistics on labour markets outcomes, on income distribution and relative poverty for different socio-demographic groups of households and individuals.[24] For this Study, the Israeli CBS generated special tabulations and micro-datasets for the year 2008 and 2009 from the Integrated Income Survey and the Labour Force Survey to enable the OECD to carry out its analyses.

89. Data were provided for the Total Economic Territory, pre-1967 Israel and the post-1967 areas. Where possible, the statistics for each of the three post-1967 areas, the Golan Heights, East Jerusalem and Israeli settlements in the West Bank, are shown separately to underline specific features characterising each of them. To facilitate meaningful comparisons, the tables also display statistics for the three areas of pre-1967 Israel used in this Study, namely, North, Centre and South regions.

90. This Chapter deals with labour market data and income distribution and poverty data in two separate sections. In each case, there is a review of the survey instruments used to generate the data in order to verify the representativeness of the indicators. Next, there is a review of the actual coverage of the data. Finally, the Chapter presents the special estimates produced by the CBS for pre-1967 Israel, and the post-1967 areas and assesses the impact of including the post-1967 data.

Labour Market Data

Box 2. Main findings regarding labour market data

- The CBS produced estimates of labour market outcomes for pre-1967 Israel and post-1967 areas for 2008 and 2009. They also supplied data for sub-components of these two geographic regions where sample sizes were sufficient to permit statistically reliable estimates. The data used in this Study are limited to 2009 as the analysis and conclusions based on 2008 data are similar.
- The sampling framework of the labour force survey for drawing households and population samples is not nationality based, but rather locality and housing unit based.
- The population coverage in pre-1967 Israel is about the same as in the Total Economic Territory and represents 95% of the persons aged 15 years or more in the population census and intercensal estimates.
- While labour market performance in the post-1967 areas differs from that of pre-1967 Israel, the inclusion of post-1967 areas does not have any major impact on labour market indicators for the Total Economic Territory. Employment, unemployment and labour force participation rates are in the same range for pre-1967 Israel and the Total Economic Territory. Moreover, the position in the ranking of Israel among OECD countries does not change much, if at all, whether figures for pre-1967 Israel or the Total Economic Territory are considered. This is due in part to the relatively small population share represented by the post-1967 areas.

[24] For a full review of Israel's labour market performance, income distribution and poverty, including the role of the tax and transfer systems, see the relevant OECD accession review: OECD (2010), ***OECD Reviews of Labour Market and Social Policies: Israel,*** *OECD Publishing*, Paris

- Employment and labour force participation rates for Israel are below the OECD average. Labour market performance in pre-1967 and the Total Economic Territory are very similar with slight variation by age and sex categories.
- Employment rates in the post-1967 areas are below those for the Total Economic Territory and markedly lower than rates for the Centre region, the most populous and active region of Israel. Employment rates in post-1967 areas are closer to rates for the North region of pre-1967 Israel.
- Moreover, labour market performance is not uniform across the three post-1967 areas. Outcomes vary from high employment rates in the Israeli settlements in the West Bank to low participation rates, in particular for women, in East Jerusalem.

a. The Israeli Labour Force Survey (LFS) instrument.

91. This section documents the survey instrument used to generate labour force statistics.

92. The labour force survey is a survey of households conducted annually by the CBS since 1954 and quarterly since 1958. There have been many changes in the questionnaire design, sampling and estimation methods and population coverage since the inception of the survey[25]. Among the main changes, since 1960, the survey is conducted on a quarterly continuous basis with interviews conducted in all weeks of the quarter. The data for 2009 used in the Study reflect definitional changes introduced since 1995 and successive changes to the weighting scheme in 1998 and 2002. The results reported here are consistent with population estimates from the 2008 population Census and recent changes in the definition of employment statistics.

93. The labour force survey covers permanent "de jure" population[26] aged 15 years and over, living in private and collective households and institutions in the economic territory of Israel. Permanent residents in Israel, permanent residents living outside Israel for less than one year, new and potential immigrants from the moment of their arrival in Israel, as well as temporary residents living continuously in Israel for one year or more are included in the LFS sample.

Sampling method

94. The sampling method for selecting households and individuals for the labour force survey uses both a "current sample", which is drawn each year, and a "permanent sample", for households and persons that cannot be sampled on a regular basis and whose characteristics do not change over time. The permanent samples largely consist of those in collective dwellings and institutions, such as old-age homes and prisons, and populations outside of formal localities.

[25] A detailed description of the survey is available at: http://www1.cbs.gov.il/www/saka_y/e_intro.pdf.

[26] The survey population includes: (a) Permanent residents living in Israel; (b) Permanent residents living abroad for a period of less than one year; (3) New immigrants and potential immigrants, from the moment of their arrival in Israel; (d) Tourists, volunteers or temporary residents living in Israel continuously for one year or more; (e) as of 1968, residents of East Jerusalem, (f) as of 1972, the population of Jewish localities in the Golan sub-district; as of 1982, all the residents in the Golan sub-district; (f) As of 2006, includes the population in the West Bank settlements (*i.e*. Judea and Samaria Area), from 1972 to 2005, the West Bank settlements and Gaza Areas. The survey population does not include: (a) Permanent residents living abroad continuously for one year or more; (b) Tourists, volunteers or temporary residents living in Israel for less than one year; (3) Foreign diplomats and UN personnel.

95. The main method used for drawing the current sample follows a two-stage sampling strategy, which selects dwellings or housing units each year from a sampling frame based on municipal tax files. The first stage draws a sample of localities with a probability relative to the size of the population in the localities. The second stage is a random probability selection of dwellings, (the sampling units), within localities. This results in a sample of households and individuals living in housing units. For households living in localities not covered by municipal tax files, the current sample is supplemented with special samples using lists such as people living in new dwellings, those living in moshavim and kibbutzim, students living in dormitories, immigrants in absorption centres and elderly people in old age homes. Special samples are drawn for households in East Jerusalem using enumeration districts in the population census as a sampling frame.

96. Permanent samples are drawn for other institutions and people living outside defined municipalities, (which is the case for a portion of the Bedouin population in the South), using the latest 2008 population census enumeration districts as the sample frame.

97. Households in the current and permanent samples are allocated to four rotating panels attached to each quarter. Each household in the panel is interviewed for two consecutive quarters, then there is a break for two quarters and finally they are interviewed for two consecutive, parallel quarters the following year.

98. Each quarter, 10 000 households participate in the survey, which covers over 26 000 persons (approximately 22 500 from the current sample and 4 000 from the permanent sample). The survey response rate is over 85% and the weighting scheme accounts for non-responses.

Estimation and weighting scheme

99. The estimation technique aims at reducing sampling errors and biases. Estimates for the entire population are produced by applying a weighting factor defined each quarter to the sampled population. Annual estimates are arithmetic averages of quarterly estimates.

100. The CBS uses modern, thorough weighting procedures similar to those applied in many other OECD countries. Since 1998, a uniform weighting coefficient has been introduced for people living in households whereby each person in the household has equal weight. The weights are obtained from a post-stratification of the survey sample by localities, sex and age groups, so-called survey weighting group, dividing the population in each stratum by the surveyed population. An iterative converging process is used to calculate final weights, which ensures that all persons belonging to a given household are given the same final weight, namely a uniform household weight. The final weights ensure the compatibility of the weighted distribution of the survey sample population with demographic estimates of the CBS.

101. According to the CBS's reliability thresholds for disseminating statistics based on labour force surveys, data based on less than 900 persons in the population are not statistically reliable and are not published. Data between 900 and 1900 persons are considered to be less reliable but publishable, with a note on sampling error.

b. Coverage

102. The review of Israeli metadata conducted for Chapter 4 confirmed that the scope of Israeli labour force statistics includes the post-1967 areas: the Golan Heights, East Jerusalem and Israeli settlements in the West Bank. This section reviews the actual coverage of population for the labour force survey to determine whether the sampling frames and methods are able to deliver data that conforms to the intended scope.

Special geocoding and tabulation of data for post-1967 areas and the regions of pre-1967 Israel

103. The compilation of data for the post-1967 areas and the North and Centre regions of pre-1967 Israel required reallocation of localities retained in the survey samples to the new, customised geographic areas. Since the first stage in sample selection is based on localities, assignment of sample to the Golan Heights and the Israeli settlements in the West Bank was straightforward; localities lie entirely within or outside the boundaries of those areas. For East Jerusalem, statistical areas were reallocated, based on the decisions described in Para 81 above. The population in the permanent sample was not reallocated to the special areas used for this Study. In part, they were excluded since they were difficult to reallocate using the geocoding system. In addition, exclusion of these populations helped to enhance data comparability with other OECD countries. Given the size and distribution of the permanent sample population, their exclusion had no impact on the main findings of this Study.

Comparing LFS and Census "Populations"

104. This section compares the population data based on the population census[27] with population estimates based on the LFS. This comparison was made to test whether the allocation of units to the post-1967 areas resulted in unbiased population coverage.

105. As noted, the LFS covers the population aged 15 years and over. Table 3 presents data for this age group from the census and from the LFS. Table 3 indicates that 4.9% of the census population are missing from the LFS based population estimates for pre-1967 Israel while 4.5% are missing for the Total Economic Territory. The proportion missing in the LFS population is slightly higher for people aged 65 years and over and, by area, the South region registers the highest proportion missing, at 7.7%. The proportion missing in the post-1967 areas overall was relatively low at 0.9%.

106. The discrepancies are mainly due to the fact that the customised LFS data excludes "permanent samples", that cover collectives and a part of the Bedouin population that lives outside defined municipalities, as explained in Para 104 above. A higher proportion of elderly persons live in collective households and institutions, such as retirement homes and the majority of Bedouin are in the South region.

107. After consideration of the excluded populations, it is concluded that there is a good match of population coverage in the census and LFS and that no bias was introduced through the customised geocoding.

[27] In Israel, population data are now produced through a combined Census and population register process. Herein the combined process is referred to as the "census".

