

# Causes and Consequences of Inequality

Herbert M. Singer Conference Series



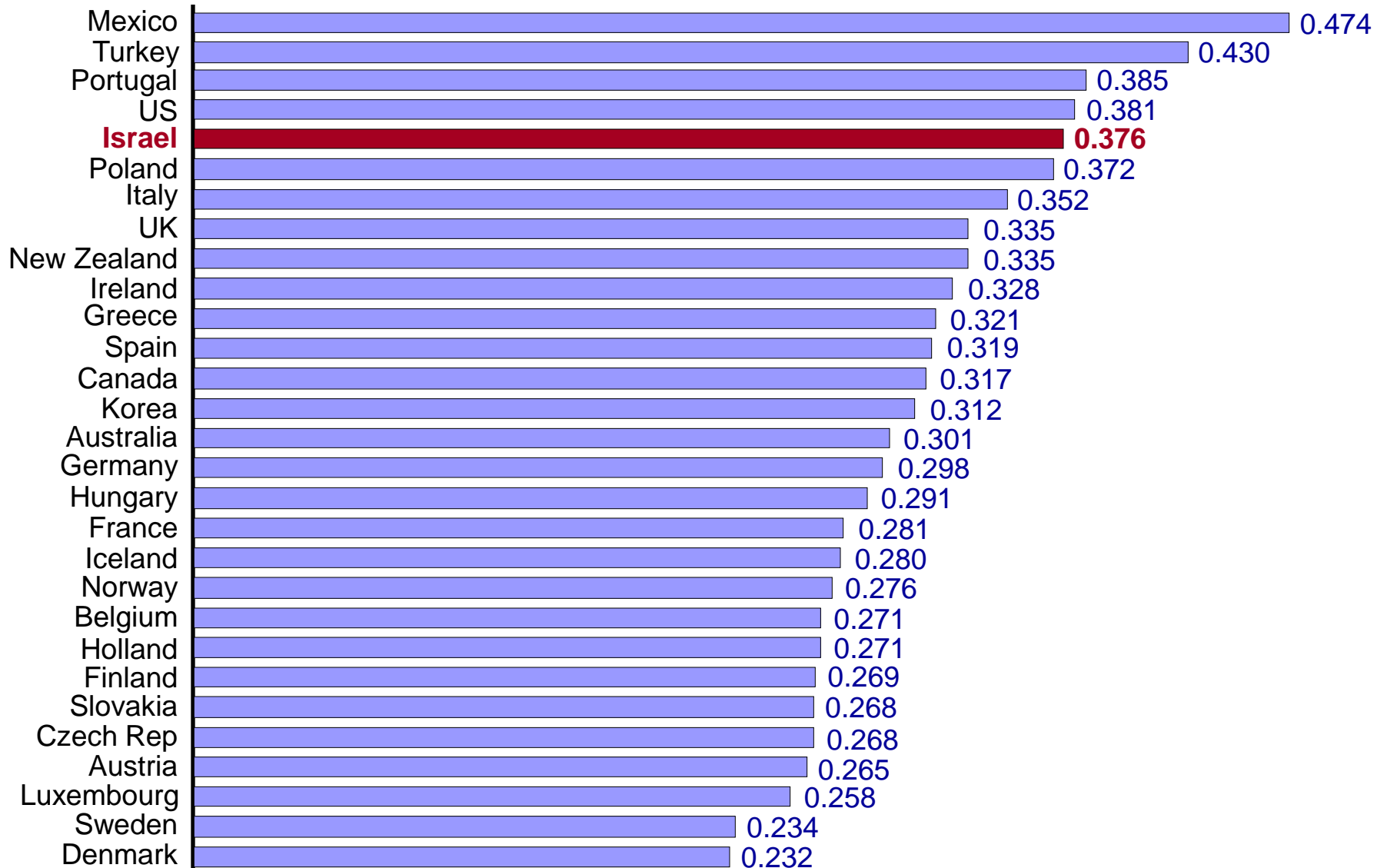
[taubcenter.org.il](http://taubcenter.org.il)

