

Socioeconomic Inequality in Israel
Nabil Khatib, Sami Miaari and Hayastier (eds.)
Palgrave 2016 |

The Correlates of Household Debt in Late Life

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Abstract

The chapter is motivated by the rise of household debt in recent decades in Israel, as in most economically developed societies. This phenomenon, spurred by the omnipresent consumer culture and growing use of credit, is evident in the aging population as well as among younger cohorts. Students of consumer society have attributed the fast-growing use of credit in late life to increased longevity and the greater importance the elderly place on material comfort and leisure activities, compared to previous generations. The theoretical framework for this chapter builds on two concepts central to social stratification: consumption and risk. We argue that consumer society and its institutional structure are important driving forces behind the phenomenon of household debt and its "normalization." While debt has become commonplace, the vicissitudes of late life (e.g., ill health and reduced income) pose new risks and a burden that in some cases may lead to economic ruin.

The chapter employs recent survey data to study the distribution of household debt and its correlates in Israel. The data were collected between 2009 and 2010 within the framework of the Survey of Health, Aging, and Retirement in Europe (SHARE). The data set contains detailed information for a representative sample of 1,569 households in which at least one person was age 50 or older. Information is available regarding debts associated with homeownership (mortgages) as well as financial debts (e.g., credit card debts, bank loans, etc.).

The first part of the analysis addresses the prevalence of different types of debt in late life and their distribution in relation to demographic characteristics (e.g., age, marital status, household composition) and examines the extent to which debt patterns mimic the well-known ethno-national socioeconomic

inequalities in Israel. In the second section we evaluate the relationship between objective and subjective hardship and household debt. The final section casts household economic debt within a stratification framework and evaluates it both as a social risk and as a form of social closure in Israeli society.

Introduction

The present chapter is motivated by recent studies concerning the rise in household debt in most economically advanced societies (Backé et al. 2007; Crook and Hochguertel 2007; Iacoviello 2008). Studies addressing this issue also found that the proportion of households in debt is growing faster in the elderly population than in the population as a whole. It is argued that the current generation of senior citizens is much more likely than earlier generations to engage in consumption of goods and services, and to use various forms of credit to do so (Higgs et al. 2009; Lusardi and Mitchell 2013; Thorne et al. 2009). These trends appear to be at odds with traditional life-course models that typically view midlife and older age as the phase of peak resource accumulation on the one hand and declining expenditures on the other hand (e.g., Modigliani 1966). This divergence from the life-course progression that was modeled on previous generations reflects substantial changes in consumer culture, the regulation of credit, and changing needs of a population experiencing increased longevity. In view of these developments and the fact that the aging population is growing rapidly in many countries, we argue that sociologists in general and students of social stratification in particular should pay closer attention to household debt, as it reflects important behavioral patterns as well as potential risks facing individuals and households.

The overall aim of this chapter, then, is to outline the contours of indebtedness in advanced age in the context of Israeli society, which is increasingly characterized by unrestrained consumer culture and highly developed impersonal financial institutions. In doing so we address two related questions: first, what is the prevalence of household debt and its composition in midlife and old age; and second, what are the social and demographic correlates of indebtedness, and how is debt related to the household's position in the stratification system.

The Rise of Household Debt

Household debt, as any debt, "is an obligation or liability . . . arising from borrowing money or taking goods or services 'on credit,' i.e., against an obligation to pay later" (Prinsloo 2002: 63). Unlike other forms of social obligation, monetary debts can be precisely quantified. As such they become impersonal and transferable. Hence, in advanced economies most household debts are to institutions rather than to other individuals (e.g., Georarakos et al. 2012) and

are what Graeber (2011) terms commercial exchanges. Nonetheless, debts are socially embedded since ultimately they are based on trust and are backed by institutionalized threats on the part of the lending party to exert force in order to recover the debt.

The increasing levels of household debt among most population groups in economically advanced societies should direct our attention to structural and cultural changes that have taken place in postindustrial societies. One important change is that governments' commitment to the welfare of the citizenry has taken a backseat to its commitment to fiscal responsibility. As a result, the welfare state is contracting, and families are more exposed to the risks of market forces. From a macrolevel perspective, access to credit has facilitated economic growth at a time in which government spending is contracting (Chmelar 2013). As households are required to meet the growing costs of health care (Lee et al. 2007; Thorne et al. 2009) and other welfare services, household debt is substituting for public debt (Glick and Lansing 2010; Russell et al. 2013). Need, then, is an important driver of growing household indebtedness. Indeed, household size, rising costs of education, poor health, and spells of unemployment are all positively associated with household debt.

A second structural change is institutional reforms in financial markets that are making credit more accessible to growing numbers of households (Kus 2013). The "democratization" of credit has made credit available to lower-middle-class and lower-class populations, thus incorporating them into "consumer society" (Lyons 2003). This is true in general and with respect to housing loans in particular. Indeed, many researchers note that the deregulation of credit institutions is one of the central causes of the rapid growth of household debt (Backé et al. 2007; Glick and Lansing 2010; Prinsloo 2002).

Growing income inequality is a third structural change that drives growing indebtedness. The income of those at the top of the distribution has been rising while the real income of large segments of the population stagnated and in some cases even declined (Atkinson 2003; Smeeding 2002). Yet all segments of society are increasingly exposed to the consumption patterns of the well-to-do and seek to emulate them. Furthermore, growing income dispersion is occurring not only between different populations, but within groups with similar social characteristics. In other words, persons who form similar expectations (say, on the basis of their education) may have very different economic means to realize their expectations (e.g., Georarakos et al. 2012). Using credit is one way of bridging the gap between means and desires, and in the process, indebtedness becomes normalized and viewed not only as legitimate but as essential for households' efforts to maintain consumption patterns commensurate with a standard of living they view as socially desirable (Penalosa and Barnhart 2011). From this perspective the use of credit is as much a cultural phenomenon as a pragmatic necessity. Indeed it is noteworthy that in recent decades, consumption inequality increased only modestly compared to income inequality (Krueger and Perri 2006).

Household Debt and Social Stratification

Household debt and its distribution are linked to two important dimensions of social stratification: consumption patterns and differential exposure to the risk of economic ruin. A long line of research, beginning with the pioneering work of Veblen (2005 [1899]), and including influential writers such as Bourdieu (1984), has demonstrated the importance of consumption and consumption expectations as stratifying forces in society. Indeed, consumption patterns have formed a central dimension of the social hierarchy and served to distinguish between social strata throughout most of human history. Extravagant consumption sets the upper strata apart from the mass of the population. Access to credit is another form of social closure whereby persons at the lower end of the stratification system are excluded from fully participating in consumer society (Hohnen 2007; Pahl 1999).