Table 3. Comparison of population coverage: population census versus LFS estimates

Population	North	Centre	South	Pre-1967 Israel	Post-1967 Areas	Total Economic Territory
Census (thousands)						
Total (15+)	848	3317	756	4921	478	5399
15-64	757	2809	656	4221	443	4665
65+	91	509	101	700	34	734
LFS (thousands)						
Total	830	3152	698	4681	473	5154
15-64	745	2685	600	4031	441	4472
65+	85	468	98	650	32	682
Census-LFS (difference in %)						
Total (15+)	2.0	5.0	7.7	4.9	0.9	4.5
15-64	1.5	4.4	8.4	4.5	0.5	4.1
65+	6.6	8.0	2.7	7.1	6.2	7.0

Source: Labour Force Survey estimates provided by ICBS.

c. Comparison and impact of employment, labour force and unemployment rates for Israeli regions

Labour force status indicators for Israeli regions

108. Table 4 presents some basic indicators of labour force status in the post-1967 areas and pre-1967 Israeli regions. The inclusion of post-1967 areas would increase the working age population, (15-64), of pre-1967 Israel by 11%, the working-age labour force and unemployed by 10% and the working-age employed by 9%. In all cases, the post-1967 areas represent a smaller proportion, relative to pre-1967 Israel, than other regions studied. By contrast, the Centre Region, where 67% of the working-age population of pre-1967 Israel live, contains 70% of the working-age employed. 109. The relatively low weight of the working -age labour force, employed and unemployed populations explains, in large part, the small impact that inclusion of this area has on labour market indicators for the Total Economic Territory.

Table 4. Labour-force status of the working age population by region, 2009

Percentage distribution

%	North	Centre	South	Pre-1967 Israel	Post-1967 Areas	Total Economic Territory
Population (15-64)	18	67	15	100	11	111
Unemployed (15-64)	19	66	15	100	10	110
Employed (15-64)	16	70	14	100	9	109
Labour force (15-64)	16	70	14	100	10	110
Population (15-24)	22	62	16	100	13	113
Unemployed (15-24)	18	64	18	100	10	110
Employed (15-24)	19	66	15	100	12	112
Labour force (15-24)	19	66	15	100	11	111
Population (25-54)	18	67	15	100	11	111
Unemployed (25-54)	20	66	15	100	11	111
Employed (25-54)	16	70	14	100	9	109
Labour force (25-54)	16	70	14	100	10	110
Population (55-64)	15	71	14	100	8	108
Unemployed (55-64)	16	77	7	100	7	107
Employed (55-64)	13	74	14	100	8	108
Labour force (55-64)	13	74	13	100	7	107

Source: Labour Force Survey estimates provided by ICBS.

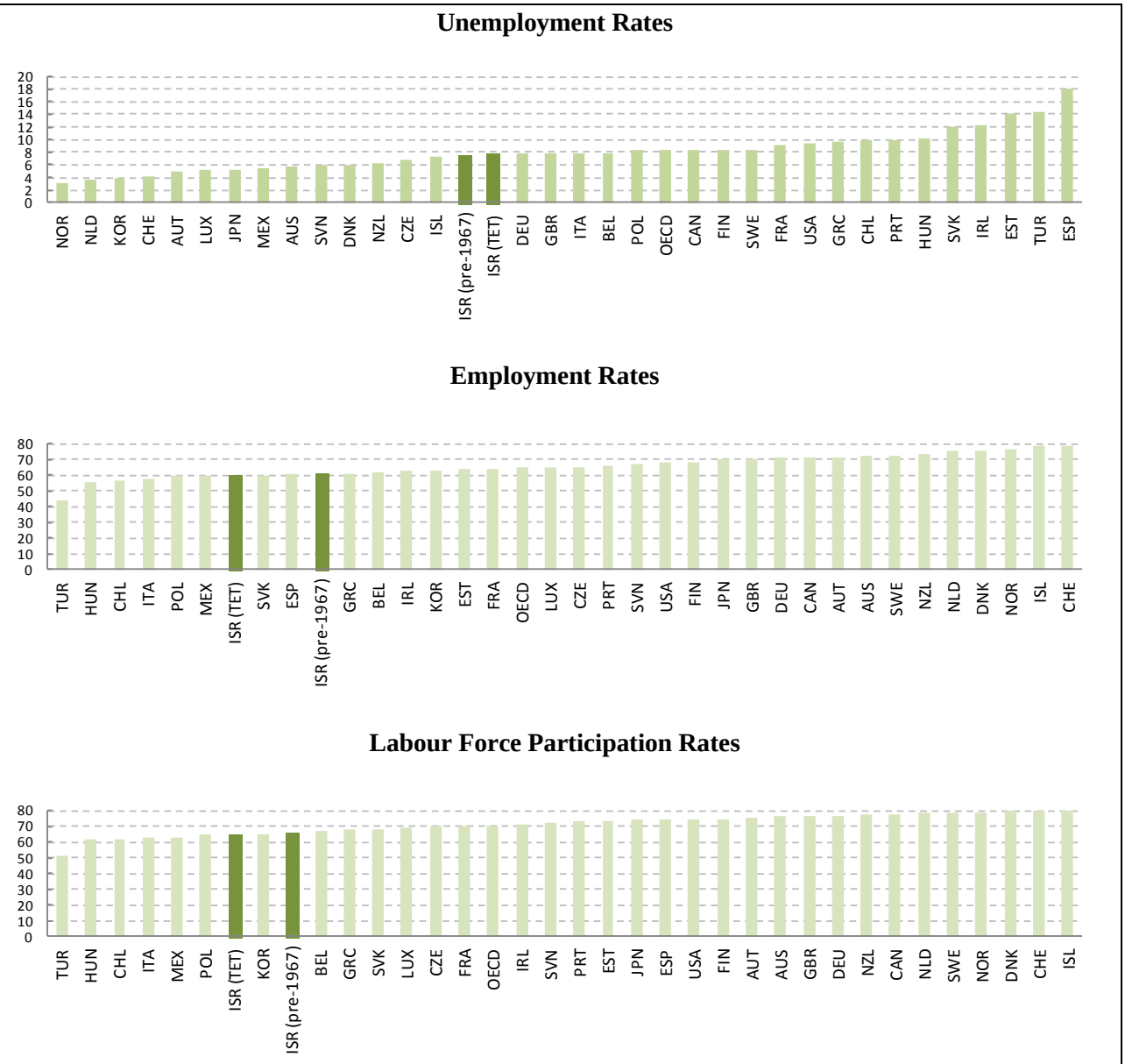
International Comparison of labour force rates

110. Figure 4 shows that in 2009 unemployment rates for pre-1967 Israel and the Total Economic Territory are below the OECD average by 0.5 percentage points. Both areas are located among the better performing OECD countries, ranking above Germany and the United Kingdom. On the other hand, labour force participation and employment rates in pre-1967 and the Total Economic Territory are 4 to 5 percentage points lower than the OECD average. The employment rate for the Total Economic Territory is ahead of those of six OECD countries, while the pre-1967 Israel employment rate is marginally ahead of two more countries. Similar relative rankings are evident for labour force participation rates. The differences in ranking of Israel according to employment performance are due in large part to the fact that a sizeable portion of the working-age population in Israel is classified as "not in the labour force"[28].

28. This includes (regular and temporary) armed forces.

Figure 4: Unemployment, employment and labour force participation rates for OECD countries

Working age population, 2009, Percentages



Note: TET is the Total Economic Territory

Impact of including post-1967 areas on labour market outcomes

111. Comparisons of unemployment, employment and labour force participation rates for pre-1967 and the Total Economic Territory reveal the impact of including the post-1967 areas on Israeli aggregates. Table 5 shows that in 2009 the unemployment rate in the post-1967 areas was some 0.7 percentage points higher than in pre-1967 Israel. Furthermore, employment and participation rates in post-1967 areas are lower than in pre-1967 Israel by 8 to 9 percentage points. Nevertheless, the shares of both employment and labour force represented by the post-1967 areas are sufficiently small that the impact of including these areas is also small. For unemployment, the rate for the entire working age population remains virtually

unchanged when the post-1967 areas are added. Similarly, employment and labour force participation rates increase by less than one percentage point when the post-1967 areas are included.

112. These impacts are somewhat higher, at close to one percentage point, for the prime age adult population (aged 25 to 64 years) and the differences in employment and participation rates between the post-1967 areas and pre-1967 Israel are larger, at close to 10 percentage points. In addition, female employment and participation rates are notably lower in the post-1967 areas and the impact on pre-1967 Israel rates greater. (See Table 7) When the post-1967 areas are included, employment and participation rates fall by 1.2 to 1.3 percentage points for all working age women and by 1.4 to 1.5 percentage points for those aged 25 – 54. This is mainly explained by the fact that female participation rates in post-1967 areas are markedly lower than those of pre-1967 Israel, by 13.3 and 15.8 percentage points for the working-age population and prime age adults, respectively.

113. In regional comparisons, the working age population in the post-1967 areas registers markedly better labour market performances than the North region of pre-1967 Israel, with lower unemployment and higher employment and participation rates. However, the performance of the post-1967 areas remains consistently below that of the best performing Centre region and also the South region. These differences in labour market outcomes remain valid across both sexes and for youth and prime age adults. It is notable that labour force participation of women aged 55 to 64 years in the post-1967 areas are 11 to 13 percentage points higher than in the North region, and also 1 to 2 percentage points higher than in the South region. Likewise, unemployment rates for women in this age group in post-1967 areas are markedly lower than in North and South regions.

Table 5. Impact of the inclusion of post-1967 areas in pre-1967 Israel

Men and Women: % Rates, 2009

Labour Force Measures by Age Group	North	Centre	South	Pre-1967 Israel	Post-1967 Areas	Total Economic Territory	Difference between Total Economic Territory and Pre-1967 Israel
Unemployment (15-64)	9.1	7.3	8.0	7.7	8.4	7.7	0.1
Employment (15-64)	51.6	64.2	57.9	60.9	52.6	60.1	-0.8
Labour force participation (15-64)	56.8	69.2	63.0	66.0	57.4	65.1	-0.9
Unemployment (15-24)	14.6	15.0	18.5	15.4	13.1	15.2	-0.2
Employment (15-24)	24.6	29.5	25.3	27.8	24.6	27.4	-0.4
Labour force participation (15-24)	28.8	34.7	31.0	32.8	28.4	32.3	-0.5
Unemployment (25-54)	8.4	6.5	7.1	6.9	8.0	7.0	0.1
Employment (25-54)	64.2	77.5	72.3	74.3	64.6	73.4	-1.0
Labour force participation (25-54)	70.1	82.8	77.8	79.8	70.2	78.9	-0.9
Unemployment (55-64)	6.8	5.6	3.0	5.4	4.8	5.4	0.0
Employment (55-64)	50.9	61.5	57.0	59.3	59.3	59.3	0.0
Labour force participation (55-64)	54.6	65.1	58.8	62.7	62.3	62.7	0.0