# **Trends of Labor Income Inequality in Israel**

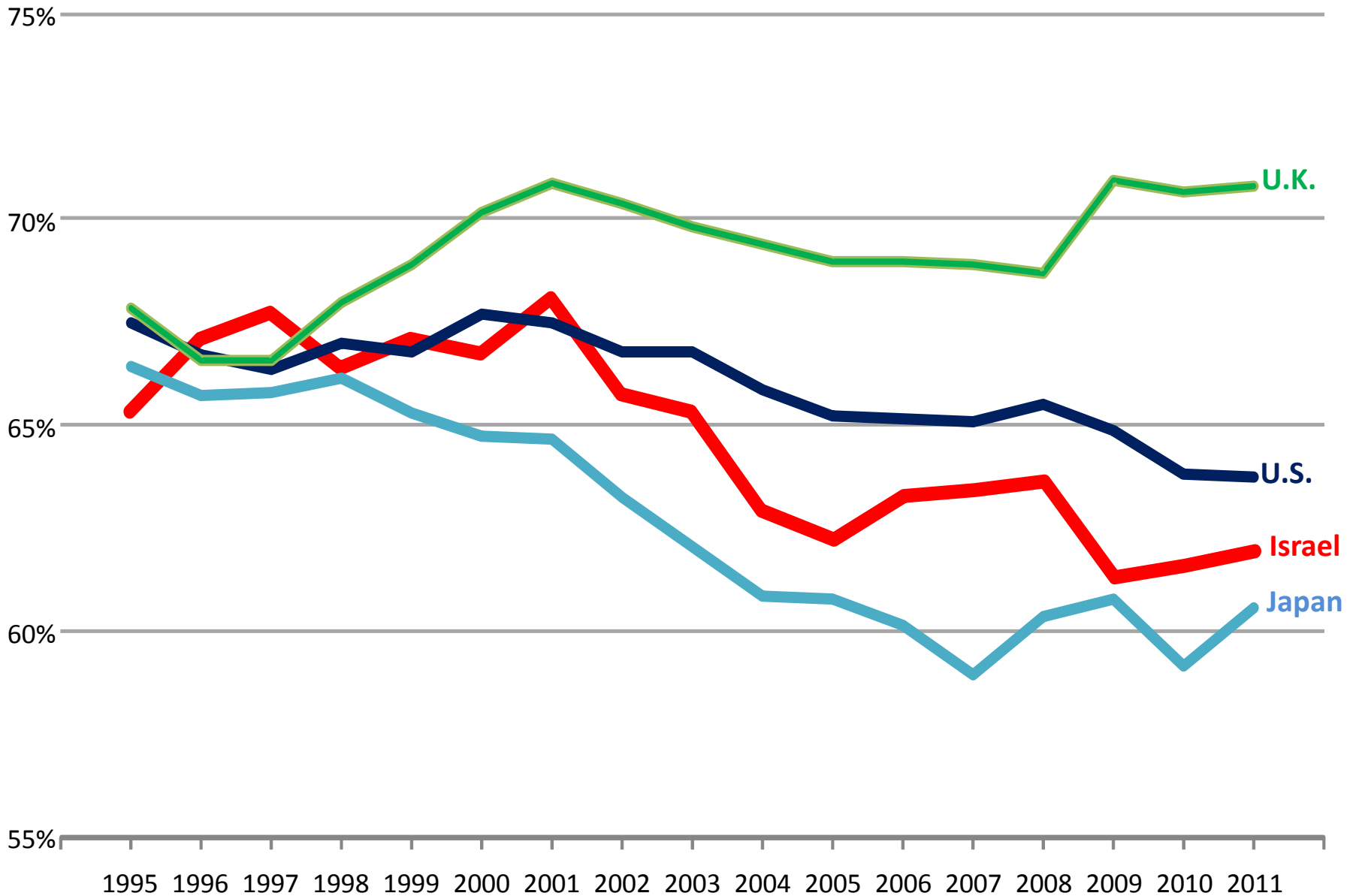
Ayal Kimhi and Kyrill Shraberman

# Income Inequality in Israel and 28 OECD Countries

Gini index of disposable income per standardized person, 2005



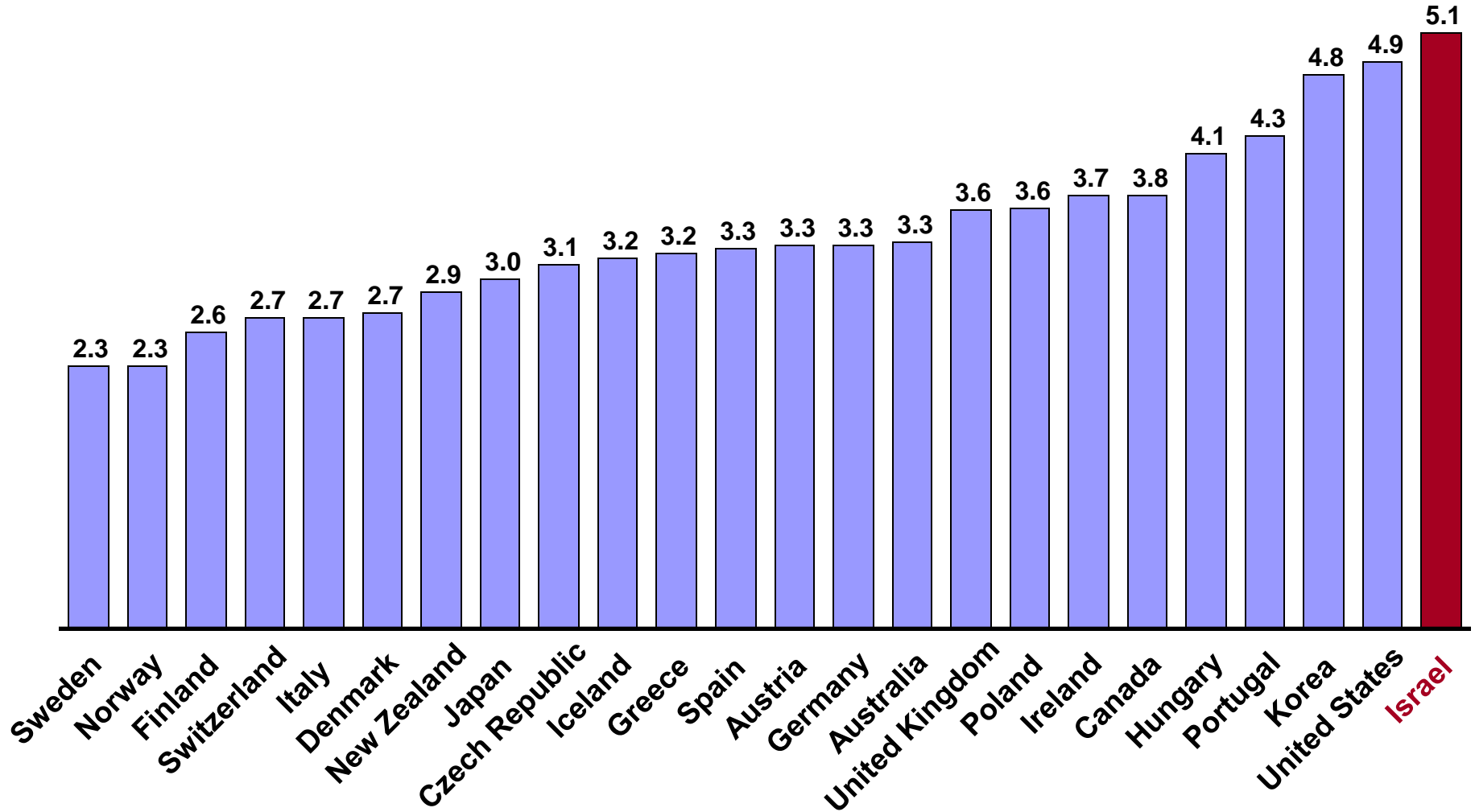
# Labor Share of National Income



Source: Taub Center for Social Policy Studies in Israel  
data from Israel's Central Bureau of Statistics and OECD

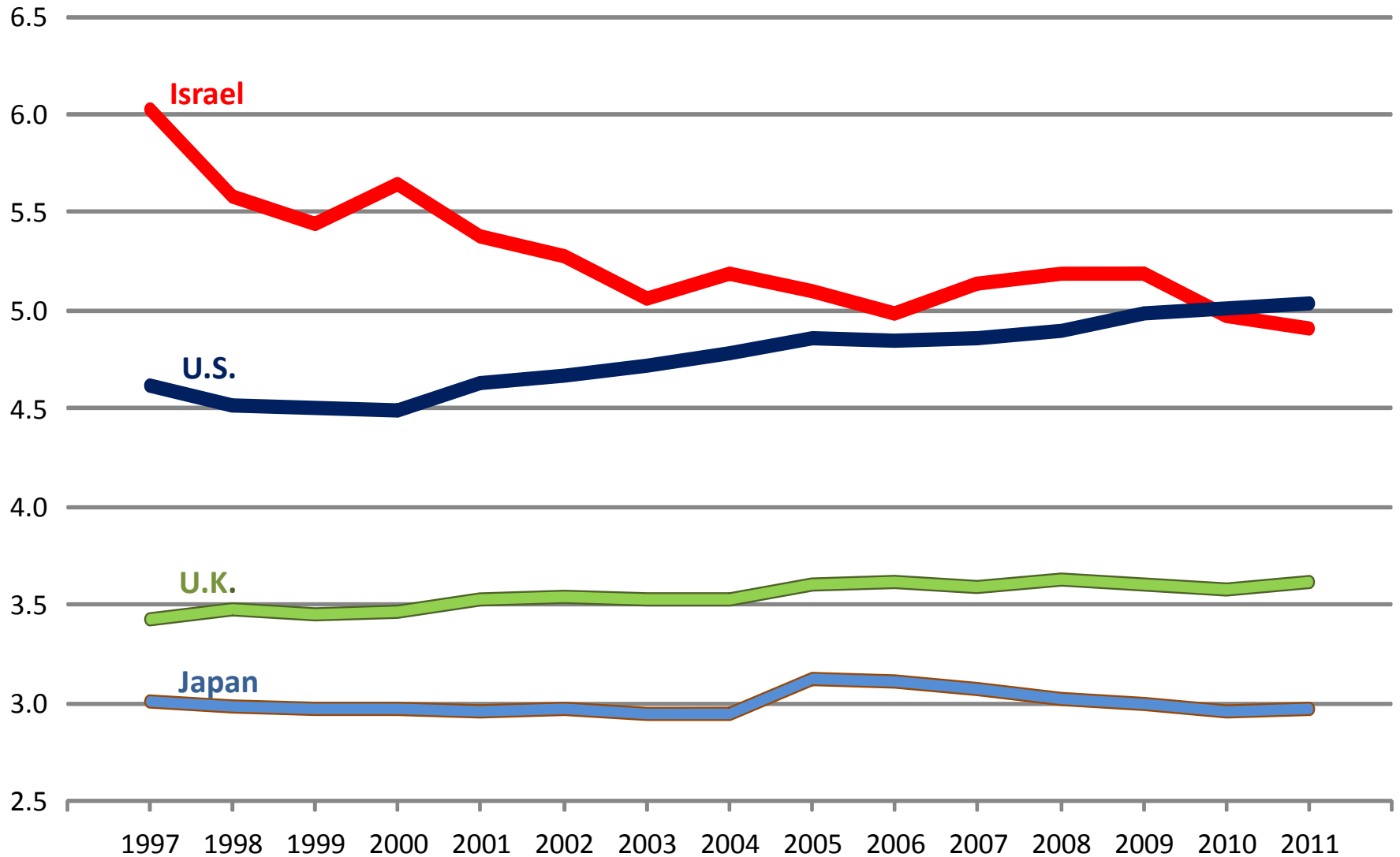
# 90-10 Wage Ratios in Israel and 23 OECD Countries