Class differences notwithstanding, in recent decades consumption expectations have become more uniform for all but the poverty-stricken population (Bauman 1998). The blurring of class distinctions and the high visibility of luxury consumption pressures middle and lower classes to increase consumption beyond their means (Dwyer 2009). Seduced by the promise of "taking the waiting out of the wanting,"¹ households in the middle and lower rungs of the stratification system may be driven to spend more than their means permit, as they emulate the consumption patterns of the more well-to-do (Lyons 2003; O'Loughlin 2006). In this regard it is noteworthy that while there is a positive correlation between household wealth and debt, household debt is more equally distributed than household assets (Wolff 2007).

These behavioral patterns are not merely a matter of unrestrained desires but are deeply embedded in the social and economic structures of capitalist society. The capitalist mode of production constantly seeks consumers for its ever-growing capacity to produce, and is engaged in aggressive marketing of credit to bridge the gap between stagnant income levels of recent decades and desired scales of consumption (Barba and Pivetti 2009; Bauman 2009).

A second way in which household indebtedness is fundamental to social stratification derives from the fact that indebtedness represents, among other things, risk that is unequally distributed (Beck 1992; Esping-Andersen 1999; Taylor-Gooby et al. 1999). Recent trends show an increase in the level of household debt (McCloud and Dwyer 2011) and that the increase is disproportionately concentrated in households with lower levels of income and wealth (Lyons 2003). Not surprisingly, empirical research shows that delinquency on loans increases with unexpected negative life events (Getter 2003). Such hardship is often compounded by the fact that middle and lower class families increasingly finance their consumption by raising their debt levels (Frank 1999). To the extent that such indebtedness is prolonged, it may jeopardize the household's position in the stratification system (Krueger and Perri 2006; Porter 2012). To underscore this point, a recent study by Zhu (2011) compared households

that filed bankruptcy in the United States with a sample of the general population and found that bankrupt households earned on average only one-half the income earned by the comparison group. Yet the consumption expenditures of the two groups were strikingly similar, and not surprisingly, the population with the lower earnings reported higher levels of debt. From this vantage point it is argued that the democratization of access to credit, which has important benefits, also carries substantial risk.

Aging Indebtedness and Risk

The data on which this chapter is based are obtained from the Israeli segment of SHARE—the Survey of Health, Aging, and Retirement in Europe. The study covers the population age 50 and older. In this respect we do not provide a full picture of household debt in Israel, but this segment of the population is of interest in its own right. According to the life-course perspective on savings and consumption (Modigliani 1966), midlife and near-retirement are a time of maximum accumulation of resources; a time when previous investments in housing, schooling, and the like, are largely paid off, and household income is at its peak. While older age is accompanied by reduced income, needs decline as well.

The reality of the last quarter of a century seems to negate this view. Although the elderly are typically the most frugal and resistant to consumer debt, there are indications that these predispositions have been changing. During the last few decades, consumption patterns of the elderly have been converging with those of the working-age population, and ownership of key consumer goods by retired households has grown steadily (Higgs et al. 2009). There is also evidence that material circumstances are more important today to people in midlife and old age than they were a generation ago (Hansen et al. 2008). One corollary of these changes is the growing use of credit. Indeed, studies in the United States have shown that the use of credit increased dramatically (Lusardi and Mitchell 2013). During the last decade of the twentieth century alone the average credit card debt of Americans over age 65 almost doubled from about \$2,143 to \$4,000 (Plunkett 2009).

On the resource side of the equation, many find that their pensions and savings are insufficient. In part this is due to poor planning and low levels of financial literacy among large segments of the population (Howlett et al. 2008; Lusardi 2008). Demographic changes are a source of strain as well. As longevity is increasing, many adults in middle and old age are faced with growing medical expenses that are not fully covered by publicly funded programs (e.g., Kim et al. 2007). Some are also encumbered with the need to assist both their children and their parents, adding to their financial strain. While the elderly, then, are adjusting their consumption expectations and expenditures upward, hoping to live a more comfortable life than their predecessors, many face the risk of economic hardship. A recent study in the United States, for instance, found

that whereas persons age 65 and over constituted 2.1 percent of all petitions for household bankruptcy in 1991, the figure more than tripled and reached 7 percent by 2007 (Thorne et al. 2009).

In the case of Israel, over half of the elderly do not have occupational pension arrangements (CBS 2013), and the average amount of those who do receive pension payments is quite low. Concomitantly, poverty rates among the elderly increased from 13 percent to 20 percent in the last quarter of a century, the highest poverty rates (in terms of disposable income) among OECD countries (Ben-David and Bleikh 2013). Although the middle-aged and elderly population is not the only population at risk, this is a rapidly growing population that faces substantially different circumstances—whether cultural, social, and economic—than its predecessors. The study of household debt and its correlates is likely therefore to enhance our understanding of the circumstances of an important segment of the population and the risks it faces as it exits the labor market and copes with the challenges of longevity.

The Stratification Context of Indebtedness in Israel

Israel is a multiethnic society inhabited by Jews and Palestinian-Arabs. Many of its Jewish residents are first- or second-generation immigrants. Socioeconomic disparities in Israel and their sources can best be understood when cast within the social context of the historical peculiarities that have led to the emergence of the Israeli system of ethnic stratification (Semyonov and Lewin-Epstein 2011). The most salient ethnic split in Israeli society is between Jews and Palestinians. Israel's population of over 8 million comprises a Jewish majority (approximately 80 percent of the population) and a Palestinian-Arab minority consisting of Muslims, Christians, and Druze.

Since Jews began populating the country over one hundred years ago, political competition and conflict have pervaded the Jewish-Palestinian relations. When the state of Israel was established in 1948, the Palestinian population in Israel found itself in the position of a small and weak minority, politically, socially, and economically. Israel is a democracy that provides a range of civil and political rights to both its Jewish and Palestinian citizens. Yet its institutional structure favors the Jewish majority over the collective of the Palestinian minority, which is disadvantaged in every aspect of social stratification.

Israeli-Palestinians have, on average, lower levels of formal education, occupational status, earnings, and standard of living (Lewin-Epstein and Semyonov 1993; Semyonov et al. 1996). They have limited access to state-sponsored opportunities and frequently face discrimination in housing and labor markets. For example, during the early decades of the statehood, Palestinian citizens were discouraged from using government mortgages, and when they did receive mortgage loans, they were offered less favorable conditions in comparison to Israeli Jews (Rosenhek and Shalev 2000; Forte 2004).

Whereas the Jewish-Palestinian distinction is the most salient ethnoreligious split in Israel, there are ethnic cleavages within the Jewish population as well. The major division is between two major geocultural groups that are roughly equal in size: Jews of European (and later American) origin (hereafter European-Americans), and Jews from the Near and Middle East and from North Africa (hereafter Asian-Africans). For historical reasons associated with their countries of origin and the timing of their migration to Israel, Jews of European-American descent hold higher status occupations and enjoy higher earnings and a higher standard of living (Semyonov et al. 1996; Semyonov and Lewin-Epstein 2001). Although the socioeconomic gaps that were shaped during the first two decades of statehood have narrowed over time, the socioeconomic disadvantage, especially of descendants of Jewish immigrants from North Africa, remains an enduring feature of Israel's stratification system (Lewin-Epstein et al. 2004; Semyonov and Lewin-Epstein 2011).