Table 6. Impact of the inclusion of post-1967 areas in pre-1967 Israel, 2009

Men: % Rates

Labour Force Measures by Age Group	North	Centre	South	Pre-1967 Israel	Post-1967 Areas	Total Economic Territory	Difference between Total Economic Territory and Pre-1967 Israel
Unemployment (15-64)	8.6	7.5	7.0	7.6	9.3	7.8	0.2
Employment (15-64)	62.0	66.0	60.8	64.5	59.9	64.0	-0.5
Labour force participation (15-64)	67.8	71.3	65.3	69.8	66.0	69.4	-0.4
Unemployment (15-24)	14.0	17.4	17.8	16.6	15.2	16.5	-0.2
Employment (15-24)	28.6	25.5	21.8	25.6	25.1	25.5	-0.1
Labour force participation (15-24)	33.3	30.9	26.5	30.7	29.6	30.6	-0.1
Unemployment (25-54)	8.0	6.6	6.3	6.8	8.7	7.0	0.2
Employment (25-54)	77.2	79.6	76.8	78.7	73.8	78.3	-0.5
Labour force participation (25-54)	83.9	85.2	82.0	84.5	80.9	84.1	-0.4
Unemployment (55-64)	6.5	6.0	2.2	5.5	6.6	5.6	0.1
Employment (55-64)	64.1	70.3	66.3	68.8	67.9	68.7	-0.1
Labour force participation (55-64)	68.5	74.7	67.7	72.8	72.7	72.8	0.0

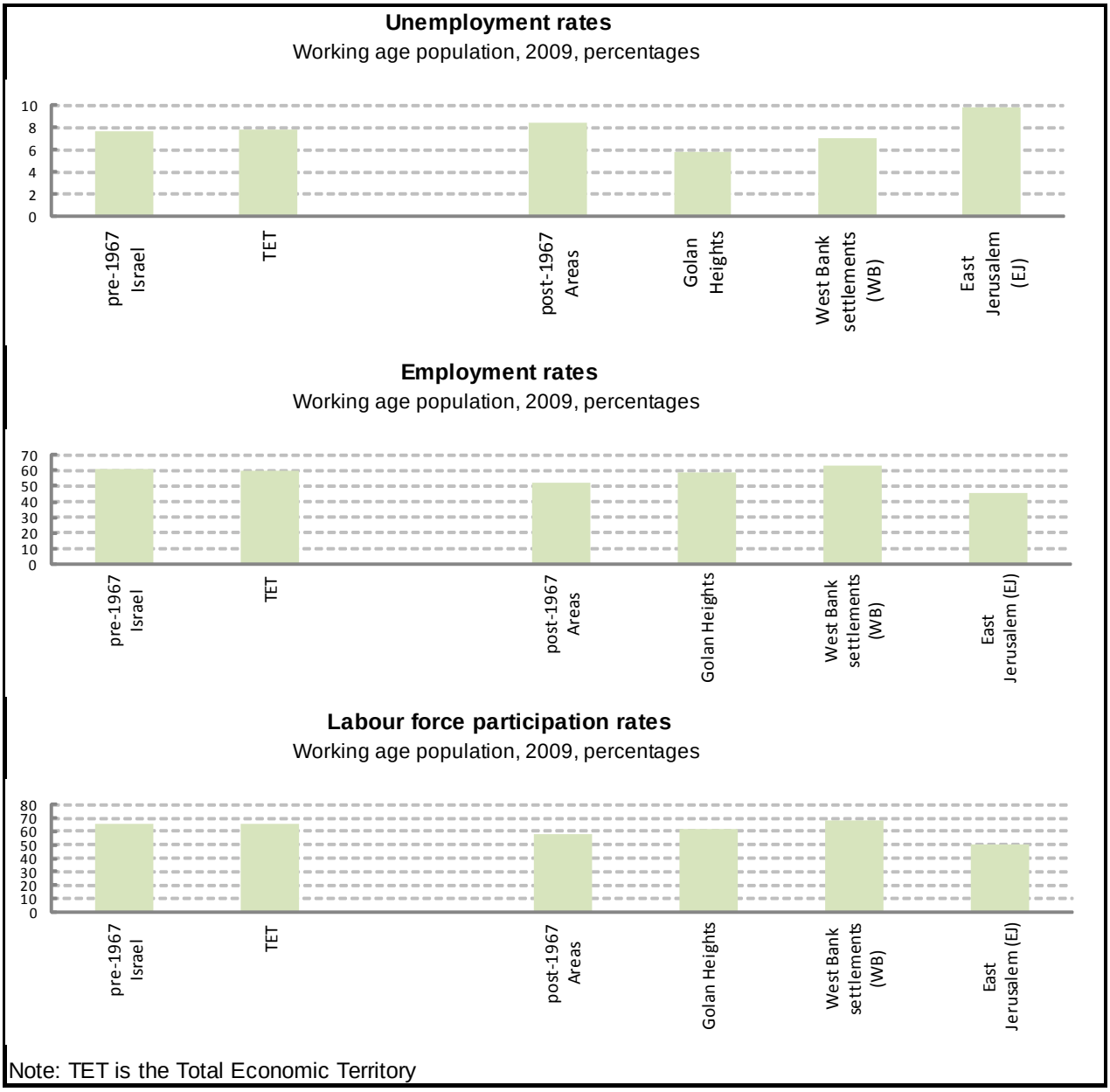
Table 7. Impact of the inclusion of post-1967 areas in pre-1967 Israel, 2009

Women: % Rates

Labour Force Measures by Age Group	North	Centre	South	Pre-1967 Israel	Post-1967 Areas	Total Economic Territory	Difference between Total Economic Territory and Pre-1967 Israel
Unemployment (15-64)	9.8	7.1	9.1	7.7	7.1	7.7	0.0
Employment (15-64)	41.2	62.5	55.2	57.5	45.5	56.3	-1.2
Labour force participation (15-64)	45.7	67.2	60.7	62.3	49.0	61.0	-1.3
Unemployment (15-24)	15.4	13.1	18.9	14.4	11.0	14.1	-0.3
Employment (15-24)	20.4	33.3	28.9	29.9	24.2	29.2	-0.7
Labour force participation (15-24)	24.1	38.4	35.6	34.9	27.3	34.0	-0.9
Unemployment (25-54)	9.1	6.4	7.9	7.0	7.0	7.0	0.0
Employment (25-54)	51.3	75.5	68.0	70.0	55.3	68.6	-1.4
Labour force participation (25-54)	56.5	80.6	73.8	75.2	59.4	73.7	-1.5
Unemployment (55-64)	7.2	5.3	4.0	5.3	2.3	5.1	-0.2
Employment (55-64)	37.9	53.6	48.9	50.8	51.1	50.8	0.0
Labour force participation (55-64)	40.8	56.6	50.9	53.6	52.3	53.5	-0.1

114. The LFS micro-datasets made available for the Study also permit examination of the labour market indicators for each of the three post-1967 areas, for the entire working age population. Figure 5 shows that unemployment rates vary across post-1967 areas, with the lowest rate for the Golan Heights and the highest rate for East Jerusalem. On the other hand, participation and employment rates are higher in the West Bank settlements than in the Golan Heights or East Jerusalem. Overall, East Jerusalem posts the lowest labour market performance of the three post-1967 areas.

Figure 5: Employment and labour force participation rates in post-1967 areas



Income distribution and poverty data

Box 3. Main findings regarding income distribution and poverty data

- The CBS produced estimates of income distribution and poverty for pre-1967 Israel and for the post-1967 areas for 2009.
- The Integrated Income Survey (IIS) combines data from the labour force survey sample-based Income Survey and the Household Expenditure Survey (HES). The sample selection of housing units and the weighting procedures for households and individuals in the selected sample are the same as those described previously for the labour force survey. In other words, the main sampling frame is the localities drawn from municipal tax files and the housing units are the sampling units to draw households and individuals for which their income and income components are reported. The sample covers most of the households permanently residing in Israel, without any distinction of population groups based on nationality.
- The population coverage for the Integrated Income Survey is over 94% for both pre-1967 Israel and the Total Economic Territory.
- Income inequality, measured by the Gini coefficients of equivalised household disposable income, is quite similar in pre-1967 Israel (0.37) and the Total Economic Territory, (0.38).
- Income inequality in pre-1967 and the Total Economic Territory is among the highest in OECD countries. In both pre-1967 Israel and the Total Economic Territory, the income of the richest 10% of people was more than 8 times the income of the poorest 10%.
- Income inequality among households living in post-1967 areas is 10% higher than those living in pre-1967 Israel.
- The Gini coefficient before and after tax and transfers reveals that the tax and transfer system in Israel reduces income inequality by about 0.10 index points. This is the case in all pre-1967 regions and post-1967 areas for the entire working age population.
- The reduction in income inequality from taxes and transfers is more pronounced, and twice as high, for the retired population than for the working-age population in both pre-1967 and the Total Economic Territory. This reduction occurs to a lesser extent in post-1967 areas, albeit without any impact on the aggregate for the Total Economic Territory.
- Relative poverty rates in pre-1967 and the Total Economic Territory are twice as high as the OECD average. However, the poverty rates are in the same range, at around 20%, for both areas. This confirms that the inclusion of data for the post-1967 areas has little impact on poverty rates for pre-1967 Israel.
- Poverty rates reported here are relative poverty rates within regions using median income thresholds of each region as the poverty lines. As a result, poverty rates do not vary much across regions and are in fact lower in the post-1967 areas than in pre-1967 or the Total Economic Territory. The comparison across regions is, therefore, somewhat distorted.
- In order to assess differences across regions of relative poverty rates, the within-region poverty rates were recalculated using pre-1967 Israel median income as threshold for regional poverty lines. This adjustment results in higher poverty rates (after taxes and transfers) in post-1967 areas (23.4%) than in pre-1967 Israel (20.2%). Furthermore, poverty rates in the Total Economic Territory are 1.5 percentage points higher than in pre-1967 Israel.

a. Survey instrument

115. The Income Survey is the main source of data on income of households. It has been conducted as part of the labour force survey since 1965. Data are collected every quarter for a selection of households in the labour force survey sample. An annual release includes monthly income and monthly income components for different socio-demographic groups.

116. Since 1997, an Integrated Income Survey (IIS) combines the data from the Income Survey and the Household Expenditure Survey.

117. The interviews are spread throughout the year. Data on income are collected for each household member aged 15 years and over. The respondents are asked to report their monthly income during the three months prior to the interview month. The reported monthly earnings finally refer to a period of 15 months.

118. The sample selection of housing units, the sampling unit and the weighting procedures of households and individuals living in the selected sample are the same as those described previously for the labour force survey. To obtain estimates of the entire number of households and the population living in each of the households, a "weighting coefficient" was determined for each enumerated household and for all persons belonging to that household. The weighting coefficients takes into account the survey "non-responses", as well as responses rejected due to missing data about the survey respondents' income or their work characteristics.