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



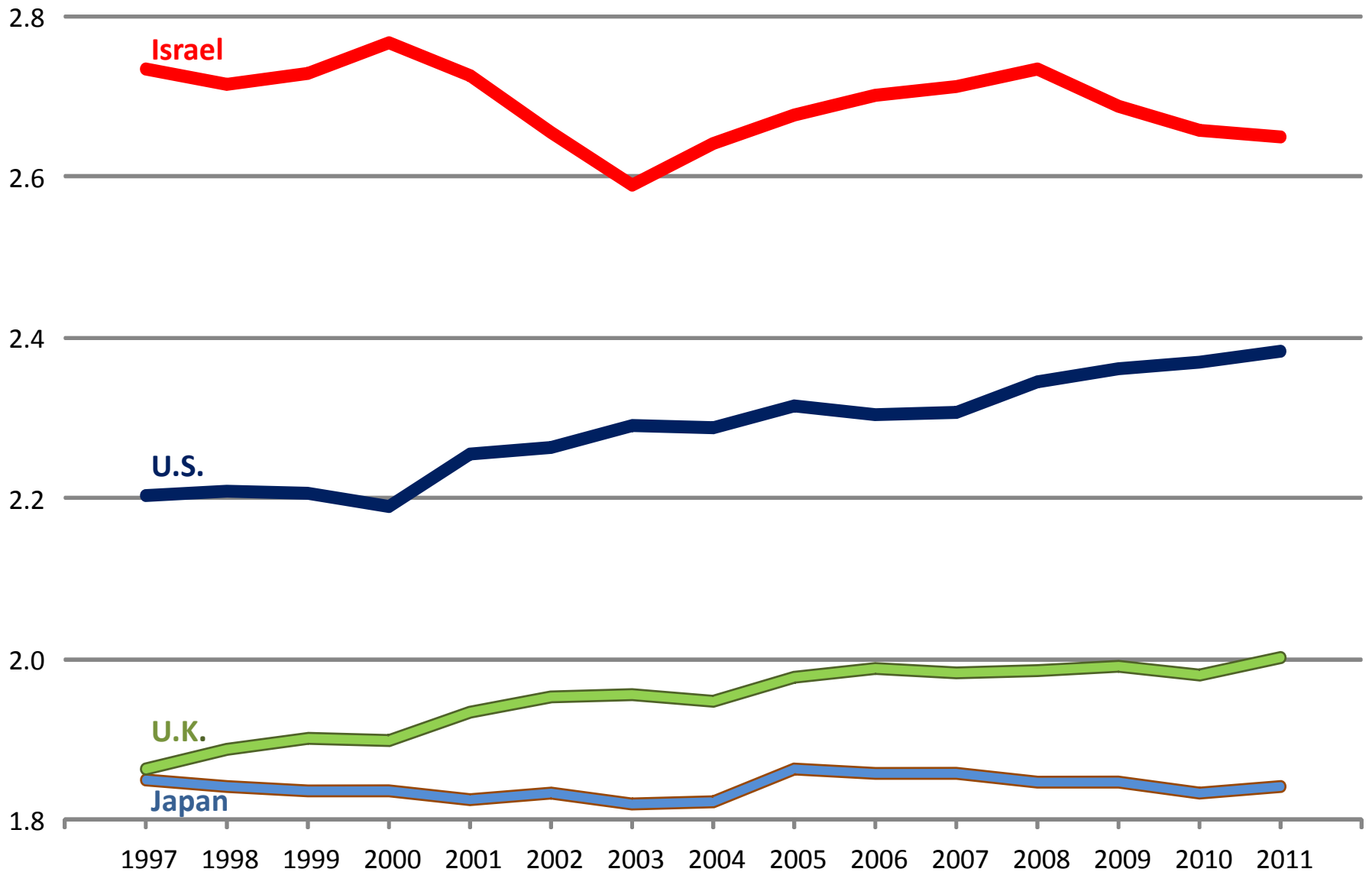
# 90-10 Gross Monthly Wage Ratios

all salaried employees, Israel and selected countries



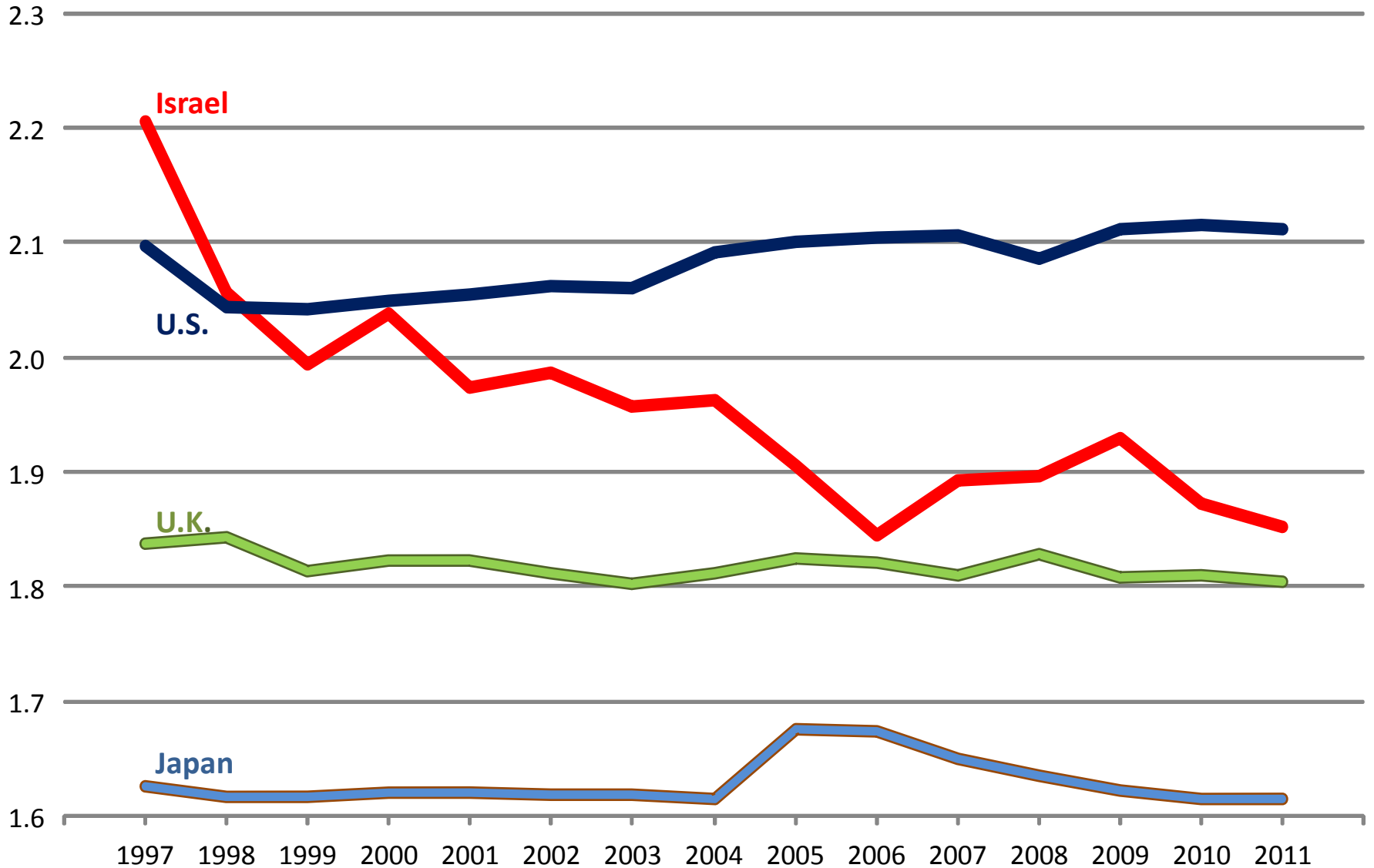
# 90-50 Gross Monthly Wage Ratios

all salaried employees, Israel and selected countries



# 50-10 Gross Monthly Wage Ratios

all salaried employees, Israel and selected countries