Following the downfall of the former Soviet Union (FSU), Israel was faced by mass migration from the former Soviet republics. By the end of the twentieth century, immigrants from the FSU constituted almost 20 percent of the Jewish population of Israel. This group of immigrants is highly educated. More than two-thirds of these immigrants arrived with academic education, and a similar proportion held professional and scientific occupations in their countries of origin. Yet many, especially those in advanced ages, were unable to find jobs commensurate with those they left in their country of origin and experienced downward occupational mobility (Raijman and Semyonov 1998). Although with the passage of time FSU immigrants made gains in occupational status and economic outcomes, they are still lagging behind Israeli-born Jews, and considerable gaps remain in both the labor and housing markets.²

Among economically advanced nations, Israel is considered a young society. Ten percent of its population is 65 and older, compared to the OECD average, which is just under 15 percent. Yet Israel's population is aging rapidly. During the past 60 years, the population 65 and over grew 15-fold compared to a 6-fold increase of the total population (Eshel-Joint-Mashav 2012: 353). This reflects the aging of the Jewish children that arrived during the mass migration period between the late 1940s and early 1960s (CBS 2012a) as well as the large share of older migrants that arrived from the FSU during the 1990s (Eshel-Joint-Mashav 2012: 4). In 2030 the old-age population is expected to reach 14 percent, and the percentage of Palestinians in the elderly population is expected to rise from 8 percent to 12 percent (Eshel-Joint-Mashav 2011: p. 3).

While the number of persons 65 and over is rising, as is their share of the total population, the labor force participation of persons 65 and over has been declining. Eighteen percent of this age group was active in the labor force in 1970, whereas the rate dropped to 11 percent in 2009 (Eshel-Joint-Mashav 2011: p. 3). For many in this age group employment is a necessity. Israel's welfare and pension policies are mostly designed to promote self-sufficiency in older age, and many households managed to accumulate only meager

economic resources to support their living in old age. In fact, recent data suggest that Israel is the least effective country in the developed world at keeping the elderly out of poverty (Ben-David and Bleikh 2013). According to recent reports, one-third of the elderly population is "struggling to make ends meet" (Eshel-Joint-Mashav 2012: p 208). This is the highest poverty rate (in terms of disposable income) in the developed world.

Official figures on household debt in Israel are sparse and are available only at an aggregate level. Recent figures provided by the Bank of Israel show that outstanding household debts reached 402 billion NIS in 2013 (Bank of Israel 2013). This figure is double the amount of outstanding debt at the turn of the twenty-first century. In both periods, just over 70 percent of the total was debt associated with housing. In the context of our discussion, it is noteworthy that outstanding credit debts (debts to credit companies that are not guaranteed by banks) more than tripled in less than a decade—from 3 billion NIS in 2006 to 11 billion NIS in 2013 (Bank of Israel 2013).² Additional information on household debt can be gleaned from the Financial Literacy Survey carried out in 2012 (CBS 2012b). Forty-five percent of respondents 20 years and older reported they had difficulty making ends meet, and 19 percent stated that they purchase goods and services even when they do not have the money.

While household indebtedness seems widespread and has grown in recent years, there is not much information available on the risks associated with indebtedness and the extent to which they are growing. A sense of the risks might be gained, however, from data made available by the Enforcement and Collection Authority in the Ministry of Justice. According to figures sent to Yedid,⁴ the number of new cases defined as debtors with restricted means rose from 11,414 in 2009 to 19,740 in 2013. In a similar manner the first decade of the twenty-first century saw a dramatic rise in the number of receivership orders concerning individuals (rather than firms) from 1,194 orders issued in 2001, to 7,633 cases in 2011. While some of this substantial increase may be attributed to reforms in the receivership law that made access easier, it is likely that this increase also represents an increase in economic hardship experienced by the middle class.⁵ It is clear then that the rise in household debt and the hardship it may lead to provide good reasons for examining the correlates of debt in late life and their relationship to socioeconomic stratification in Israel.

Data and Methods

The study takes advantage of a unique data set collected in Israel as part of the SHARE project (Survey of Health, Aging, and Retirement in Europe). This is a panel study, and we use data from the latest available wave collected 2009–2010. The population studied is individuals 50 years and over and their households. Face-to-face interviews were conducted in respondents' homes using Computer Assisted Personal Interviewing (CAPI). The questionnaires covered

a wide range of topics and were highly structured. Information on individual characteristics and on family finances and expenditures were collected for each household. This information was typically provided by one household member designated as the "financial respondent." The information was used to generate composite variables such as household assets and liabilities, and these were stored for all respondents in the household. For the purpose of the present research, the most relevant information concerns household debts—both financial debts and mortgage debts. Data for our analysis are derived from a nationally representative full probability sample that includes 1,569 households—both Jewish and Palestinian-Israeli—who provided full information on the relevant variables.

Variables

This chapter is concerned with economic debts in midlife and old age. We distinguish between debts associated with housing (mortgage debts) which are usually quite large, and financial debts associated primarily with consumption. We investigate debt in two related ways: with regard to the two components of debt we first examine whether the household has any debt and contrast those in debt to households with no debt. We then examine the size of reported debt and the extent to which it is related to household characteristics. As the data are derived from an international comparative survey, debt, as well as other economic measures, is reported in Israeli currency (NIS) adjusted for purchasing power parity (PPP).

As household debt is likely to be associated with the economic well-being of the household, we include in the analysis two economic indicators: *total household income* captures the flow of resources into the household, and *household net worth* measures the stock of resources. Financial gifts can affect economic well-being and consumption behavior. Therefore, we include a variable that indicates whether the respondent or his/her partner received the equivalent of €5,000 or more (approximately 25,000NIS at the time of the survey) as a gift or inheritance. As further control, we note whether anyone in the household was employed at the time of the survey.

In order to capture the ethno-national dimension of Israel's stratification system, we identify the following population groups: Israeli-born Jews, those who immigrated from Europe or America, those who immigrated from the Near or Middle East, those who immigrated from North Africa, recent immigrants from the former Soviet Union (since the 1990s), and Israeli-Palestinian households. Additional variables included in the analysis are *age*—the age of oldest person in the household; *number of children*—number of children of the respondent, whether in the household or elsewhere; *household size*—number of persons present in the household; *health status*—measured using a standard item on subjective health, and dichotomized to reflect whether at least one household member reported fair or poor health; *economic distress*—a subjective evaluation of the

difficulty in making ends meet. The scale range is 1 (very difficult) up to 4 (very easy). Since we are concerned primarily with a sense of economic distress, we dichotomized the scale, contrasting those who answered "very difficult" (1) with all other responses. Finally, we include a variable indicating whether at least one household member is a home owner. The variable *home owner* receives the value 1 if there is a home owner in the household, and a value of 0 otherwise.