119. The sample of the IIS covers more than 15 000 households; the Income Survey includes more than 8500 households each year and the HES samples more than 6000 households each year. In sum, the IIS covers most of the population and households residing in all localities in the economic territory of Israel, which represents more than 2 million households. The IIS excludes collective households in moshavim, households living in kibbutzim and the Bedouin population living outside defined municipalities. The response rate of the IIS is over 85% and the weighting scheme adjusts for non-response rates.

b. Coverage

120. Compared with census based population estimates, the IIS covers 5% fewer people in the Total Economic Territory and close to 6% fewer people in pre-1967 Israel (Table 8). This is explained by the fact that IIS excludes collective households, individuals residing in moshavim and kibbutzim and the Bedouin population outside formal localities.

Table 8. Comparison of population coverage: Census versus Integrated Income Survey, 2009

Population (Thousands)	North	Centre	South	Pre-1967 Israel	Post-1967 Areas	Total Economic Territory
Census	1209	4425	1077	6711	774	7486
Integrated Income Survey (IIS)	1181	4218	960	6336	742	7101
Difference Census/IIS (%)	2.3	4.7	10.8	5.6	4.2	5.1

Source: Population Census and Integrated Income Survey estimates provided by ICBS.

c. Comparison and impact of income distribution and poverty measures for Israeli areas

121. Differences in population coverage by region are below those reported for pre-1967 and the Total Economic Territory, except in the South region where the exclusion of a portion of the Bedouin population affects the coverage in a more pronounced way. Coverage for the post-1967 areas is higher than for any other area except the North region.

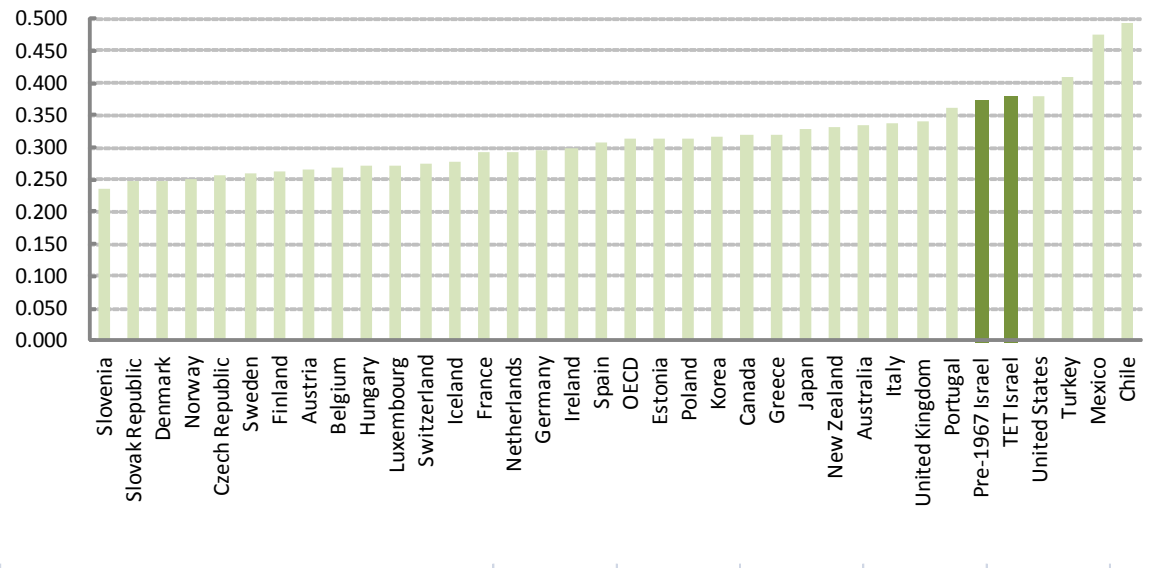
122. The income concept retained in this section is that of household disposable income in cash adjusted for household size with an elasticity of 0.5, hereafter referred to as income or equivalised income.

Income inequality in Israel and other OECD countries

123. Figure 6 compares income inequality in Israel with other OECD countries using data for 2009 for Israel and for various years from 2005 to 2009 for other countries. The Gini coefficients reveal that income inequality in pre-1967 and the Total Economic Territory are well above OECD average, but lower than in Chile, Turkey, Mexico and the United States. The relative ranking of the Gini coefficients does not differ whether we consider pre-1967 Israel or the Total Economic Territory.

Figure 6: Income inequality in pre-1967 Israel and the Total Economic Territory

Gini coefficients based on equivalised household income after tax and transfers



Note: TET is the Total Economic Territory
Source: Provisional data from the OECD Income distribution and poverty database (www.oecd.org/els/social/inequality). Data for Israel from Integrated Income Survey provided by the Israeli CBS

124. The analysis reveals that the impact on income inequality of including post-1967 areas is marginal. The Gini coefficient for the entire population increases from 0.37 for pre-1967 Israel to 0.38 for the Total Economic Territory. In both pre-1967 Israel and the Total Economic Territory, the income of the richest 10% of the population is more than 8 times the income of the poorest 10%[29].

125. Although it does not have any impact on pre-1967 Israel income inequality, the Gini coefficient of income inequality is higher in post-1967 areas than in other regions. Indeed, the gap between the richest 10% of the population and the poorest 10% is 4 points higher than for the Total Economic Territory. This is mainly due to a bigger gap in the top half of the distribution. Lower employment rates in post-1967 areas and differences in employment rates between East Jerusalem and the Israeli settlements in the West Bank might also explain, in part, the higher income inequality in post-1967 areas.

[29] Comparison of mean incomes of the richest 10% and the poorest 10% of the population.

126. Income inequality remains quite similar across age groups and across the three pre-1967 Israeli regions. In post-1967 areas, income inequality is larger for retired people than for the working age population (Table 9).

127. The tax and transfer system reduces income inequality to a large extent in pre-1967 Israel and the Total Economic Territory. The Gini coefficients are reduced by 0.09 to 0.13 in all the regions for the entire and working age population, when tax and transfers are taken into account. This reduction is most evident for the retirement age population, albeit not as pronounced in the post-1967 areas as in pre-1967 and the Total Economic Territory.

Table 9. Income inequality in Israeli regions, 2009

	Pre-1967 Israel	Total Economic Territory	Difference between Total and pre-1967 Israel	Post-1967 Areas	North	Centre	South
Entire population							
Number of persons (thousands)	6336	7101	765	742	1181	4218	960
Number of households (thousands)	1953	2127	174	167	303	1374	282
Mean income (thousands of NIS)	6490	6305		4738	4797	7209	5396
Median income (thousands of NIS)	5430	5224		3774	3940	6155	4704
Gini after tax and transfers	0.37	0.38		0.41	0.36	0.36	0.35
Gini before tax and transfers	0.48	0.49		0.53	0.48	0.47	0.48
Standard error Gini after tax and transfers	0.005	0.008		0.007	0.005	0.006	0.001
Working age population (18 to 65 years)							
Number of persons (thousands)	5609	6321	712	690	1077	3701	853
Number of households (thousands)	1563	1716	153	147	253	1088	227
Mean income (thousands of NIS)	7018	6863		5365	5243	7737	5925
Median income (thousands of NIS)	6063	5890		4266	4466	4033	5248
Gini after tax and transfers	0.36	0.37		0.42	0.36	0.35	0.34
Gini before tax and transfers	0.45	0.46		0.52	0.46	0.44	0.45
Standard error Gini after tax and transfers	0.006	0.009		0.004	0.012	0.011	0.001
Retirement population (above 65 years)							
Number of persons (thousands)	723	776	53	51	104	514	107
Number of households (thousands)	389	411	21	20	50	286	55
Mean income (thousands of NIS)	6093	6092		6015	4534	6566	5064
Median income (thousands of NIS)	4914	4880		4267	3638	5414	3709
Gini after tax and transfers	0.36	0.37		0.46	0.32	0.36	0.36
Gini before tax and transfers	0.58	0.58		0.63	0.62	0.55	0.67
Standard error Gini after tax and transfers	0.007	0.005		0.014	0.011	0.006	0.002

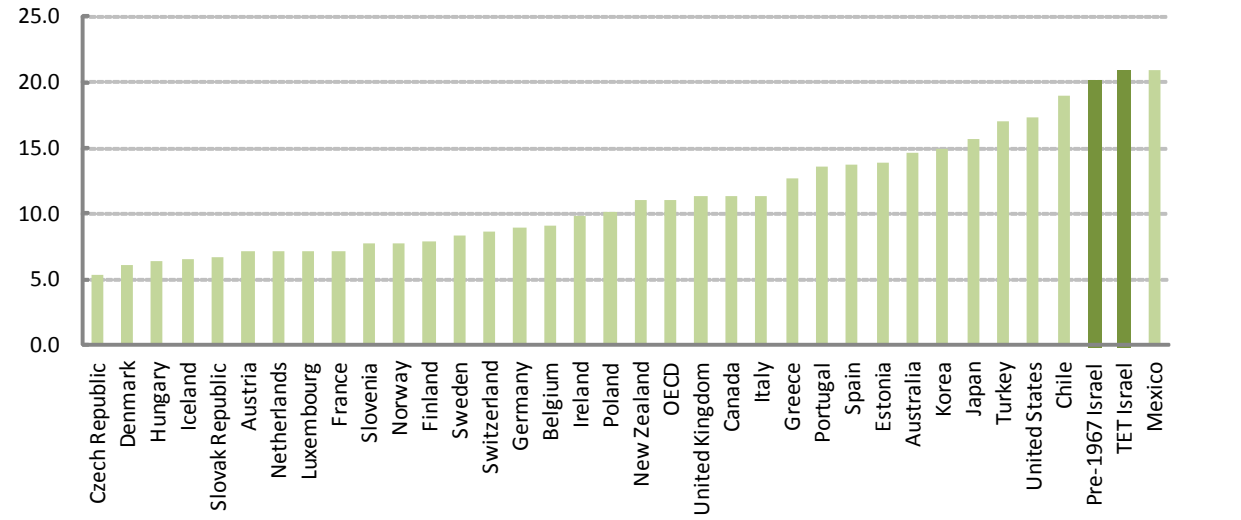
Poverty rates in Israel and other OECD countries

128. Poverty statistics reported here are based on a relative concept. They are calculated against prevalent national living standards as measured by median household equivalised income. Poverty rates are defined as the percentage of persons living with less than 50% of the median equivalised income. Poverty measures are calculated using median equivalised income within each region and Israel aggregates. In other words, poverty lines vary by region.