***Handbook of Labor Economics, Volume 4b (2011)***

**CHAPTER 12**

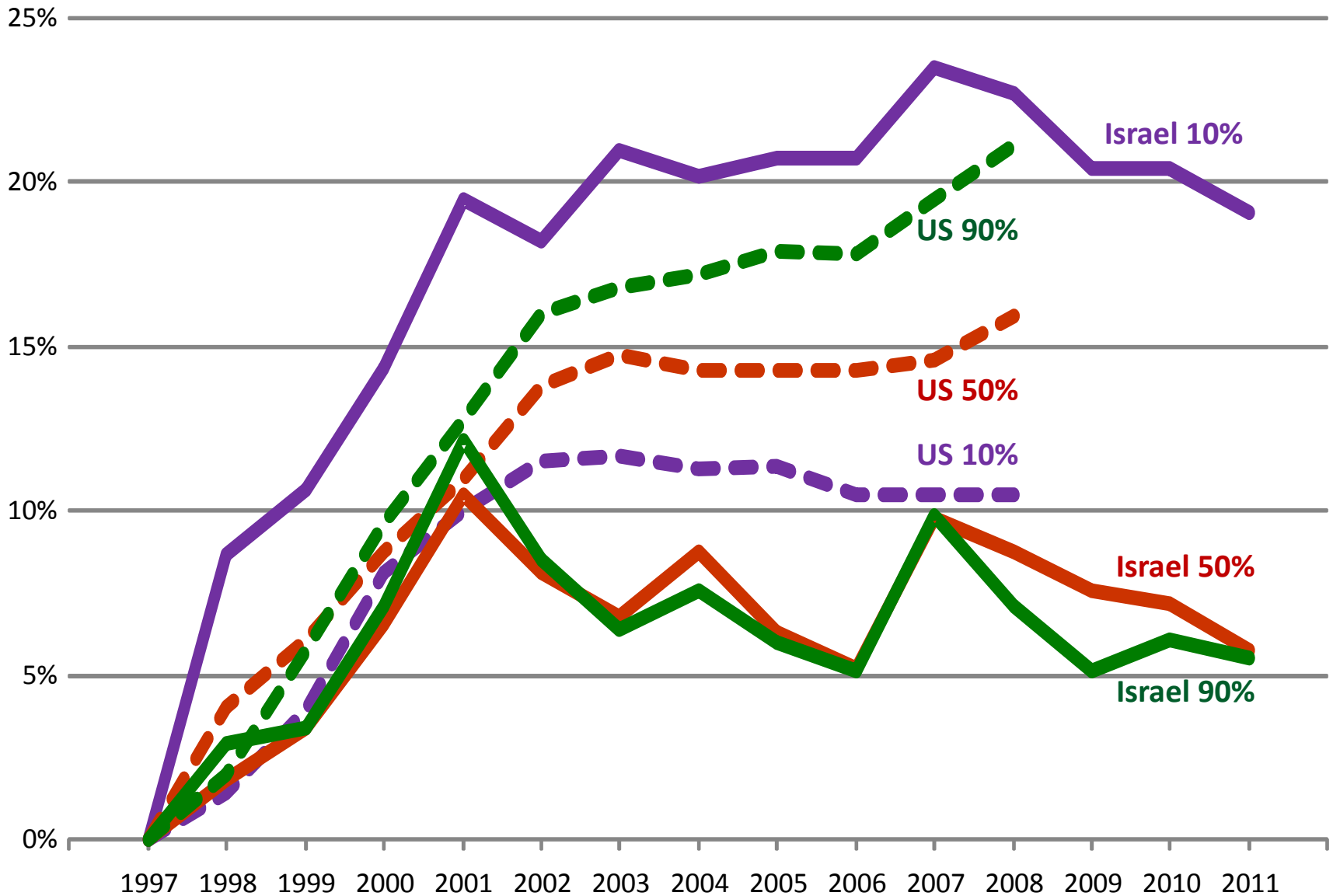
**“Skills, Tasks and Technologies: Implications  
for Employment and Earnings”**

**by**

**Daron Acemoglu and David Autor**

# Relative Changes in Real Hourly Wage by Percentile

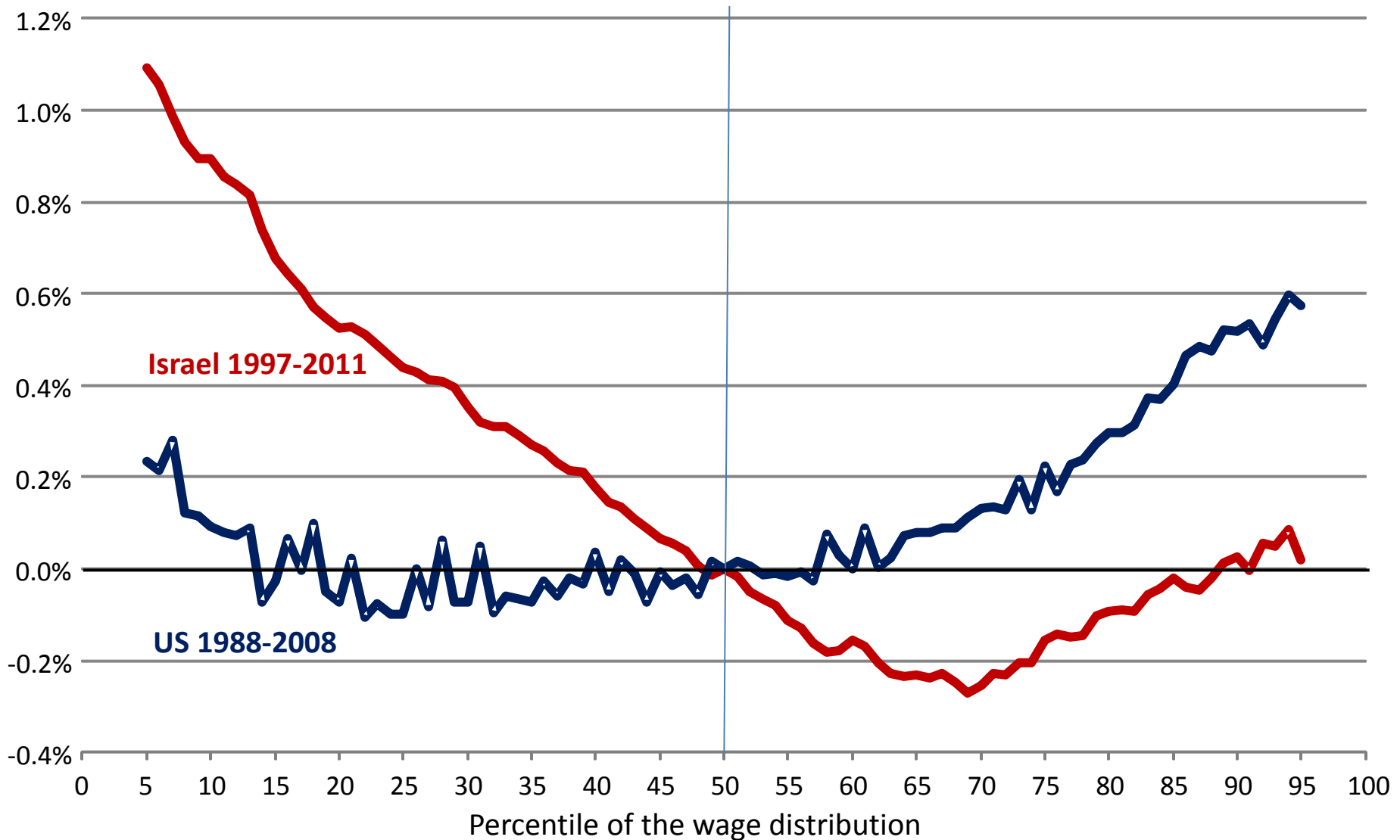
all salaried employees, Israel (1997-2011) and US (1997-2008)