Findings

Descriptive Overview

An important goal of this chapter is to provide information on the prevalence of household debt in midlife and old age in Israel, and its correlates. The age range in our sample is quite wide. The youngest in this cohort are in their fifties and may be at the peak of their careers and economic well-being. The oldest are octogenarians, and a few are even older. In between are people closer to retirement age, on both sides of the divide. These age differences are important in terms of expected income, access to credit, and lifestyles, all of which are likely to affect debt behavior. Due to the relevance of life cycle factors for household indebtedness, we begin the descriptive overview by examining age-related patterns. Turning first to financial debt, we find that in the sample as a whole, just over one-third of all households reported any financial debt. Yet as is evident from Figure 1.1, this summary statistic veils considerable variation across age groups. There is a clear negative association between age and the likelihood of having any financial debt. The proportion drops from above 50 percent in the youngest age group to 20 percent in the oldest age categories.

One might argue that being in debt is not necessarily a problem if the amount of debt is small and represents a transitory occurrence. Yet among households with any financial debt, the size of the debt is not negligible. The average reported debt for all households was 61,500 NIS which is about half of the average reported household income (annual). The amount varies to some extent across age groups, with a tendency to decline with age, but the differences are not very large.

A second form of household debt is related to loans taken for the purchase of housing (mortgage debt). This is an important component of household debt because mortgages typically involve large sums of money. Israel is characterized by high rates of home ownership (Lewin-Epstein et al. 2004). In our sample, 77 percent of households reported owning their residence. Even among households composed of persons in their 80s almost two-thirds reported owning their home. From a life cycle perspective, home ownership is typically associated with family formation, and ownership is established around the time of marriage. Mortgage debt, then, is typically associated with younger age and is likely to be paid up during the years of employment. Many people, however,

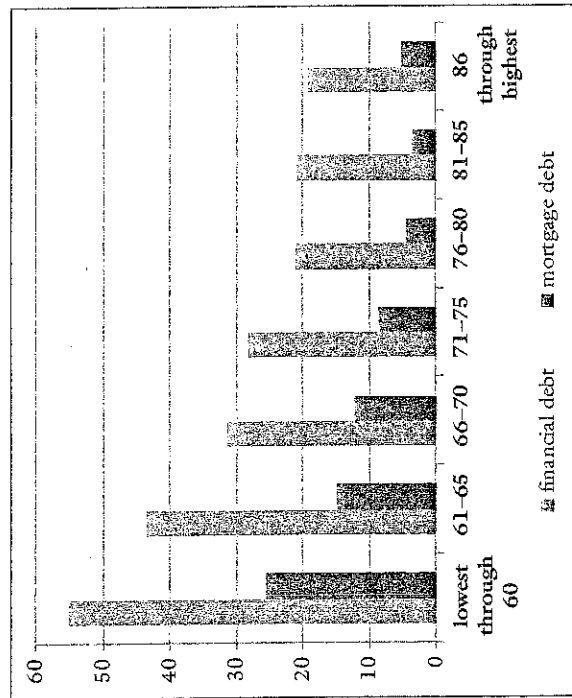


Figure 1.1 Percent of households reporting financial and mortgage debt, by age of oldest person.

upgrade their residence during the life course, and some reach ownership only late in life. Consequently, debts associated with home ownership may be carried into old age. Looking at Figure 1.1 we find that one-quarter of younger households (60 or younger) reported having mortgage debt. This declines to 15 percent for persons 61-65, and to 9 percent in the following 5-year cohort. Among households with persons 75 and older, less than 5 percent reported having mortgage debt.

In line with the attributes of consumer society outlined at the outset of the chapter, financial debt has become normalized for all strata in society. To the extent this is the case, household debt will not necessarily be limited to the poor, nor even the middle class, and will be found among all income categories. This does not mean, of course, that they represent a similar burden. For some households, such debts may create substantial financial strain, and they may be at risk of slipping into economic, legal, and social hardship. Figure 1.2 presents the proportion of households reporting any financial debt according to household income deciles. In most deciles the percentage is not far from the total, which is 35 percent. This indicates that debt is widespread and is common among both the well-to-do and the poor.

Two instances, however, appear to diverge from the general pattern. The second from the bottom decile has the lowest proportion of households reporting

financial debt (24 percent). If economic hardship were the main driving force, one would expect a higher proportion in the second income decile than in higher income deciles. This, however, is not the case. The relatively lower likelihood of debt may reflect greater difficulty faced by low-income households in obtaining credit and loans since they pose greater risk to credit providers. This explanation, however, does not fit the observation that the proportion of households in the lowest income decile (where the risk to credit providers is greatest) is considerably higher than in the second decile. The difference between the two lower income deciles may serve as indication of both greater economic hardship faced by the poorest poor and greater difficulty in securing loans, compared to the more well-to-do. Daily needs that cannot be met by available means lead a higher proportion of the lowest income decile into debt. This interpretation receives some support from the fact that the same pattern emerges if we replace income with net worth (a measure of household wealth) and from the fact that the average amount of debt is also higher in the lowest income decile than in the decile just above it.

To the extent that debt has become a way of life, being in debt in and of itself may not reflect economic hardship, especially if the amount of debt is small compared to available economic means of the household. It is necessary then to also evaluate the size of the debt. When we examine the reported amount of household debt by income quintiles⁶ we find that households in the lowest income quintile report a mean financial debt that is higher than the average for the total sample (68,046 and 61,516, respectively). In fact, the mean value of

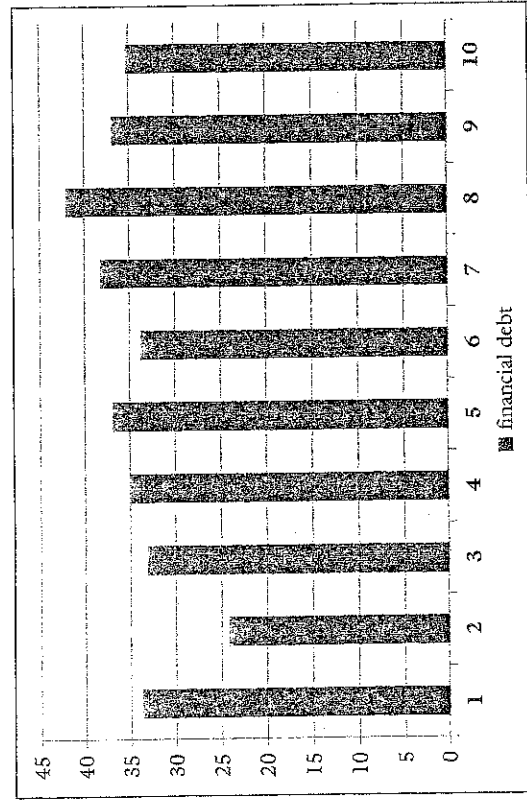


Figure 1.2 Percent of households reporting financial debt, by income deciles.

financial debt reported by the lowest income quintile is as high as that reported by the highest income quintile. More importantly, the reported debt is higher than their annual income, underscoring the fact that debt associated with low income poses a serious risk.