129. Figure 7 shows that poverty rates, after tax and transfers, in pre-1967 and the Total Economic Territory, are about 20%, or almost twice the all-OECD level. Poverty rates for Israel are the second highest among OECD countries after Mexico.

Figure 7: Poverty rates for OECD countries

Percentage of persons living with less than 50% of median equivalised household income
Late-2000s and 2009 for Israel



Note: TET is the Total Economic Territory
Source: Provisional data from the OECD Income distribution and poverty database (www.oecd.org/els/social/inequality). Data for Israel from Integrated Income Survey provided by the Israeli CBS

130. There are no marked differences in poverty rates when post-1967 areas are included**.** Moreover, Table 10 reports poverty rates in post-1967 areas that are lower than in the Total Economic Territory and lower than in other regions. This can be explained to some extent by the use of relative poverty calculations for data comparisons and because income inequality, while high, is largely due to a wide gap at the top half of the income distribution, particularly in post-1967 areas.

131. In order to produce more realistic, cross-area comparisons, a uniform poverty line based on the median income in pre-1967 Israel was established. The adjusted poverty rates are reported alongside the non-adjusted rates in Table 10. Based on pre-1967 Israel median income, poverty rates in the post-1967 areas is more than 3 percentage points higher than in pre-1967 Israel. When the post-1967 areas are included the impact is a rise in the poverty rate of pre-1967 Israel by 1.5 percentage points.

132. Finally, tax and transfers have a significant impact on poverty rates, reducing them by 7 percentage points in pre-1967 and the Total Economic Territory and by more than 8 percentage points in the post-1967 areas.

Table 10. Relative poverty measures by region, 2009

Percentage		Pre-1967 Israel		Total Economic Territory		Post-1967 Areas	
		Before taxes and transfers	After taxes and transfers	Before taxes and transfers	After taxes and transfers	Before taxes and transfers	After taxes and transfers
Relative poverty							
Poverty threshold = 50 per cent of the current median income							
Adjustment factors = Ratio of median income of pre-1967 Israel to that of the Total Economic Territory and other Regions					1.039		1.439
	headcount ratio	27.5%	20.2%	28.0%	20.9%	24.8%	16.3%
Using median income of pre-1967 Israel to compute poverty rates by region	headcount ratio (adjusted)		20.2%		21.7%		23.4%
Absolute poverty							
Poverty threshold = 50 per cent of the median income in the mid-1990s:							
	headcount ratio			21.3%	10.4%		
	mean pov gap			63.0%	35.5%		
	median pov gap			73.0%	25.3%		

CHAPTER 6: PRESENTATION AND ANALYSIS OF MACRO-ECONOMIC DATA AND IMPACT OF POST -1967 AREAS ON AGGREGATES

Introduction

133. The official Israeli national accounts include the post-1967 areas Golan Heights, East Jerusalem and the Israeli settlements in the West Bank. The objective of this Chapter is to compare Israeli national accounts data with and without these post-1967 areas and assess the impact of including such areas in the official national accounts. Since no regional disaggregations of the Israeli national accounts are normally produced for Israel, at the outset it was necessary for the CBS and the Study Team to agree on the approach to be taken to produce special national accounts estimates for pre-1967 Israel and the post-1967 areas.

The rationale: a top down approach

134. Two alternative methods were discussed with Israeli statisticians for the economic disaggregation of key national accounts estimates by geographic area. The first option considered the compilation of independent economic aggregates by geographic area based on the characteristics of each area and the source data available. However, experience from various countries shows that, when independent estimates are prepared for sub-national areas, and then aggregated, the aggregate estimates may be inconsistent with the national estimates. This is especially the case when the source data for national estimates are not aggregations of source data for the targeted, sub-national geographic areas. Since many larger enterprises are multi-regional, macro-economic sample surveys based on the business register are unable to provide direct estimates by region.

135. The second, and preferred, option is a top down approach that disaggregates existing national accounts estimates using the best available source data to allocate national totals by geographic area. This method ensures consistency between the national estimates and the aggregation of the regional estimates and provides more-reliable comparisons between the areas under study.

National accounts aggregates included in the Study

136. The objective for the Study was to produce total GDP using the three standard approaches, output, (value added), expenditure and income, for pre-1967 Israel and the post-1967 areas. Furthermore, in order to permit comprehensive comparisons and analysis, both the CBS and the Study Team endeavoured to produce estimates for as many of the normal national accounts aggregates and sub-aggregates as possible, for the desired geographic areas, for at least two different years. In reality, though, the list of variables that could actually be produced was determined by the availability of source data to enable allocation of the national figures. Furthermore, data limitations meant that the special estimates could only be produced for the single year 2007. Some of the source data used for the allocations, and their inherent limitations, are discussed in the two sections below. A complete list and explanation of the sources used for allocation of each of the national accounts aggregates is available from the Secretariat.

137. After a thorough review of the available data by the Study Team in association with the Israeli statisticians, it was agreed that the following key national accounts variables, denominated in New Israeli

Shekels (NIS), would be provided by the CBS, for pre-1967 Israel and the post-1967 areas for the year 2007:

GDP by Output

- Gross domestic product by industry at basic prices
    - Ownership of dwellings
    - Agriculture, forestry and fishing
    - Manufacturing
    - Construction
    - Electricity and water
    - Commerce, restaurants and hotels
    - Transport, storage and communications
    - Finance and business services
    - Personal and other services
    - Public administration
    - Education
    - Health services
    - Imputed value of banks

GDP by Expenditure

- Final regional demand at market prices
    - Private consumption expenditure
    - Individual government final consumption expenditure
    - Collective government final consumption expenditure
    - Fixed capital formation
- General government consumption expenditure
    - Total collective consumption
    - Total individual consumption
    - Civilian consumption
        - Compensation of employees
        - Taxes on production
        - Other current purchases
        - Consumption of fixed capital
    - Defence consumption
        - Compensation of employees
        - Taxes on production
        - Other domestic purchases
        - Defence imports
        - Less sales
- Private consumption expenditure by type
    - Private consumption expenditure
        - Consumption expenditure by households in the domestic market

- Food, beverages and tobacco
- Fuel, electricity and water
- Clothing, footwear and personal effects
- Other goods
- Durable goods
    - Furniture
    - Household equipment
    - Personal transport equipment
- Housing
- Other services

▪ Consumption expenditure of NPISHs

- Fixed capital formation
    - Residential buildings
    - Non-residential buildings and other construction works
    - Machinery and other equipment
    - Passenger cars
    - Buses and commercial vehicles
    - Ships and aircrafts
    - Intangible assets

GDP by Income

- Distribution of national income (partial)
    - Compensation of employees
    - Domestic operating surplus from owner occupied dwelling

Box 4. Main findings regarding macroeconomic statistics

- Israel does not calculate regional GDP for any areas of the country. A "top down" approach was chosen that involved using a wide variety of survey and administrative data sources to allocate the underlying series by area.
- Available data sources only permitted estimates for a single year. While the data permitted a virtually complete allocation of GDP on the production and expenditure sides, only a partial allocation on the income side was possible.
- The inclusion of the post-1967 areas increases GDP of pre-1967 Israel by 3.9% but per capita GDP declines by 6.5%.
- Viewed by industry, only public administration has a neutral impact on GDP per capita. For all other industries, the post-1967 areas drag down per capita GDP of pre-1967 Israel.
- The pattern of private consumption expenditures differs between pre-1967 Israel and the post-1967 areas. Those in the post-1967 areas spend proportionally more on food, utilities and housing. On a per capita basis, those in pre-1967 Israel spend 50% more than those in post-1967 areas.
- Nevertheless, inclusion of the post-1967 areas increases expenditure of pre-1967 Israel by 7.5%, which contrasts with the 3.9% impact through the value-added of industries in the post-1967 areas.
- The value of compensation of employees in the post-1967 areas is 2.9% of that for pre-1967 Israel. Differing demographics and labour force performance explain the lower amount.

Limitations of underlying source data

138. The Israeli CBS does not produce regional accounts for the country and the statisticians faced a number of important challenges when attempting to disaggregate national accounts data by sub-areas for this Study. As a result, it was not possible for them to generate all of the series that they wished to produce.

139. Concerning time period coverage, the CBS set out to produce the special estimates for two distinct years. However, in order to compile data for more than one year, several criteria had to be met. First, the two time periods had to be sufficiently distant to show interesting changes in the structure of activity by geographic area. Second, the reliability of these two sets of estimates had to be sufficiently accurate as to allow reliable comparisons of the changes shown in activity in geographic areas between two periods. Finally, suitable, independent data sources for the separate years were required. Nothing would have been gained by applying the same allocators to two different years. These criteria could not be met.

140. The existence of the 2007 Business Survey was a strong factor favouring special accounts estimates for 2007. Furthermore, the 2008 Census provided another excellent source of data to allocate national accounts aggregates for 2007. As population structure is generally more stable than economic structure, interpolation of data from the 2008 population census was preferred to extrapolation of 2007 business survey data. Finally, 2007 labour force survey (LFS) data and combined data from three years of the Household Expenditure Survey data, (2006, 2007 and 2008) were also used. There was no other year that offered the same quality source data. Since additional work to produce dynamic estimates would have required substantial resources and time, it was agreed to produce the "regional" national accounts estimates for only one year.

141. An important limitation was imposed by the characteristics of the Israeli Business Register. The Israeli business register is in line with international recommendations in most respects and provides the sampling frames for most of the business surveys. The register is based on information from Value Added Tax (VAT), National Insurance Institute, Social Security and Income Tax files, which ensures coverage of even very small firms and the entire economic territory of Israel. However, the register, and hence register-based surveys, contains primarily enterprise units, rather than establishment or local kind-of-activity units[30]. While the CBS has begun to add establishment information, especially for very large enterprises, the enterprise-based collections available for the special estimates undertaken herein did not include information about the location of production. As a result, estimates of the gross operating surplus could not be calculated by geographic area.

142. As noted, ideally, the Study would have produced total GDP using the three approaches, output, (value added), expenditure and income. While it was not possible to allocate 100% of total GDP using any of the three approaches reasonable estimates of many of the sub-components, and hence large proportions of the totals, were achieved.