Source: Israel: Taub Center for Social Policy Studies in Israel; U.S.: Acemoglu and Autor (2011)  
data from Israel's Central Bureau of Statistics (income surveys)

# Average Annual Change in Real Hourly Wage

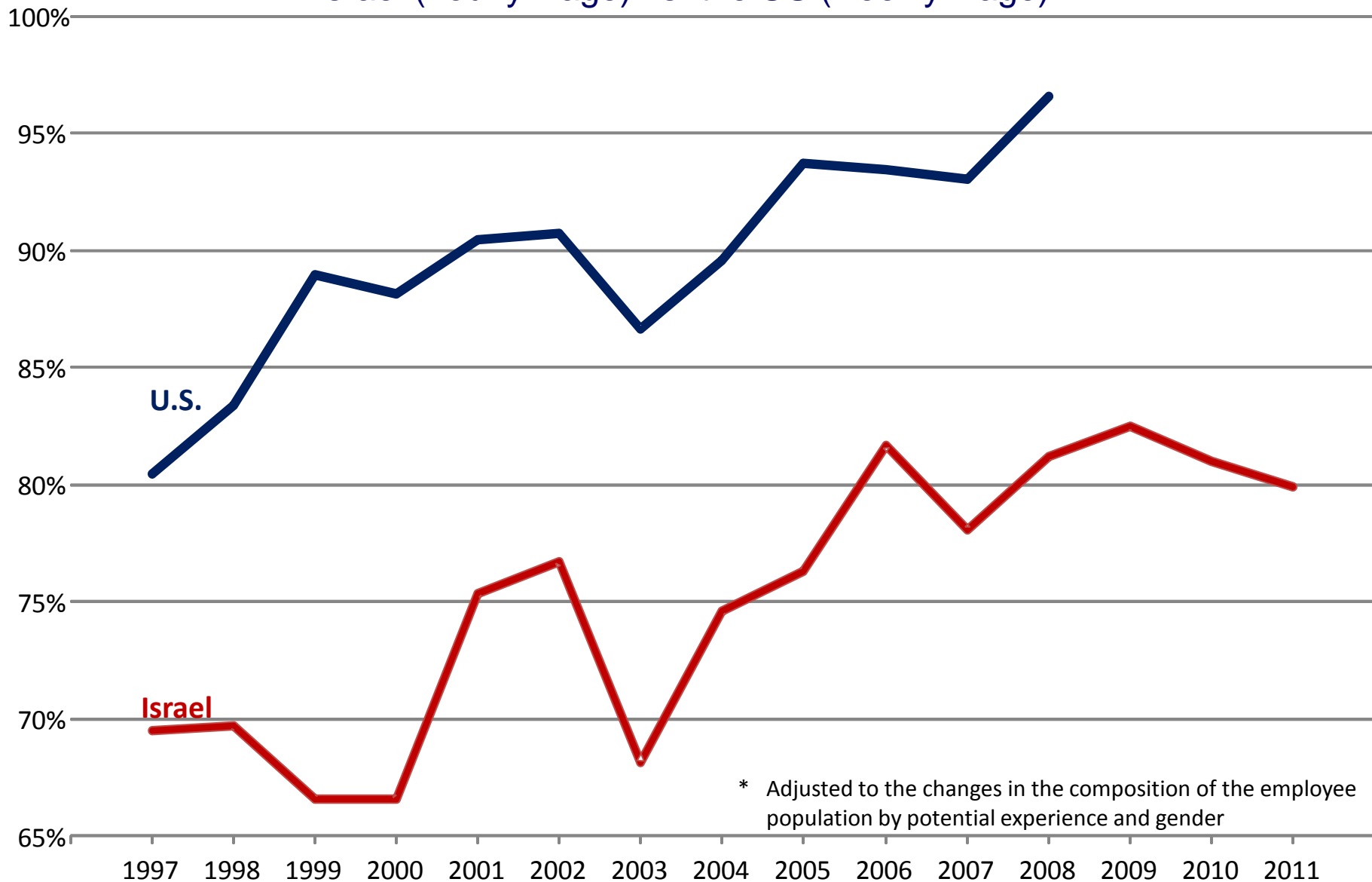
relative to the median, all salaried employees, by percentile of the wage distribution



Source: Israel: Taub Center for Social Policy Studies in Israel; U.S.: Acemoglu and Autor (2011)  
data from Israel's Central Bureau of Statistics (income surveys)