One way of gauging the actual burden experienced by households is through perceived economic hardship. Respondents were asked about the difficulty they experienced in making ends meet. Figure 1.3 shows the proportion from each income quintile that reported great difficulty in making ends meet. Almost 40 percent of the households in the lowest quintile reported such hardship, with only a slightly lower percentage in the next quintile (37 percent). The figure then drops to 20 percent, and as might be expected, only 2 percent of households in the top quintile report great difficulty in making ends meet. While financial debts in higher income deciles do not seem to be associated with perceived economic hardship, the two phenomena clearly overlap at the lower end of the income distribution. It is here where we see debt associated with risk, as these households are likely to face the legal, economic, and social sanctions associated with the inability to meet debt obligations.

Debt is characteristic of the household as a whole. In certain circumstances it is likely to represent hardship and risk. This is the case, as we have seen, when economic resources are lacking. This is also true when family needs are greater. Lacking detailed information on the needs of the household, we use number of children as a proxy. It should be noted that given the age of respondents,

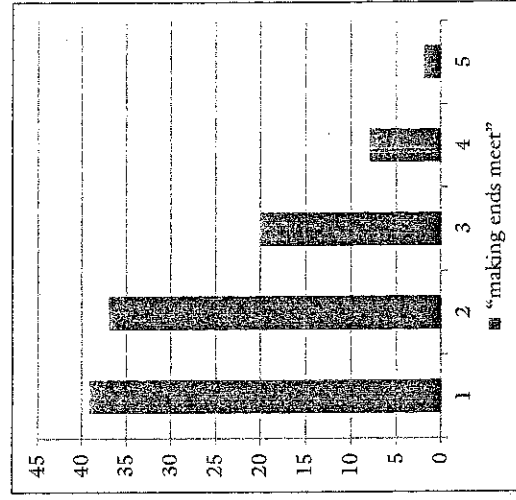


Figure 1.3 Percent of households reporting great difficulty "making ends meet" by income quintiles.

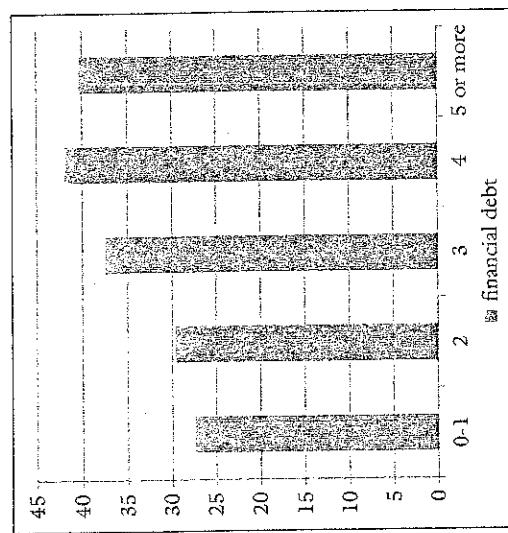


Figure 1.4 Percent of households reporting financial debt, by number of children.

in many cases their offspring may be living in separate households. Our data show (Figure 1.4) that the proportion of households in debt increases from 27 percent in families that have one child or no children, to a high of 42 percent in families with four children. Unfortunately the data available in the survey do not provide information on possible mechanisms. Based on the strong parental commitment revealed in past research in Israel, one reasonable explanation for the observed pattern would be that parents continue to economically support adult offspring. In some cases such support may require taking loans on behalf of the offspring.

Ethnicity is a salient feature of Israel's stratification system (Semyonov and Lewin-Epstein 2011). It reflects the symbolic as well as a power order and is strongly associated with socioeconomic inequality. Differences in economic well-being and the extent to which various groups are immersed in Israel's consumer culture are likely to be reflected in their debt behavior. Differences in access to institutional resources (credit, bank loans, etc.) are also likely to be associated with ethnic groups' positions in the stratification system. Data on the prevalence of financial and mortgage debt for various ethnic groups is presented in Figure 1.5. Turning first to financial debt, we find that the proportion of households in debt ranges from 44 percent among North-African households to 24 percent among households composed of immigrants from the former Soviet Union. The figures are 40 and 42 percent respectively among Israeli-born Jews and Palestinians (who are younger on average than other groups), and they are lower among European-Americans and households composed of immigrants from the Middle East.

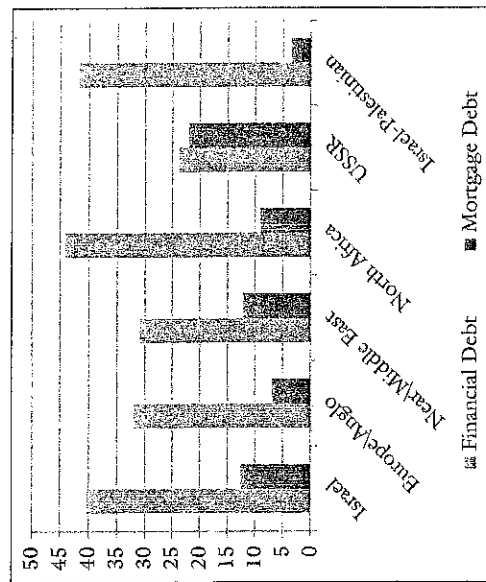


Figure 1.5 Percent of households reporting financial and mortgage debt, by ethno-national origin.

Next we turn to housing loans. The order of the groups looks quite different in this case. Israeli Palestinians are least likely to report mortgage debt (under 4 percent) even though homeownership is very high in the Palestinian population (85 percent of households own their dwelling unit according to the Israel Central bureau of Statistics [2008]). This derives from the fact that the housing market in Palestinian villages and towns is governed by different institutions than those found in Jewish-dominated communities. While the latter is characterized by an actual market (large contractors, buyers and sellers, and a developed mortgage system), in the former, construction is often on family land with family funds, and at times even the construction is done by relatives and acquaintances. In Palestinian communities, the housing market is small with relatively few transactions, and it is more difficult to secure institutional loans. At the other extreme we find the population from the former Soviet Union. Almost one-quarter reports having a mortgage debt. This reflects the fact that these are recent arrivals to Israel. A smaller proportion of this group own a home, and many of those that do are still paying back the loans.