143. First priority was assigned to the output or production side. Using the 2007 Business Survey and a large number of other, detailed data sources, CBS estimated gross domestic product by industry, at basic prices, for pre-1967 Israel and the post-1967 areas. **The Study Team is satisfied that the estimates for 2007 are reliable and meaningful.**

144. On the expenditure side, many of the components were allocated in a suitable fashion using the Household Expenditure Survey (HES), population figures and numerous other detailed data sources and calculations. **Nevertheless, since there were no data available to estimate inter-regional trade, an estimate for regional final demand was produced, rather than total demand**.

[30] The relevant guidelines from the SNA Manual were considered in Chapter 2, Paras 34-36.

145. On the income side, only compensation of employees and a small portion of domestic operating surplus could be disaggregated for the targeted areas. In line with EUROSTAT recommendations as regards regional accounts, taxes were not distributed by geographic area. The inability to estimate gross operating surplus was a limitation imposed by the Israeli Business Register, as discussed in Para 142. Furthermore, suitable allocators for net property and entrepreneurial income paid abroad and net taxes on production and imports were unavailable. **These limitations precluded accurate estimation of total national income by geographic area.** Rather than produce unreliable estimate of total national income, it was decided to present only the figures on compensation of employees as partial national income. In 2007, compensation of employees represented about 50% of GDP for the Total Economic Territory of Israel.

Overview of the surveys used for the allocation of national accounts by geographic area

146. A large number of different data sets were used to allocate national accounts data for the geographic areas. An overview of the principle data sets is provided herein and a complete list is available from the Secretariat. The descriptions of the underlying surveys and other data sources were obtained from published CBS material and through discussions on methods with experts from the national accounts division at the CBS, OECD experts and members of the Study Team. On the CBS website, in some cases, the methodological information associated with specific surveys is available only in Hebrew. Less detailed information, in English, is available in the annual compendium publication, the *Statistical Abstract of Israel*. **It is recommended that the CBS improve transparency by providing all detailed survey metadata in English.**

147. The source data from surveys complies with the definitions, classifications and scope required by the international recommendations for the national accounts. The 2007 Business Survey and various additional sources, including manufacturing, transportation and construction surveys, data from the Bank of Israel on deposits and loans, and administrative records, were used for the allocation of GDP estimates by industry and by geographic areas.

148. The 2008 census of population provided the data for the partial estimates of GDP on the income side. The primary source for allocating GDP by expenditure was the HES, but a three-year average was calculated to improve the reliability of estimates by geographic area. Additional sources for expenditure-side calculations were census population and employment data, the LFS and other specific survey and administrative data. As regards population, the 2008 population census was used as the primary source and data were interpolated to provide 2007 figures, since the population structure is generally considered more stable than economic structures.

149. General Government expenditure was allocated primarily on the basis of population, LFS and wage data. Collective expenditures such as defence, however, are considered to apply equally to all citizens and consequently were allocated on a simple per capita basis.

150. Total fixed capital formation was distributed by geographic area using different methods and sources depending on the kind of assets. These included microdata on construction, employment distribution from the population Census, vehicle registration information and ratios calculated from business surveys.

Key national accounts aggregates for Israel by geographic area

Output by Industry: Gross Value Added by Industry

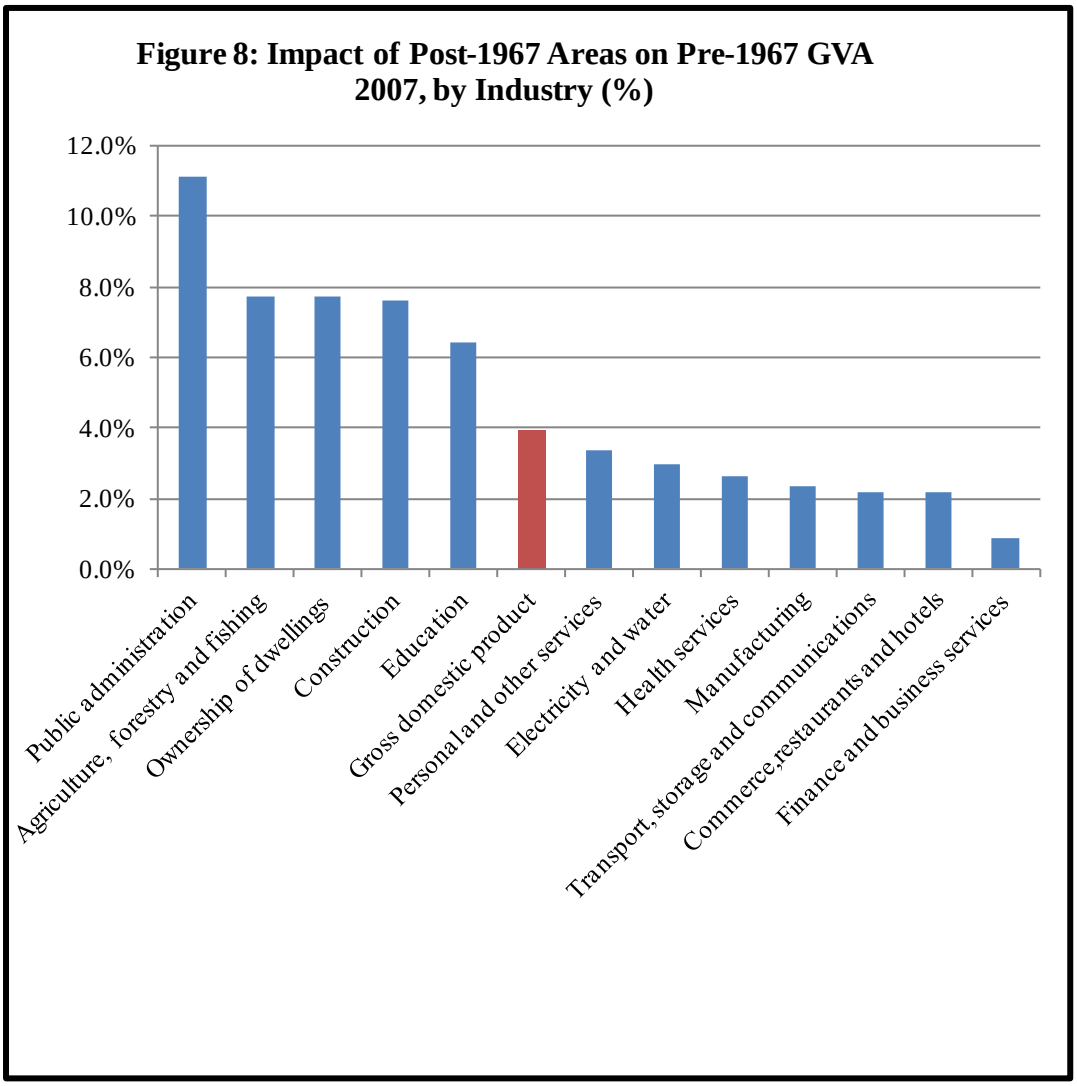
151. Table 11 presents Gross Value Added (GVA) levels for 2007, by industry at basic prices for the three geographic areas: pre-1967 Israel, post-1967 areas and the Total Economic Territory.

Table 11: Gross Value Added by Industry, at basic prices, 2007

	Pre-1967 Israel	Post-1967 Areas	Total Economic Territory	Impact of Post-1967 Areas
	Billions of NIS			%
Gross domestic product, at basic prices	588 735	23 044	611 780	3.9%
Ownership of dwellings	67 356	5 226	72 582	7.8%
Agriculture, forestry and fishing	10 537	818	11 355	7.8%
Manufacturing	96 342	2 268	98 610	2.4%
Construction	28 245	2 159	30 403	7.6%
Electricity and water	9 576	287	9 862	3.0%
Commerce,restaurants and hotels	66 055	1 419	67 474	2.1%
Transport, storage and communications	43 756	948	44 703	2.2%
Finance and business services	145 303	1 295	146 598	0.9%
Personal and other services	21 716	727	22 443	3.3%
Public administration	38 919	4 324	43 243	11.1%
Education	42 395	2 728	45 123	6.4%
Health services	36 878	959	37 837	2.6%
Imputed value of bank services	-18 342	-113	-18 455	0.6%

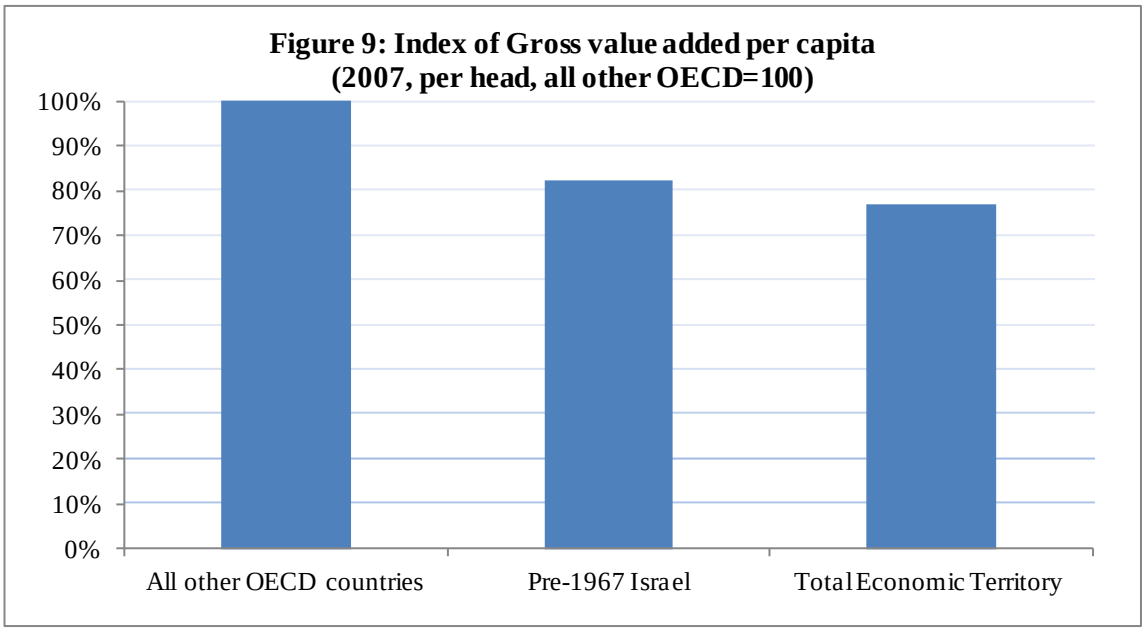
152. Figure 8 shows, the impact of including the post-1967 areas on the GVA of pre-1967 Israel.[31] In 2007, inclusion of the post-1967 areas would increase the GVA of pre-1967 Israel by just under 4%. This impact is relatively low as the post-1967 areas represented just over 10% of the population of pre-1967 Israel in 2007. The impact by industry varies; the post-1967 areas would contribute most through Public Administration where the impact is over 11%. At the other extreme, the addition of post-1967 areas would increase GVA for the Finance and Business Services industry by less than 1%.