# Composition-Adjusted\* Schooling Wage Premium

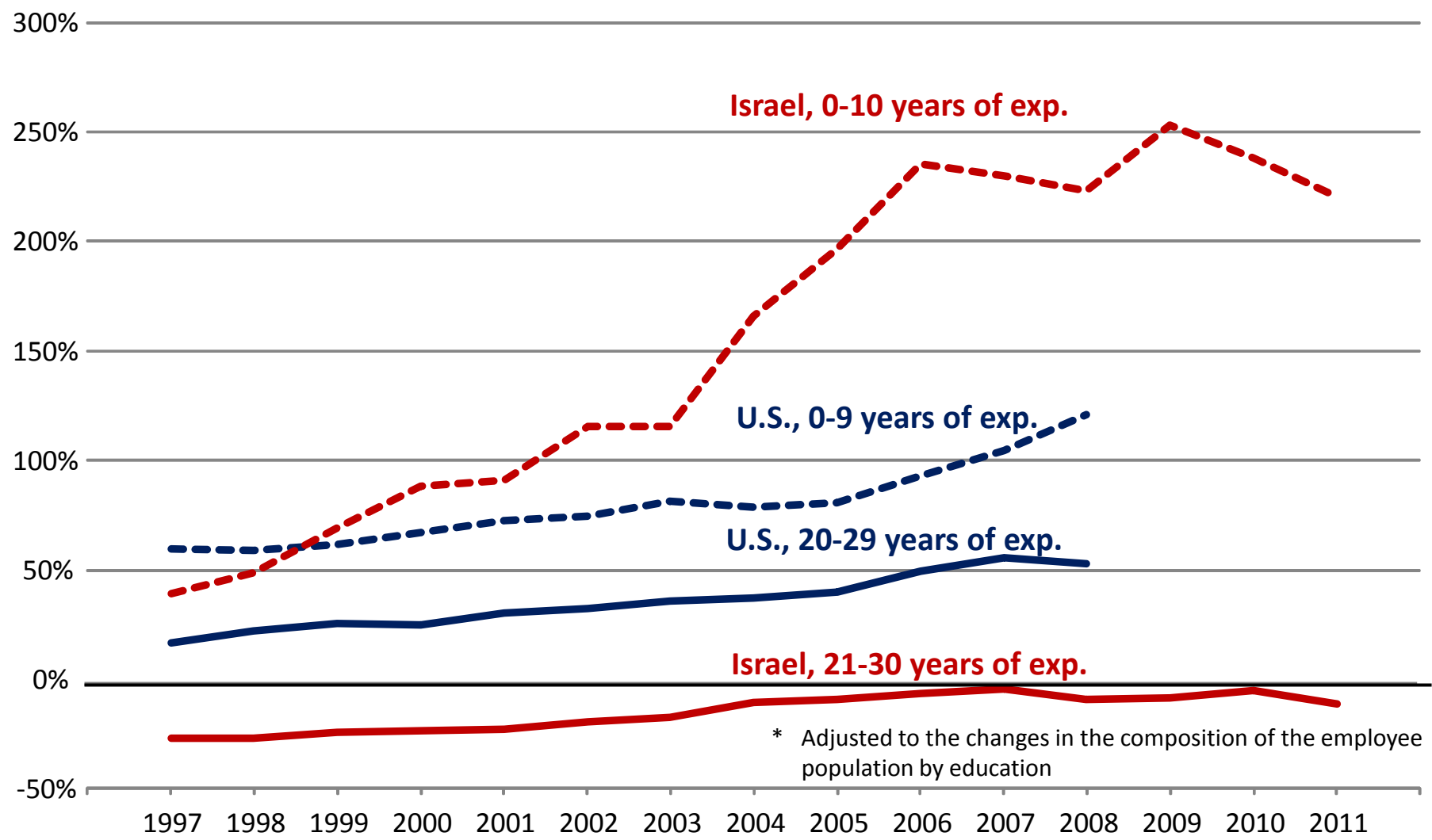
Israel (hourly wage) vs. the US (weekly wage)



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

# 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

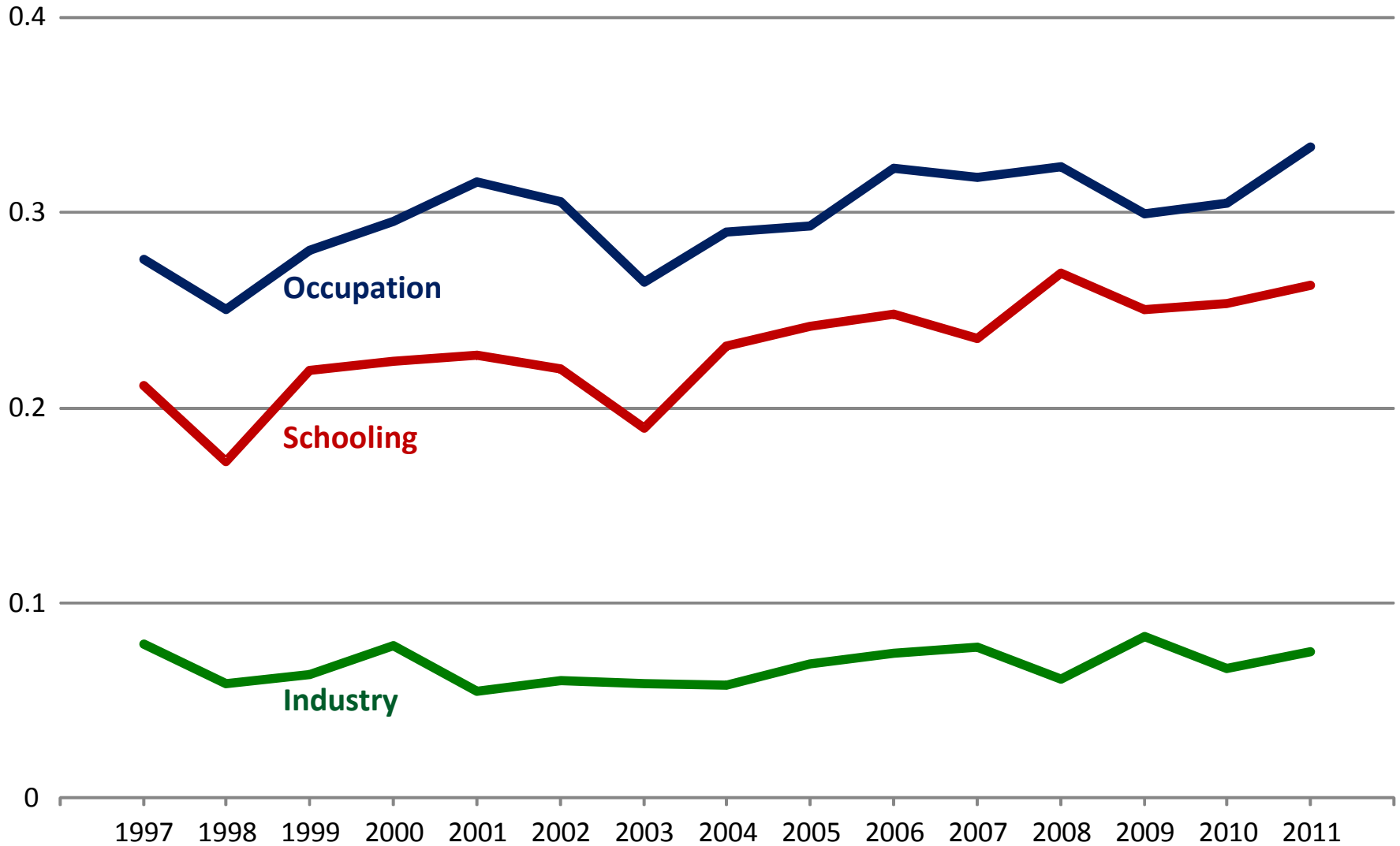
Source: Israel: Taub Center for Social Policy Studies in Israel; U.S.: Acemoglu and Autor (2011) data from Israel's Central Bureau of Statistics (labor force surveys)