The Correlates of Debt

Previous research on Israeli society has demonstrated the association between ethnic affiliation and socioeconomic attributes. Likewise, ethnic groups differ in family size, age composition, and health status. In order to obtain a more complete and accurate understanding of the correlates of household debt, we

Table 1.1 Logistic regression predicting the likelihood of financial debt

| Variables | Model (1) | Model (2) | Model (3) | Model (4) |
|-------------------------------|--------------------|--------------------|--------------------|--------------------|
| Age | -0.06*** (0.01) | -0.06*** (0.01) | -0.06*** (0.01) | -0.06*** (0.01) |
| Income/1000 | -0.00 (0.00) | -0.00 (0.00) | -0.00 (0.00) | -0.00 (0.00) |
| Networth/10000 | 0.00 (0.00) | 0.00 (0.00) | 0.00 (0.00) | 0.00* (0.00) |
| America_Europe | - | 0.14 (0.18) | 0.21 (0.19) | 0.26 (0.19) |
| Middle East | - | -0.08 (0.22) | -0.19 (0.26) | -0.21 (0.26) |
| North-Africa | - | 0.41* (0.20) | 0.51* (0.23) | 0.44 (0.23) |
| USSR | - | -0.44** (0.17) | -0.39* (0.18) | -0.47* (0.19) |
| Palestinian | - | 0.14 (0.19) | 0.14 (0.25) | -0.03 (0.26) |
| gift or inheritance (yes = 1) | - | - | 0.22 (0.19) | 0.24 (0.19) |
| work (yes = 1) | - | - | 0.25 (0.15) | 0.30* (0.15) |
| number of children | - | - | -0.02 (0.04) | -0.02 (0.04) |
| health (poor = 1) | - | - | 0.19** (0.13) | 0.33* (0.14) |
| household size | - | - | 0.19** (0.06) | 0.19** (0.07) |
| distress (1 = hard) | - | - | - | 0.65*** (0.15) |
| Constant | 3.57*** (0.43) | 3.56*** (0.45) | 2.73*** (0.59) | 2.43*** (0.60) |
| Observations | 1,569.00 | 1,569.00 | 1,390.00 | 1,390.00 |
| Pseudo R-squared | 0.056 | 0.066 | 0.088 | 0.098 |

Note: *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$

Standard errors in parentheses

Comparison group for origin: Israeli-born = 0

Does not have financial debt = 0

turn to multivariate analysis of the likelihood of financial and mortgage debt. For this purpose we use logistic regression to estimate the likelihood of being in financial debt as a function of the economic status of the household, ethnic affiliation, and demographic characteristics. We start with financial debt. The coefficient estimates for sequentially more elaborate models are presented in Table 1.1. Given the centrality of age and the established negative relationship between age and financial indebtedness, all models control for the age of the oldest person in the household. Indeed, in all models we find a negative and statistically significant age coefficient.

In model 1 we estimate the relationship of debt to economic well-being. We find that neither the coefficient for annual income nor the coefficient for household wealth—measured by net worth—is statistically significant. This result, which replicates the descriptive information, negates the notion that debt is simply a derivative of insufficient economic means. The likelihood of being in debt is no higher among economically deprived households than among the well-to-do. Next we examine differences among ethnic groups while controlling for economic standing. Our comparison group is the population of Jews born in Israel. There are two instances in which group affiliation appears to make a difference. North-African households have a higher likelihood of being in debt compared to second-generation Jews, while the coefficient for households of recent immigrants from the former Soviet Union is negative, revealing a lower likelihood of indebtedness. These population group differences hold when we further consider demographic attributes of the household (model 3). Importantly, the findings in Table 1.1 also show positive and significant coefficients for poor health and large household size. In model 4 we add an indicator to tap perceived economic hardship. It captures the perceived difficulty of making ends meet. We saw earlier that difficulty in making ends meet is strongly (negatively) associated with household income. Yet, as seen in model 1, income, per se, is not directly associated with having household debt. Once we take into account income level and other household characteristics, we find that acute difficulty in making ends meet is positively and strongly associated with higher likelihood of being in debt. The data available, however, do not permit us to determine that difficulty in making ends meet is the cause of indebtedness, as this relationship may well be reciprocal. However, whether difficulty in making ends meet pushes household into debt, or being in debt diminishes the ability of households to make ends meet, it is clearly evident that the two are related. This suggests that while household indebtedness is being "normalized" and evolving into a way of life, it clearly entails risks and may present a serious source of strain. A sense of such hardship is also revealed in the persistence of the positive coefficients for poor health and large household size. Poorer health in the household and larger households are both associated with greater debt. These serve as clear examples of the way in which risk is being shifted from the contracting welfare state to the individual household.

One more thing to note in Table 1.1 is that once we take into account perceived difficulty of making ends meet, the coefficient for North-African households is reduced and is no longer significant. This leaves the population from the former Soviet Union as distinct from all other groups. The negative coefficient may reflect greater difficulty in access to credit, or possibly greater aversion of indebtedness. It is noteworthy, however, that a parallel analysis estimating the likelihood of having mortgage debt (not presented here) showed that this population is significantly more likely than all other population groups to have

a mortgage debt. This is not surprising given the rather recent arrival of this group and the fact that mortgage debts have long durations. It does reveal, however, a clear difference between housing and other loans. While housing loans are invariably guaranteed by the property itself, and therefore less risky for the lending institutions, such institutions may be more reluctant to make consumer-related loans to a recent immigrant population that arrived in an advanced stage of life with little resources.

Israel takes pride in its health care system, which is generally inclusive and highly effective. In recent years, however, there are many indications that it is "coming apart at the seams." The portion of the national health expenditure that is covered by individuals and households is constantly growing. One consequence of this emerges in our study with respect to household debt. Households in which there is a person with severe health conditions are significantly more likely than other households to report financial debt. This is true after we take into consideration both age variation and economic well-being.

As the size of the debt can vary considerably among households that are in debt, we turn next to estimate the relationship between the amount of financial debt and household characteristics. We use Tobit regression models to take into account the large concentration of cases at zero (all households with no debt). Additionally, the monetary value of the debt is transformed using a logarithmic scale to modify the highly skewed distribution of debt. A further advantage of such transformation is that the coefficients can be interpreted to represent a proportional change in the value of the dependent variable associated with a unit change in the predictor variable.

The first model includes age and economic well-being and reveals a strong negative relationship between age and the size of financial debt. It also shows a weak but statistically significant relationship between household wealth and debt. This relationship disappears, however, once population group indicators are included in the model (model 2). In model 3 we add various characteristics that may affect debt behavior. Examining the coefficients in model 3 more closely we find that every additional year of age reduces debt by about 3 percent. This may reflect the declining participation of older people in consumer society and, possibly, greater difficulty in obtaining credit from financial institutions. The debt of North-African households is 29 percent higher than that of households of Israeli-born, while households from the former Soviet Union report an average debt that is 25 percent lower than the latter group.

