

Group-based differences in intra-generational earnings mobility in Israel

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Abstract

High earnings inequality, by itself, is less of a problem if a society is characterized by high earnings mobility rates. Using the matched 1983–1995 census file created by the Israeli Central Bureau of Statistics, which includes data for individuals who were included in both the 1983 and 1995 demographic samples of the census, this study focuses on the differential mobility rates of the various gender–ethnic groups in the Israeli labor market, as well as on the determinants of upward earnings mobility. The findings indicate that rising inequality between the dominant and subordinate groups slows down the impact of high rates of earnings mobility in Israel. Specifically, native-born Ashkenazi men (the most advantaged group) have a firm hold on the high earnings positions. Furthermore, the data show that the earnings gap between Ashkenazi men and most other groups has increased over time. Although the other groups, particularly women, also experienced some upward mobility, this mobility took place across the lower quintiles, where earnings are low.

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1. Introduction

With the rise of earnings inequality in most countries in the developed world, and in particular in the Anglo-Saxon countries, the study of earnings mobility has become increasingly important (see Fields, 2007 for a review). High earnings inequality, by itself, is less of a problem if a society is characterized by high earnings mobility rates, especially if earnings are determined by education and other meritocracy-based attributes which are relevant to labor market success. In such a society there is much movement along the earnings hierarchy, and a high level of inequality is mitigated by the fact

that most individuals are mobile over time, and very few are “stuck” at the bottom of the income distribution for their entire lives. By contrast, the stratification system in a high inequality country with low rates of earnings mobility implies not only that gaps among individuals are relatively large, but also that these gaps are stable. In such a society the formation of income classes is more likely than in a highly mobile society, for people are situated in the same income location for most of their lives.

Rising earnings inequality affects stratification systems in several respects. Evidently, it increases the gaps between those *individuals* at the top of the earnings distribution and those at the bottom. Another effect of rising earnings inequality, not immediately obvious, is that when all else is equal, it increases differences in mean earnings between socio-demographic *groups* that

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are located in different percentiles on the earnings distribution. For example, rising earnings inequality in the US was found to slow down the process of women's catching up with the earnings of their male counterparts (Blau & Kahn, 2000). Likewise, in Israel rising inequality has been found to slow down the earnings convergence of all disadvantaged groups in the labor market with the earnings of the most advantaged group of native-born men of European and American origin (Haberfeld & Cohen, 2007). However, focusing on the differences in cross-sectional *mean* group earnings (i.e., at one point in time) might not tell the entire story because it says nothing about group differences in longitudinal rates of earnings *mobility*. For example, if mobility rates are higher among members of the disadvantaged groups (which are overrepresented at the lower end of the earnings distribution) then group differences in mean earnings at a given time understate the opportunity structure in the labor market. If, however, mobility rates of the disadvantaged groups are lower than those of the more successful groups, it indicates that the venue of economic opportunities is blocked to the less privileged groups. In addition differences in mean group earnings are sensitive to extreme earnings values associated with members of the groups located at the top and bottom of the earnings distribution. To understand the dynamics of stratification systems, including the progress of ethnic and gender groups, it is thus important to know not only the level of earnings inequality and how it affects mean earnings differences between groups, but also the rates of intra-generational earnings mobility and, in particular, the differential rates among members of advantaged and disadvantaged groups.

This study therefore focuses on earnings mobility and analyzes it in Israel, a country where earnings inequality is relatively high and the stratification system is ethnically based (Cohen & Haberfeld, 1998; Haberfeld & Cohen, 1998a, 2007; Semyonov & Lerhental, 1991; Semyonov & Tyree, 1981; Yaish, 2001). It focuses on the differential mobility rates of the various gender-ethnic groups in the Israeli labor market, as well as on the determinants of upward earnings mobility. By so doing, it contributes to our knowledge about the interplay between earnings mobility and earnings inequality in stratified labor markets.

2. Earnings inequality and earnings mobility in Israel

The level of earnings inequality in the Israeli labor market has been rising sharply since the mid-1970s (Kristal & Cohen, 2007), almost to the level in the US

and higher than the level in most European countries by the late 1990s. In the 1950s and 1960s, however, Israel was among the most egalitarian countries in the world (Dahan, 1995; Rotter & Shamai, 1971). It is not surprising, then, that in recent years many aspects of earnings inequality in Israel have been studied. The few previous mobility studies were conducted by economists who were primarily interested in topics other than the differential mobility of ethnically based demographic groups. Rather, depending upon the writer, they were interested in the effect of the labor market structure on overall mobility rates (Cardoso, Neuman, & Ziderman, 2006), on escape from poverty (Romanov & Zussman, 2003; Shayo & Vaknin, 2000), on correlates of income mobility (Beenstock, 2004; Romanov & Zussman, 2003), and in developing new measures of income mobility (Beenstock, 2004). Regardless of the data used, the mobility measures employed or the time-lag studied, the above studies reached similar conclusions on two issues. First, earnings mobility rates in Israel are relatively high. Specifically, the mobility rates found in Israel are similar to or even slightly higher than those found in the US and Germany, and somewhat lower than in some Scandinavian countries. Second, gender, ethnicity, national origin, and immigrant status are correlated with mobility rates.

This last conclusion is not surprising. In fact, it is a finding consistent with virtually all stratification studies conducted in Israel. Specifically, Israeli society is characterized by a cleavage between Jews and Arabs,¹ and within the Jewish society between Jews whose parents immigrated to Israel from Europe and America (henceforth, Ashkenazim) and those of Asian and African origin (henceforth, Mizrahim)². Over the years, a clear hierarchy in the stratification system (i.e., group-based hierarchy regarding desirable outcomes) has become

¹ The national cleavage of Israeli society is between Jews and Arabs. The Arab minority comprises approximately 20 percent of the Israeli population. The establishment of the Jewish state in 1948 and the Arab-Jewish war that followed left the Arab minority subordinate to the victorious Jewish majority and in an inferior position within the Israeli economy and labor market. Not only were Arabs part of a traditional society, living in small communities, but also they have been discriminated against ever since in almost all aspects of life (Haberfeld & Cohen, 2007; Lewin-Epstein & Semyonov, 1993; Lustic, 1980; Wolkinson, 1991, 1994).

² The cleavage within the Jewish population was created by immigration. Between 1948 and 1980, nearly two million Jewish immigrants, both Ashkenazim and Mizrahim, arrived in Israel. The social, economic, and cultural assimilation of most Ashkenazi immigrants and their Israeli-born children in Israeli society was fast and complete. By contrast, Mizrahi immigrants and their Israeli-born children failed to achieve parity with the other Jewish groups (Cohen & Haberfeld, 1998; Cohen, Haberfeld, & Kristal, 2007).

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