# What did we learn so far?

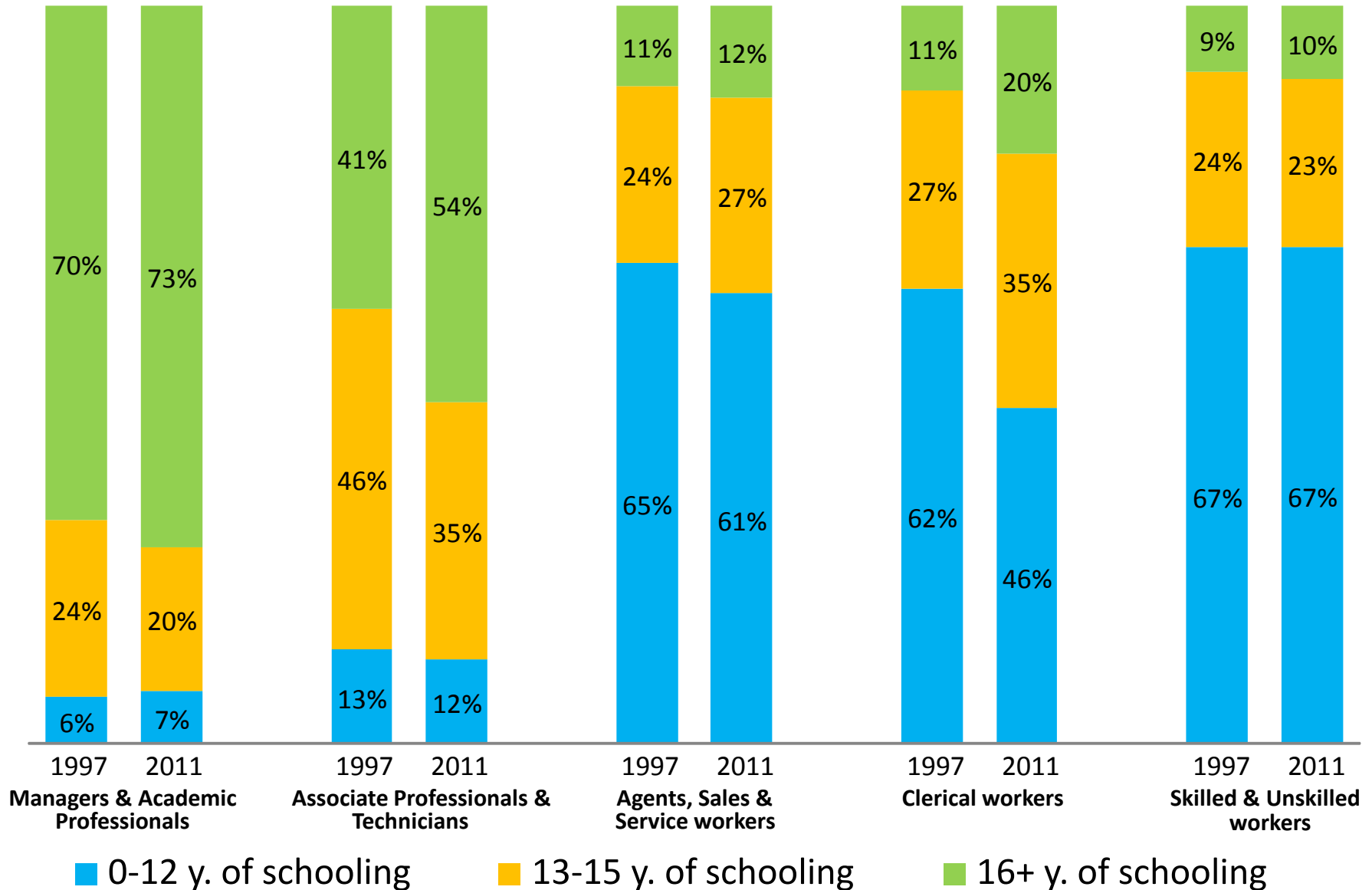
- Wage gaps in Israel are among the highest in the developed world, especially within the upper half of the distribution
- Since 1997 low-wage workers gained compared to middle- and high-wage workers
- The wage distribution became more polarized, with deciles 6 to 9 losing ground compared to the median 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<sup>2</sup>, controlling for experience



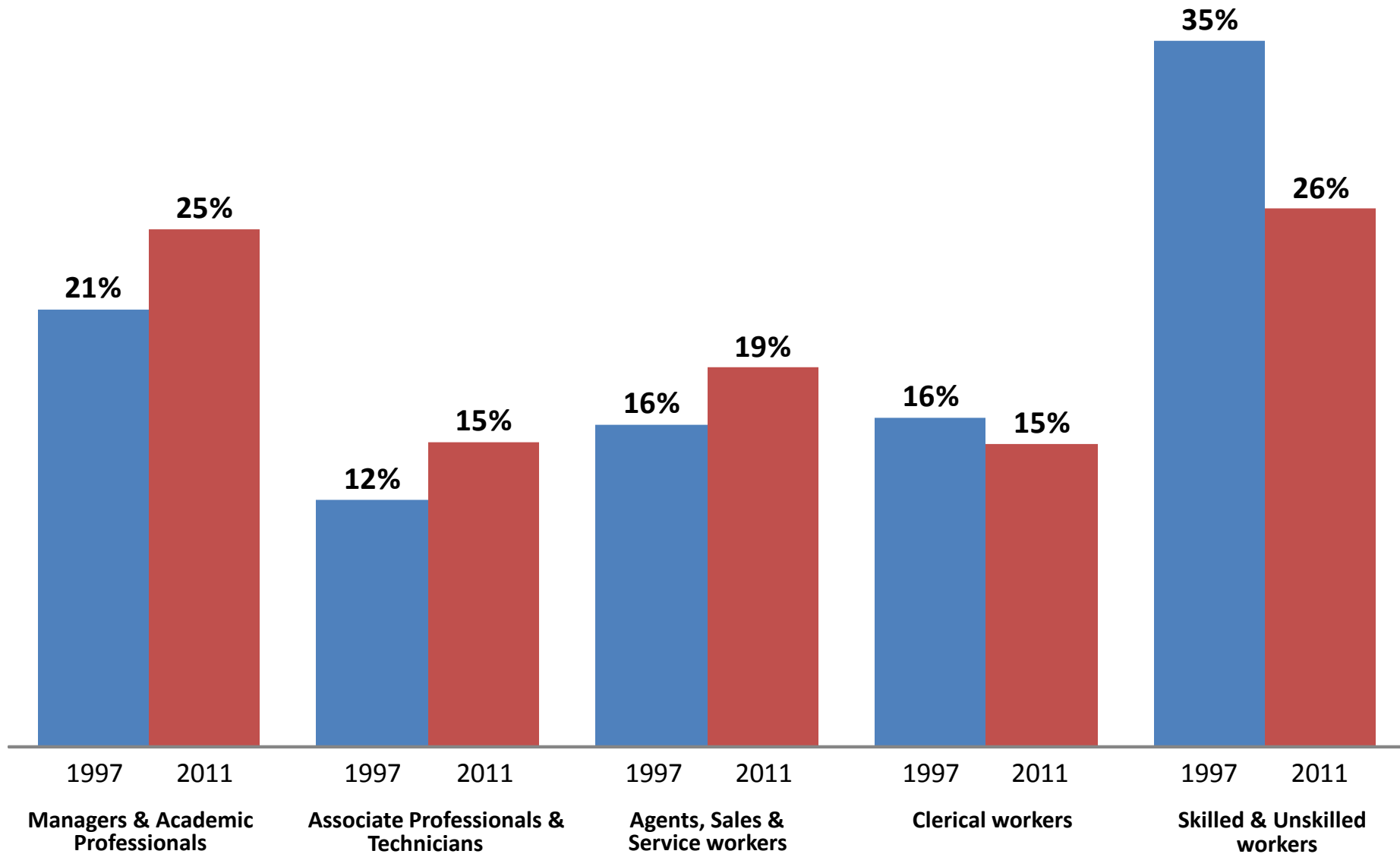
# Educational Distribution by Occupation, Females