We saw earlier (Table 1.1) that poor health in the household increases the likelihood of being in debt. The analysis in Table 1.2 adds to this by revealing that among those that report financial debt, poor health in the household increases the debt by 23 percent compared to households reporting better health. Household size is also associated with larger debt. Controlling for economic means and other household attributes, every additional person in the

Table 1.2 Tobit regression models predicting the value of (ln) financial debt

| Variables | Model (1) | Model (2) | Model (3) | Model (4) |
|-------------------------------|--------------------|--------------------|--------------------|--------------------|
| Age | -0.37*** (0.04) | -0.04*** (0.00) | -0.03*** (0.00) | -0.03*** (0.00) |
| Income/1000 | -0.00 (0.00) | -0.00 (0.00) | -0.00 (0.00) | -0.00 (0.00) |
| Net worth/10000 | 0.00* (0.00) | 0.00 (0.00) | 0.00 (0.00) | 0.00* (0.00) |
| America-Europe | - | 0.08 (0.11) | 0.12 (0.11) | 0.14 (0.11) |
| Middle East | - | -0.04 (0.13) | -0.12 (0.15) | -0.13 (0.15) |
| North Africa | - | 0.24* (0.12) | 0.29* (0.13) | 0.25 (0.13) |
| USSR | - | -0.28** (0.10) | -0.25* (0.11) | -0.29** (0.11) |
| Palestinian | - | 0.07 (0.11) | 0.08 (0.15) | -0.03 (0.15) |
| gift or inheritance (yes = 1) | - | - | 0.13 (0.11) | 0.14 (0.11) |
| work (yes = 1) | - | - | 0.17 (0.09) | 0.19* (0.09) |
| number of children | - | - | -0.01 (0.02) | -0.01 (0.02) |
| health (poor = 1) | - | - | 0.23** (0.08) | 0.18* (0.08) |
| household size | - | - | 0.11** (0.04) | 0.11** (0.04) |
| distress (1 = hard) | - | - | - | 0.36*** (0.09) |
| Constant | 22.25*** (2.50) | 2.19*** (0.26) | 1.65*** (0.34) | 1.45*** (0.34) |
| Sigma | 10.81*** (0.39) | 1.09*** (0.04) | 1.07*** (0.04) | 1.06*** (0.04) |
| Observations | 1,569.00 | 1,569.00 | 1,390.00 | 1,390.00 |
| Pseudo R-squared | 0.022 | 0.047 | 0.062 | 0.069 |

Standard errors in parentheses

Comparison group for origin Israeli-born = 0

Does not have financial debt = 0

household adds 11 percent to the size of the debt. Finally, in model 4 we add the subjective evaluation of "making ends meet." The coefficient estimate shows a strong relationship between the subjective hardship and the size of debt. We also find that the coefficient for North-African origin becomes nonsignificant and the coefficient for health is slightly reduced. In both cases, then, debt may be understood, at least in part, as resulting from an economic need that cannot easily be met.

We noted earlier (Figure 1.1) that homeownership rates in Israel are high in general and among the older segment of the population in particular. However, mortgage debt in late life is relatively uncommon. Housing-related loans are typically taken at younger ages, and as a general rule, households pay back these loans by the time they reach old age. Obviously not all households follow this pattern. Some attain homeownership late in life; others take second and third mortgage loans as they improve their housing accommodations; and yet others may use their home as collateral when seeking loans to meet economic needs. In Table 1.3 we present the results from a multivariate analysis of the amount of mortgage debt among those owning their home. As might be expected, all three models consistently show a negative relationship between debt and age. The purchase of housing in Israel is strongly related to family formation, typically in the early years of adulthood. By middle and especially old age, many have probably paid off their loans or are left with relatively small debts. For those approaching retirement age this was facilitated by a more generous welfare system and subsidized mortgages provided by the state in the 1970s and 1980s. (Lewin-Epstein and Semyonov 2000; Forte 2004).

Additionally, economic well-being does not seem to be a factor once population group indicators are taken into account. Group differences do emerge, however, as evident from both model 2 and model 3. The coefficient for recent immigrants from the former Soviet Union is both large and significant, indicating that their mortgage debts are much higher than those reported by the comparison group—Israeli born. In fact, tests for differences in coefficients show that households from the former Soviet Union differ from all other groups in this respect. Given their rather recent arrival in the country, many of them already in advanced ages, it is not surprising that they still owe relatively large sums for their homes, a fact that might pose a burden at a stage in their life where earnings are in decline.

The findings with regard to the Palestinian population are a mirror image of those reported for the Jewish population from the former Soviet Union who recently migrated to Israel. Mortgage debt among homeowners in this group is considerably lower than in all other population groups. This finding should be understood in the context of the very different housing markets characteristic of the Jewish and Palestinian segments of Israeli society. Most homes of Palestinian-Israelis are built on private land owned by the (extended) family, and there is not much of a market for land and housing. Unlike the firm-based construction industry responsible for all housing purchased by the Jewish population, much of the housing in the Palestinian population is constructed by family members and local tradesmen, and it is difficult to obtain secured loans for such activities (Forte 2004). To this one should add the extremely high residential segregation of the Jewish and Israeli-Palestinian population.

One additional noteworthy finding in Table 1.3 is the positive and significant coefficient for household size. Larger households also report larger housing debts. Large household size may require households to upgrade to larger housing units with larger mortgages. Larger households also have greater economic needs, so that for any given level of economic well-being they face greater financial difficulty than smaller households, leading to longer periods of repaying debts. For some, such debts in late life may turn into risk if reduced income makes it harder to repay these loans.

Table 1.3 Tobit regression models predicting the value (ln) of mortgage debt for homeowners only

| Variables | Model (1) | Model (2) | Model (3) |
|-------------------------------|--------------------|---------------------|---------------------|
| Age | -0.60*** (0.09) | -0.60*** (0.09) | -0.51*** (0.10) |
| Income/1000 | -0.01* (0.01) | -0.01 (0.01) | -0.01 (0.01) |
| Net worth/10000 | -0.00 (0.00) | 0.00 (0.00) | 0.00 (0.00) |
| America-Europe | - | -0.28 (2.28) | 0.36 (2.32) |
| Middle East | - | 3.89 (2.58) | 4.96 (2.67) |
| North Africa | - | -1.33 (2.70) | -1.33 (2.85) |
| USSR | - | 16.94*** (2.04) | 15.96*** (2.15) |
| Palestinian | - | -10.75*** (3.06) | -13.19*** (3.75) |
| gift or inheritance (yes = 1) | - | - | 1.70 (2.14) |
| work (yes = 1) | - | - | 2.66 (1.68) |
| number of children | - | - | 0.16 (0.47) |
| health (poor = 1) | - | - | 2.81 (1.49) |
| household size | - | - | 2.46*** (0.74) |
| Constant | 25.24*** (6.07) | 23.83*** (5.69) | 10.06 (7.05) |
| Sigma | 17.52*** (1.12) | 15.22*** (0.96) | 14.66*** (0.96) |
| Observations | 1,197.00 | 1,197.00 | 1,054.00 |
| Pseudo R-squared | 0.023 | 0.084 | 0.091 |

Standard errors in parentheses

Comparison group for origin Israeli-born = 0

Does not have mortgage debt = 0

Summary and Discussion

Past studies noted that cohorts now reaching retirement differ from those of earlier generations. They are less willing to reduce their standard of living, they seek up-to-date consumer products, and many are avid consumers of leisure services. At the same time the population of persons 50 years and older is likely to live longer than previous generations, and for many, accumulated wealth (pension and savings) may not suffice to live the kind of life they expect. The disparity is further exacerbated by the contraction of the welfare state and the growing individualization in most economically advanced societies. These conditions pose serious threats to the well-being of people in late life, can drive them into debt, and when in debt may frustrate their ability to meet debt obligations. Against the backdrop of these trends, we set out to study the prevalence of household debt in Israel and investigate its household level correlates.

