Causes and Consequences of Inequality
Herbert M. Singer Conference Series
Trends of Labor Income Inequality in Israel

Ayal Kimhi and Kyrill Shraberman
Income Inequality in Israel and 28 OECD Countries

Gini index of disposable income per standardized person, 2005

Source: Taub Center for Social Policy Studies in Israel
data from National Insurance Institute and OECD
Labor Share of National Income

Source: Taub Center for Social Policy Studies in Israel
data from Israel's Central Bureau of Statistics and OECD
90-10 Wage Ratios in Israel and 23 OECD Countries

ratios of monthly wages in the 90th percentile to wages in the 10th percentile for full-time salaried employees, 2008

Source: Taub Center for Social Policy Studies in Israel
data from Israel's Central Bureau of Statistics (income surveys) and OECD
90-10 Gross Monthly Wage Ratios
all salaried employees, Israel and selected countries

Source: Taub Center for Social Policy Studies in Israel
data from Israel's Central Bureau of Statistics (income surveys) and OECD
90-50 Gross Monthly Wage Ratios
all salaried employees, Israel and selected countries

Source: Taub Center for Social Policy Studies in Israel
data from Israel's Central Bureau of Statistics (income surveys) and OECD
50-10 Gross Monthly Wage Ratios
all salaried employees, Israel and selected countries

Source: Taub Center for Social Policy Studies in Israel
data from Israel's Central Bureau of Statistics (income surveys) and OECD
CHAPTER 12

“Skills, Tasks and Technologies: Implications for Employment and Earnings”

by

Daron Acemoglu and David Autor
Relative Changes in Real Hourly Wage by Percentile
all salaried employees, Israel (1997-2011) and US (1997-2008)

data from Israel's Central Bureau of Statistics (income surveys)
Average Annual Change in Real Hourly Wage
relative to the median, all salaried employees, by percentile of the wage distribution

data from Israel's Central Bureau of Statistics (income surveys)
Composition-Adjusted* Schooling Wage Premium
Israel (hourly wage) vs. the US (weekly wage)

* Adjusted to the changes in the composition of the employee population by potential experience and gender

data from Israel's Central Bureau of Statistics (income surveys)
Composition-Adjusted* Relative Female Labor Supply

16+ years of schooling vs. 0-12 Years of Schooling, by Work Experience

* Adjusted to the changes in the composition of the employee population by education

What did we learn so far?

- Wage gaps in Israel are among the highest in the developed world, especially within the upper half of the distribution.
- Since 1997 low-wage workers gained compared to middle- and high-wage workers.
- The wage distribution became more polarized, with deciles 6 to 9 losing ground compared to the median worker.
- The schooling wage premium has risen, but remained roughly stable since 2006.
- The relative supply of educated labor increased since 1997, especially among the young, and stabilized since 2005.
- Wage polarization cannot be explained by the change in the schooling wage premium alone.
Male Wage Variability Explanation

partial R^2, controlling for experience

Source: Taub Center for Social Policy Studies in Israel
data from Israel's Central Bureau of Statistics (income surveys)
Educational Distribution by Occupation, Females

- Managers & Academic Professionals
  - 1997: 70%
  - 2011: 73%
  - 0-12 y. of schooling: 24%
  - 13-15 y. of schooling: 46%
  - 16+ y. of schooling: 6%

- Associate Professionals & Technicians
  - 1997: 13%
  - 2011: 12%
  - 0-12 y. of schooling: 13%
  - 13-15 y. of schooling: 35%
  - 16+ y. of schooling: 7%

- Agents, Sales & Service workers
  - 1997: 65%
  - 2011: 61%
  - 0-12 y. of schooling: 24%
  - 13-15 y. of schooling: 27%
  - 16+ y. of schooling: 11%

- Clerical workers
  - 1997: 62%
  - 2011: 46%
  - 0-12 y. of schooling: 62%
  - 13-15 y. of schooling: 35%
  - 16+ y. of schooling: 9%

- Skilled & Unskilled workers
  - 1997: 9%
  - 2011: 10%
  - 0-12 y. of schooling: 67%
  - 13-15 y. of schooling: 24%
  - 16+ y. of schooling: 9%

Source: Taub Center for Social Policy Studies in Israel data from Israel's Central Bureau of Statistics (labor force surveys)
Shares of Occupations in Employment, 1997 & 2011

Manager & Academic Professionals
- 1997: 21%
- 2011: 25%

Associate Professionals & Technicians
- 1997: 12%
- 2011: 15%

Agents, Sales & Service workers
- 1997: 16%
- 2011: 19%

Clerical workers
- 1997: 16%
- 2011: 15%

Skilled & Unskilled workers
- 1997: 35%
- 2011: 26%

Source: Taub Center for Social Policy Studies in Israel
data from Israel's Central Bureau of Statistics (labor force surveys)
Changes in Employment Shares (%), 1997-2011
smoothed curve, by occupational wage percentile

Source: Taub Center for Social Policy Studies in Israel
data from Israel's Central Bureau of Statistics (labor force surveys)
Schooling Wage Premium by Occupation
Full-Time Full-Year Salaried Employees, 1997-2011

Source: Taub Center for Social Policy Studies in Israel
data from Israel's Central Bureau of Statistics (income surveys)

* Adjusted to the changes in the composition of the employee population by education, potential experience and gender
Summary

• Wage gaps in Israel are among the highest in the developed world, especially within the upper half of the distribution.
• Since 1997 low-wage workers gained compared to middle- and high-wage workers.
• The wage distribution became more polarized, with deciles 6 to 9 losing compared to the median worker, especially between 1997 and 2001.
• The schooling wage premium has risen, but remained roughly stable since 2006.
• The relative supply of educated labor increased from 1997 to 2005 and stabilized since then.
• Wage polarization cannot be explained by the change in the schooling wage premium alone.
• Occupation seems to explain wages better than schooling
• Between 1997 and 2011 polarization of occupations has increased, with labor shifting from middle-wage occupations towards low-wage and high-wage occupations
• This is similar to findings from the US, that are explained by changes in labor demand stemming from technological changes and/or globalization
• The schooling premium increased in low-wage occupations, implying that educated workers in these occupations gained
• This is consistent with the observed trend towards higher relative wages of low-wage workers
Conclusion and Policy Implications

• Schooling is beneficial for workers even in low-wage occupations, and policy should promote schooling among traditionally lower-paid populations

• Recent changes in the wage distribution are consistent with the disappearance of the middle class

• Adding the increase in the income share of capital, that is mostly enjoyed by high-income people, the gap between the top of the income distribution and all others is widening

• While wage inequality seems to be driven by outside forces and seems to decline in recent years, policy needs to address the issues of workers who earn over and above their productivity and those who do not enjoy adequate working conditions
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