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



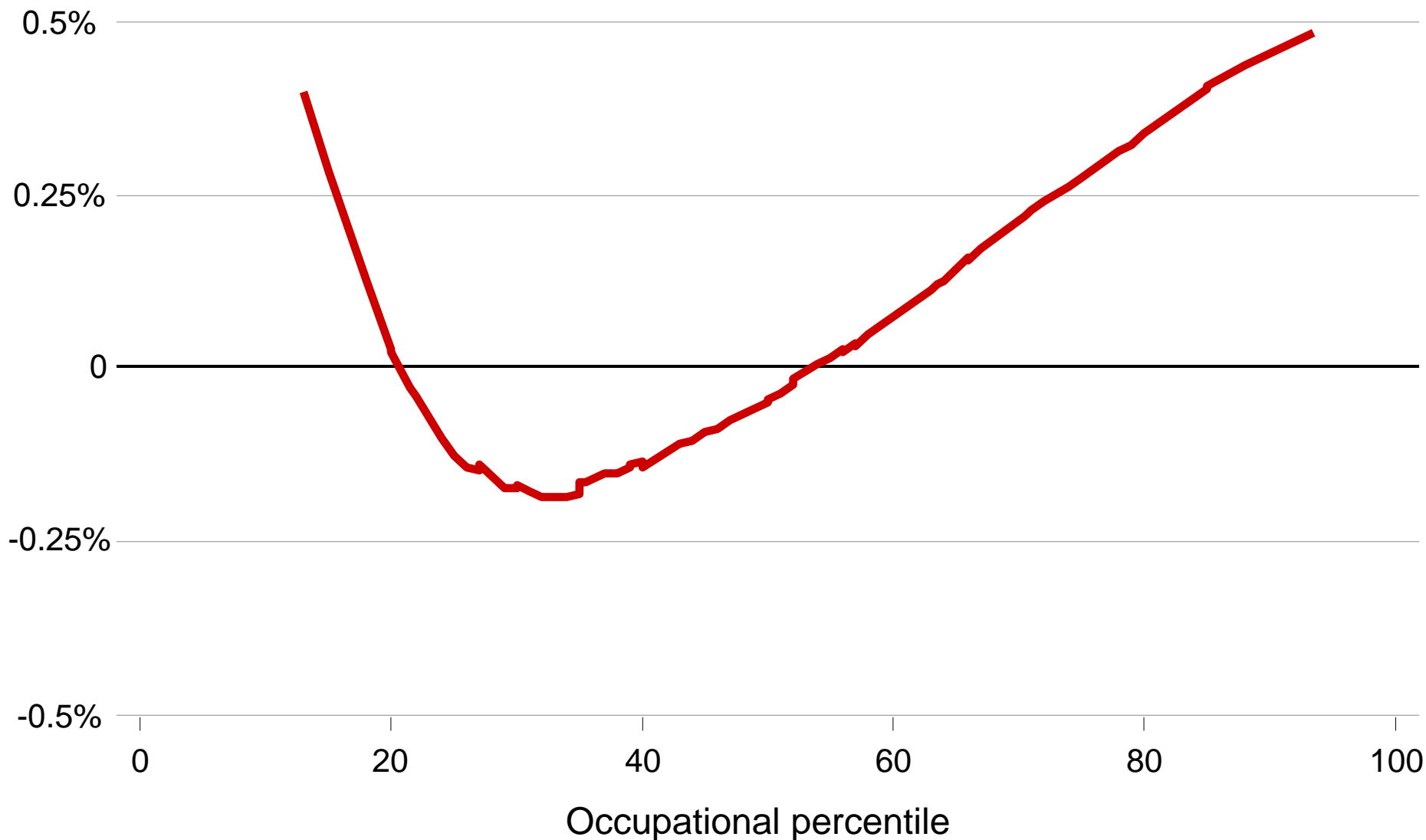
# Shares of Occupations in Employment, 1997 & 2011



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

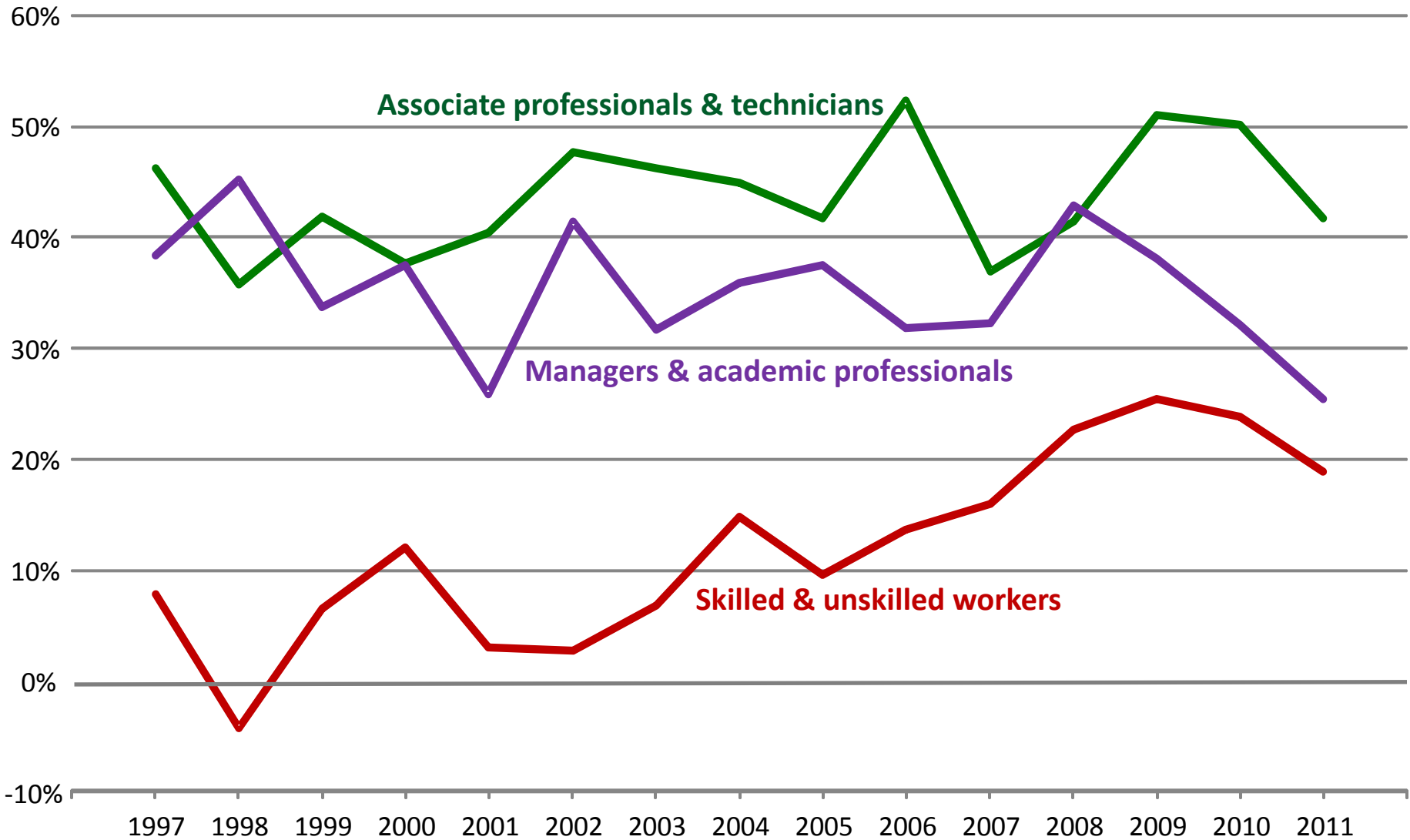
# Changes in Employment Shares (%), 1997-2011

smoothed curve, by occupational wage percentile



# 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

# Summary (continued)

- 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

# **Trends of Labor Income Inequality in Israel**

Ayal Kimhi and Kyrill Shraberman