[31] Throughout this chapter, all "impacts" are calculated as the value for the post-1967 areas as a percentage of pre-1967 Israel.



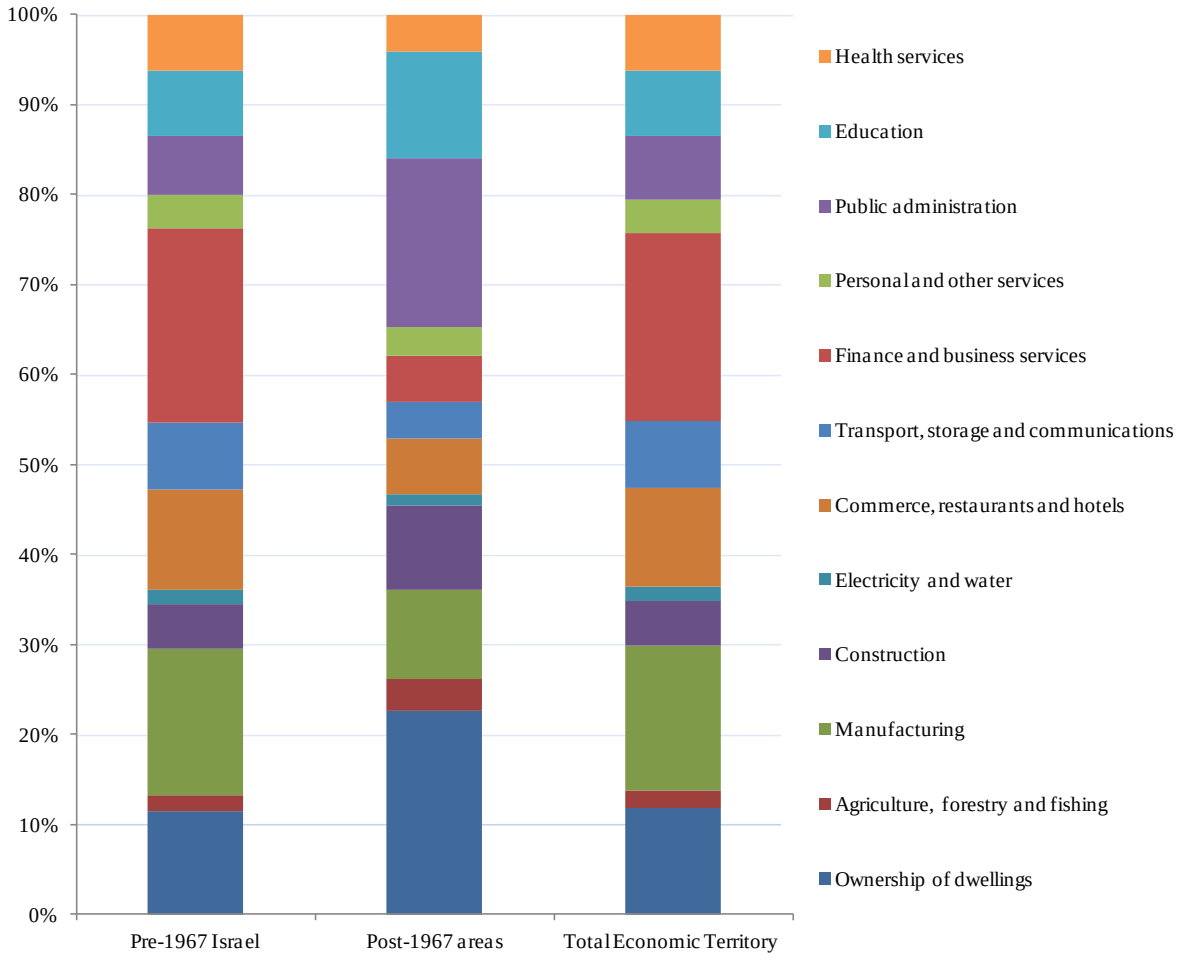
153. Another way to assess impact is to consider how the inclusion of post-1967 areas changed Israel's relative position internationally. If we consider an index of GVA per capita[32], where the total for all other OECD countries is 100, the index for GVA for pre-1967 Israel stands at 82. Addition of the post-1967 areas would reduce Israel's index to 77. (See Figure 9)

[32] Gross value added per capita, US dollars, current PPPs are special estimates for this Study and differ from GDP per head found in other OECD publications.



154. Figure 10 shows that the structural composition of GVA by industry differs considerably between pre-1967 Israel and the post-1967 areas. The ownership of dwellings, or value of dwelling services represented by the owner-occupied housing stock, is the most important sector in the post-1967 areas, followed by public administration. In pre-1967 Israel, Finance and Business Services; Manufacturing; Commerce, Hotels and Restaurants; and ownership of dwellings are the largest sectors, representing 64% of GVA. However, the impact of the post-1967 areas on industry composition is not significant; when the post-1967 areas are added to pre-1967 Israel the composition of GVA changes very little.

Figure 10: Decomposition of GVA by Industry, 2007



GDP by Expenditure: General Government, Private Consumption and Fixed Capital Formation

155. As noted, since it was not possible to estimate inter-regional trade between pre-1967 Israel and the post-1967 areas, a complete calculation of GDP on the expenditure side was not undertaken. Nevertheless, three major components of GDP by expenditure, general government consumption expenditure, private consumption expenditure and fixed capital formation were allocated using satisfactory methods and the results are presented herein.

General government expenditure

156. Tables 12 and 13 provide details of general government consumption expenditure by geographic area and the impact of the post-1967 areas on pre-1967 Israel.

157. The impact of including the post-1967 areas on general government expenditures appears to be significant, especially when "collective consumption" (10.9%) or "defence consumption" (11.1%) is considered. Defence consumption was allocated entirely by population since defence services apply

equally to all citizens. In turn, defence is also a major component of collective consumption. Thus, the impact seen through these categories largely reflects the proportion of the population in the post-1967 areas.

158. The allocation of the individual consumption and civilian consumption items was done using a variety of different sources. Individual education and health services form an important part of this category and consequently are influenced by demographic considerations. The impact of post-1967 area general government individual consumption expenditures is 5.2%, considerably less than the population impact of the post-1967 areas.

Table 12: General Government Expenditure, 2007
Collective and Indiviudal Consumption

	Pre-1967 Israel	Post-1967 Areas	Impact of Post-1967 Areas
	Billions of NIS		%
General government consumption expenditure	158 692	12 585	7.9%
Total collective consumption	76 129	8 314	10.9%
Total individual consumption	82 564	4 270	5.2%

Table 13: General Government Expenditure, 2007 (Billions of NIS)
Civilian and Defence Consumption

	Pre-1967 Israel	Post-1967 Areas	Impact of Post-1967 Areas
	Billions of NIS		%
General government consumption expenditure	158 692	12 585	7.9%
Civilian consumption	114 612	7 699	6.7%
Compensation of employees	59 118	4 141	7.0%
Taxes on production	4 765	308	6.5%
Other current purchases	41 851	2 581	6.2%
Consumption of fixed capital	8 878	669	7.5%
Defence consumption	44 080	4 886	11.1%
Compensation of employees	17 962	1 991	11.1%
Taxes on production	1 274	141	11.1%
Other domestic purchases	16 068	1 781	11.1%
Defence imports	10 540	1 168	11.1%
less Sales	-1 764	-195	11.1%

Private consumption expenditure by type

159. Levels of private consumption expenditure for pre-1967 Israel and the post-1967 areas are presented in Table 14, while the structure of private consumption is portrayed graphically in Figure 11. Per capita consumption of the two areas is compared in Figure 12.

Table 14: Private Consumption Expenditure, by Type, 2007			
	Pre-1967 Israel	**Post-1967 Areas**	**Impact of Post-1967 Areas**
	Billions of NIS		**%**
Total private consumption expenditure	**351 876**	**26 449**	**7.5%**
Consumption expenditure by households in the domestic market	**343 755**	**26 276**	**7.6%**
Food, beverages and tobacco	61 417	5 825	**9.5%**
Fuel, electricity and water	25 406	2 180	**8.6%**
Clothing, footwear and personal effects	13 347	1 147	**8.6%**
Other goods	19 328	1 503	**7.8%**
Durable goods	34 742	2 299	**6.6%**
Furniture	*7 524*	*633*	*8.4%*
Household equipment	*14 008*	*904*	*6.5%*
Personal transport equipment	*13 210*	*763*	*5.8%*
Housing	68 317	5 286	**7.7%**
Other services	121 198	8 035	**6.6%**
Consumption expenditure of NPISHs	**8 121**	**173**	**2.1%**

160. Based on the calculations made, consumption expenditure patterns of the residents of the post-1967 areas do not differ markedly from those of pre-1967 Israel inhabitants. A higher proportion of expenditures in the post-1967 areas is devoted to food, beverages and tobacco with a lower proportion to other services. Per capita amounts for total private expenditure do reveal significant differences with a level some 50% higher in pre-1967 Israel, at just over $15,000 US, than in the post-1967 areas, at just over $10,000 US. (Figure 12) The post-1967 areas' per capita expenditures are lower across all categories, but most markedly in discretionary income categories.