For the sample as a whole we found that just over one-third of all households reported having financial debt, and 13 percent reported mortgage debt. In line with the consumer society thesis, we found that debt was widespread, with quite similar proportions of households in debt among high-income and low-income households. Even the size of the financial debt (averaging 60,000 NIS) did not vary systematically with economic well-being. The meaning of this, of course, is that low income households carry a relatively larger debt burden (their debt relative to their annual income) and face serious risk of not meeting debt payments. Indeed, once economic well-being is controlled, debt is strongly associated with difficulty in making ends meet.

One persistent finding in our analysis is that within the population under study, ranging from middle to old age, there is a negative relationship between age and household debt; older persons are less likely to have debt, and when they do report debt, the amount is lower than the debt of other households. Our data are not detailed enough to provide a definite explanation for this relationship. We can probably rule out the argument that this results from poor health; the relationship between age and financial debt remains significant when we control for health status. Another possibility is that the negative correlation with age derives from greater difficulty in obtaining institutional credit and loans. In this case support from family members may substitute for such institutional credit. Yet controlling for an indicator of such support does not alter the observed negative relationship between age and debt. The negative relationship, then, seems to reflect a more general phenomenon of thrift and reduced spending that accompanies aging, and possibly cohort differences as well.

Our descriptive statistics showed some differences in debt across ethnographic groups in Israel. Once we took into consideration economic well-being and other household attributes, some group differences stood out. Compared to Israeli-born, recent immigrants from the former Soviet Union were less likely to have consumer debts but more likely to have home mortgages—supposedly a result of their recent entry into the Israeli housing market. As for

the Palestinian-Israeli population, they did not differ with respect to financial debt from Israeli-born Jews—the dominant group in the social stratification system in the Israeli society. This is in line with studies that showed increasing participation of Palestinians in the consumer society, following the globalization and the mass consumption culture to which they are drawn along with the rest of the Israelis (Sáar 2004). This finding reflects the “democratization of credit,” similar to that found in previous research, as ethnic minorities and low-income groups gain access to the credit market (Black and Morgan 1999).

Although there were no substantial differences between Palestinian and Jewish Israelis with regard to consumer debt, the former are significantly less likely than the latter to have housing-related debts. This is most likely a reflection of the different structures of the housing markets in the two segments of the population, as described earlier. One intriguing finding is the higher likelihood of financial debt among Jews from North Africa compared to other Jewish population groups. This is the lowest paid group among veteran immigrants in Israel. According to the consumer society thesis, this group is drawn into high consumption levels characteristic of the Jewish population in general. Given their lower income levels, this can only be achieved by means of credit and increasing their debt. The risk of such participation is clearly evident in the high proportion in this group that report great difficulty in making ends meet.

Differential needs clearly play a role in falling into debt across all income groups. Household size and health status are both related to the likelihood and size of financial debt. While we do not have direct measures of the mechanisms involved, the consistency of the results suggest a pattern whereby within a given level of economic assets, larger households and households with members suffering from poor health are more likely to report financial debts, and these debts are larger on average. The significant coefficients estimates for factors representing need indicate that families throughout the stratification system use credit to bridge the gap between their resources and what they view as their household necessities.

In our analysis we distinguished between having any debt and the size of outstanding debts. This analytic strategy was premised on the notion that they may be affected by different household attributes. Yet we found that the pattern of coefficient estimates in models predicting the magnitude of debt largely mimics the pattern observed in the models predicting the likelihood of having any debt. This suggests that the use of credit as a behavioral pattern may be viewed as a one-step process on a continuum ranging from nil to large amounts of credit that translate in some cases into substantial household debt.

Unfortunately, we do not have more detailed information on the composition of debts, arrears, and legal actions households face, so we cannot fully appreciate the hardship associated with debt. Nonetheless, given the sparse information on household debt in Israel at the microlevel, its relationship to the aggressive marketing of credit, and the hardship experienced by households that are in debt, we hope the findings reported in this chapter will motivate additional research into

this important dimension of inequality in Israel. One starting point might be the understanding that debt in advanced capitalist society should be decomposed into two distinct segments. One segment is the phenomenon of debt that has become "normalized" as part of consumer society and which is prevalent across the entire stratification system. It is associated with a way of life that does not leave desire waiting. The other phenomenon is debt or possibly "over-indebtedness," which puts households at risk and may spiral and lead to economic devastation. Our understanding of society in late capitalism and the relationship between consumption and risk will greatly benefit from future investigation of these two components and the way in which they are related.

Notes

*We would like to thank Yasmin Alkalai and Dina Maskilevson for their assistance in data preparation and analysis. The research on which this chapter is based was funded by grant #289/13 from the Israel Science Foundation.

1. This is a slogan used when the Access credit card was launched in the UK in the early 1970s.
2. During the same period, Israel also received thousands of immigrants from Ethiopia. This population group numbering over 120,000 is slowly integrating into Israeli society. As they form only a small proportion of the Jewish population, the very few that are included in the sample being studied are part of the group we define as North-African descent.
3. Unfortunately, no breakdowns are available by age or other social and demographic characteristic.
4. Yehid, The Association for Community Empowerment.
5. See report by Lior Detel in *The Marker* July, 26, 2012.
6. Due to the small sample size we could not calculate these figures for each decile.

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2

Household Inequality and the Contribution of Spousal Correlations

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Introduction

It is well established that there exist numerous correlations between spouses with respect to economic, social, and other characteristics. Some of these correlations, in turn, may contribute to patterns of inequality across households regarding income and wealth. For example, the more closely correlated are salary levels of husbands and wives, the greater should be the "magnification effect" of this correlation in terms of inequality across households, where salary differences are amplified because of the correlation.

It has been noted in the research literature that spousal earnings may contribute to overall patterns of inequality across households.¹ But there has been fairly little work on the role of these correlations themselves in magnifying household inequality. Most analysis of economic inequality focuses on earnings by individuals. Much of the previous research on "family effects" within households has emphasized the role of correlations between parental earnings and development and achievements of offspring, such as Blau (1999), and on the role of education in inequality, such as De Gregorio and Lee (2002). Inequalities across households reflect different sets of factors than those across individuals. One important factor playing a role in household inequality is the intrahousehold interdependency in earnings of household members.

The tendency for pairs of spouses to exhibit correlations with respect to many characteristics is a topic generally addressed by researchers in sociology and demography more commonly than by economists. Sociologists refer to the phenomenon as "assortative mating" or "assortative marriage."² Spouses tend to have levels of education that are correlated (e.g., Breen and Andersen