The Effect of Vocational Education on Short- and Long-Term Outcomes of Students: Evidence from the Arab Education System in Israel

Elad Demalach and Noam Zussman

This study examines the effect of vocational education on short- and long-term outcomes of students who were in the Arab education system in Israel in the 1990s. In order to overcome possible bias arising from the selection of students into vocational education, the study exploits a reform implemented in the Arab education system that led to the opening of new vocational tracks in localities that had no vocational studies beforehand (treatment localities). These localities are compared to similar localities in which no new tracks were opened (comparison localities). Difference-in-differences estimates show a 4–5 percentage point decrease in the probability of dropping out of high-school following the opening of the new tracks, which is about 35 (15) percent of the girls' (boys') mean dropout rate. There is also an increase in the share of students taking matriculation exams, but no effect on matriculation eligibility rate. Most of those responses occurred two years and more following the opening of new vocational tracks. The opening of the vocational tracks had no significant long-term effect on the likelihood of the students acquiring a tertiary academic education, on being employed, or on their earnings in their adulthood. There was a significant increase in the number of women entering clerical professions, which is consistent with the popularity of the new clerical tracks. There was also a significant decrease in the share of girls marrying at a young age, probably due to the increase in the probability of their completing high school.

The Israeli Tax Reform

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This study examines the effect of an income tax reform on wages. An Israeli reform implemented in 2003–2009 reduced individuals' marginal income tax by 7–17 percentage points. We utilized the differential and non-monotonic marginal tax rate reduction, and used Tax Authority panel data of wage earners, merged with Labor Force Surveys. We found that in the business sector, the elasticity of the reported gross wages relative to the net-of-tax rate is about 0.1. Between 2002 and 2009, the net-of-tax rate increased by about 18 percent; Therefore, given the estimated elasticity, the total reported gross wage in the business sector increased by approximately 2 percent. The wage earners in the lowest wage quintile were not affected by the tax reform, those in the second and third quintiles did not respond to the tax cut, but elasticity increased with wage, reaching about 0.4 in the upper quintile. We did not find statistically significant differences in elasticity by gender, ethnicity, and education. Public sector workers did not react to the reform.

Competition in Public Bus Services in Israel

Yoram Ida

After many years in which most transportation budgets in Israel were invested in the development of road infrastructure, mainly for the purpose of improving private car travel, Israeli policymakers decided to implement a comprehensive reform that would improve the public bus transportation system. This article focuses on the reform of bus services between 2000–2015, during which half of the bus services on fixed routes were transferred from two monopolies to private operators through competitive tenders. The article reviews the achievements of the reforms in terms of costs, level of service, travel rates and number of passengers, identifies the shortcomings and weaknesses in the process, and suggests directions for the future.

ABSTRACTS

Wealth Inequality in Israel

Maor Milgrom and Gilad Bar Levav

This is the first study to estimate the wealth distribution in Israel. We are basing our estimation on data from the Israeli Central Bureau of Statistics (CBS) survey of assets for the year 2013. Wealth is defined as the market value of all assets owned by households, net of their debts. Due to low coverage of financial assets in the survey, we impute the missing values of pension funds based on age, life expectancy and income levels. We use methods developed by Davies and Shorrocks (2009) to fix the under-representation of rich households. These include adding data from "rich lists" provided by business magazines, and adjusting the tail of the distribution to fit the Pareto distribution, a common attribute of wealth distributions. The adjustment was made by running a Monte Carlo simulation. The results show that wealth inequality in Israel is significantly higher than the income inequality (Gini coefficients of 0.66 and 0.38, respectively), reaffirming findings in comparable studies. A significant portion of the wealth is concentrated in the top percentile. The richest 1% of the households own 22.5% of national wealth, equal to the share of the seven lowest deciles combined. In terms of wealth held by the top percentile, Israel ranks 6th out of 19 developed countries. When measuring wealth inequality according to the Gini index, Israel ranks 9th out of the 19 developed countries. We find that 17% of the population (approximately 425,000 households) are living in asset poverty, defined as a household whose net wealth does not cover the cost of the household's basic needs for a period of three months. Finally, the results reveal a large gap in wealth between Jews and Arabs in Israel. Social and economic inequality in Israel has been the focus of public debate for several years. Due to the lack of comprehensive data on wealth and asset holdings in Israel, thus far the discussion has focused on the distribution of income. By providing a first estimation of the distribution of wealth, we hope to contribute to both the public and academic discourses on socioeconomic gaps in Israel.