Figure 11: Distribution of Private Consumption Expenditure, 2007

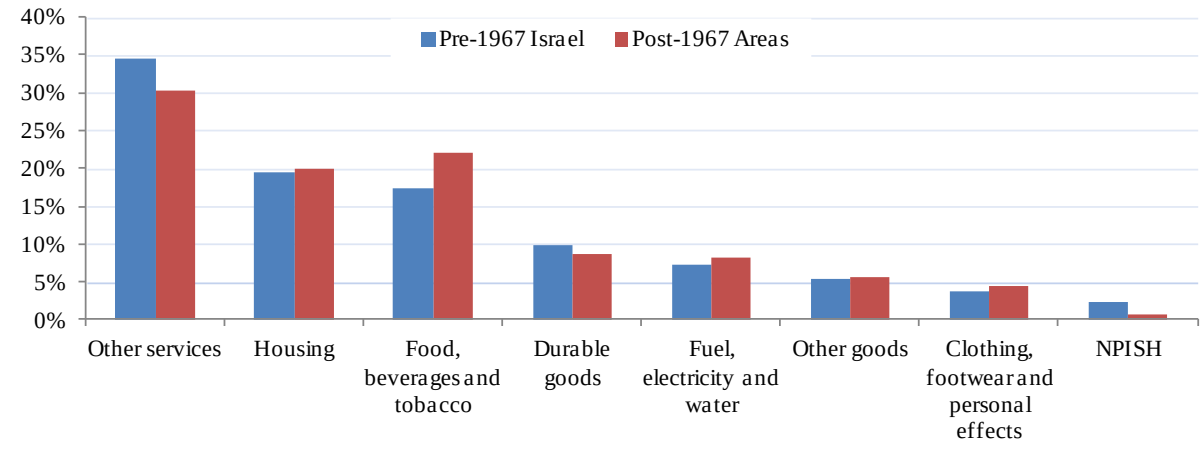
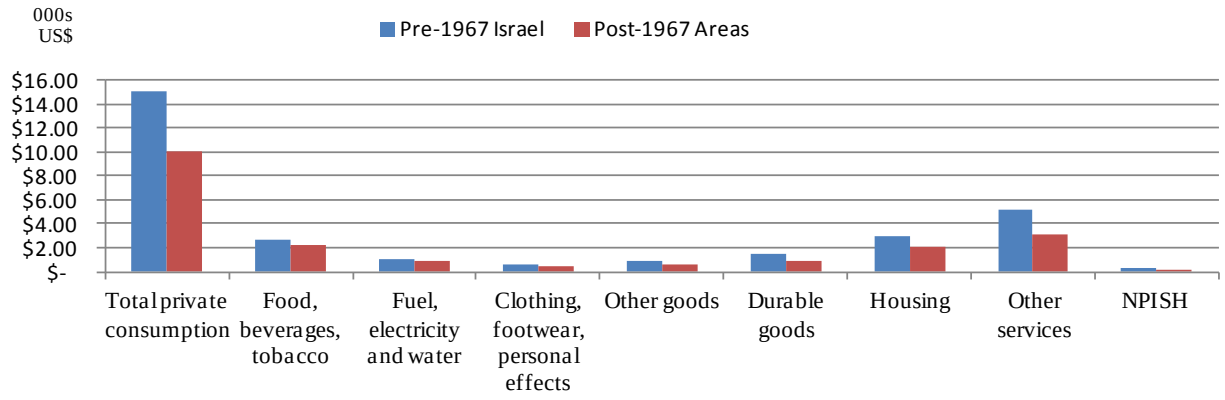
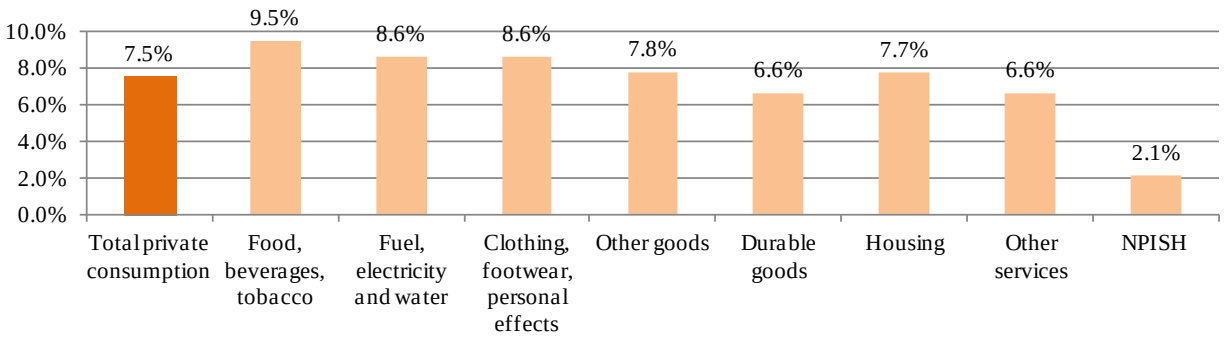


Figure 12: Per Capita Private Consumption Expenditure, 2007 (US$)



161. As Figure 13 shows, although inclusion of the post-1967 areas increases population of pre-1967 Israel by 11.5%, the private consumption expenditure of pre-1967 Israel increases by only 7.5% reflecting the lower per capita incomes of post-1967 area residents. While similar across most categories, the impact is slightly less for durable goods and other services and significantly less for the category expenditures by non-profit institutions serving households, (NPISH).

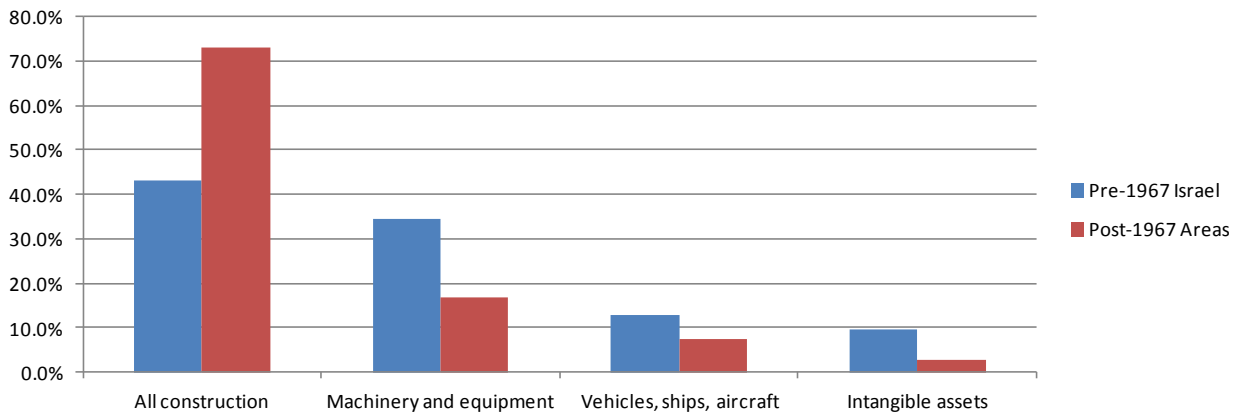
Figure 13: Impact of Post-1967 Areas On Pre-1967 Private Consumption, by Type (2007)



GDP by Expenditure: Fixed Capital Formation

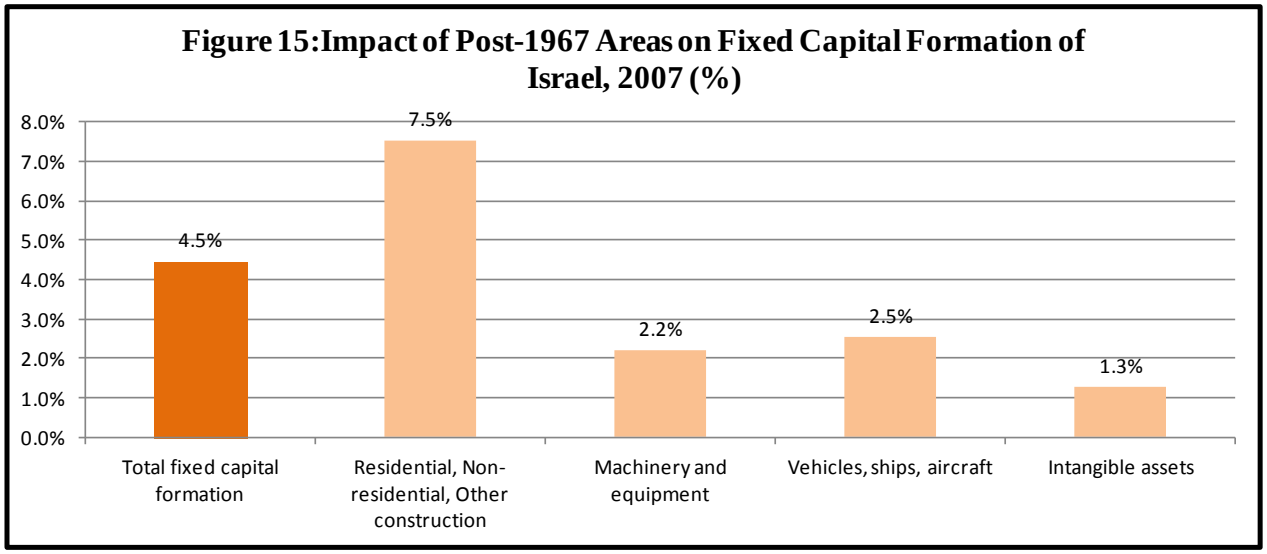
Table 15: Fixed Capital Formation, 2007			
	Pre-1967 Israel	**Post-1967 Areas**	**Impact of Post-1967 Areas**
	Billions of NIS		**%**
Total fixed capital formation	124 890	5 563	4.5%
Residential building	27 926	2 419	8.7%
Non-residential building, other construction	26 113	1 647	6.3%
Machinery and other equipment	42 831	941	2.2%
Passenger cars	9 214	236	2.6%
Buses and commercial vehicles	4 724	171	3.6%
Ships and aircraft (less exports)	2 215	0	0.0%
Intangible assets	11 867	149	1.3%

Figure 14: Distribution of Fixed Capital Formation by Type, 2007 (%)



162. Table 15 presents data on fixed capital formation for both pre-1967 Israel and the post-1967 areas, while Figure 14 shows how the proportional expenditures differ between the two areas. Capital formation in construction, including residential building, non-residential building and other construction, is proportionally much more important in the post-1967 areas than in pre-1967 Israel. On the other hand, capital formation in a category that combines all vehicles, ships and aircraft as well as in the intangible assets category is much less important for the post-1967 areas.

163. Figure 15 depicts the impact of including the post-1967 areas on fixed capital formation. The total value of fixed capital formation for pre-1967 Israel increases by 4.5% when the post-1967 areas are included. Not surprisingly, given the distribution of capital formation discussed above, the impact is most evident on investment in residential, non-residential and other construction.



GDP by Income: Compensation of Employees

164. As noted, only roughly half of GDP on the income side could be allocated between pre-1967 Israel and the post-1967 areas. Data on compensation of employees was drawn from the 2008 census of population and distributed using the fine level of geographic detail available for that source. The value of compensation for employees in the post-1967 areas represents only 2.9 % of the amount for pre-1967 Israel. This proportion is significantly lower than the proportion of the population residing in the Golan Heights, East Jerusalem and Israeli settlements in the West Bank. The differing population structures and labour force outcomes in pre-1967 Israel and the post-1967 areas, discussed in Chapter 5, explain, at least in part, the lower 'compensation of employees' amount.

Table 8: Partial Distribution of National Income

	Pre-1967 Israel	Post-1967 Areas	Impact of Post-1967 Areas
	Billions of NIS		%
Compensation of employees	328 798	9 402	2.9%