

Review of Immigration and Labor Market Mobility in Israel, 1990 to 2009 by
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The fall of the Soviet Union was a momentous historical event with particularly dramatic implications for the State of Israel. The Jews of the Soviet Union were suddenly confronted with an unexpected political instability that could lead to a resurgent anti-Semitism. The economic upheaval that ensued also shattered their once firmly held job security. As soon as Mikhail Gorbachev lifted restrictions on emigration in late 1989, hundreds of thousands of Jews began to flee the Soviet Union for the hope of a brighter future in Israel.

Within the space of only two years, 333,000 Soviet immigrants became new citizens of Israel, catapulting the pre-existing Israeli population of 4.56 million by more than 7%. The mass arrival of these new immigrants presented enormous challenges. The immigrants had little knowledge of Hebrew and local customs. Israeli employers would also need time to evaluate their foreign education and skills. Complicating matters further, Israel was not a highly flexible market economy that might be able to adjust quickly to an exogenous labor supply shock of such a large magnitude. Unfortunately, successful absorption of these immigrants into Israeli society was far from being assured.

The main focus of this impressive book by Cohen Goldner, Eckstein and Weiss is on the successes and failures that characterize the labor market integration of Soviet immigrants in Israel. Several published and unpublished articles are deftly compiled into a flowing narrative that touches upon nearly all of the important issues in the vast literature on immigration economics. Eckstein and Weiss took the lead in the empirical project and their talent and experience shine through. The book contains a range of economic models, each providing an elegant theoretical framework for insightfully interpreting the data on immigrant employment outcomes.

An especially nice feature of the book is how the narrative develops. It begins with a mostly descriptive macro analysis using time series data. It then moves on to a sophisticated structural analysis of micro panel data that sheds light on the macroeconomic evidence. This is particularly interesting because the macro data show that rapid population growth is positively correlated with GDP per capita. The opposite might have been expected. The increase in labor supply could have reduced the capital-labor ratio, the marginal productivity of labor and per capita GDP. The data reveal an additional curiosity as well. Despite the mass immigration, the employment and wages of native Israelis were not adversely affected.

The answers to these two interesting puzzles lie in the relative ease by which factors of production adjusted in the Israeli economy. Soon after the arrival of

the first wave of immigrants, the capital stock rose substantially. The boost in the capital stock, mostly financed by foreign direct investment, was sufficient to yield an overall increase in the marginal productivity of labor. But while international capital movements were fluid, the domestic labor market was mired in frictions. A lack of competition in the labor market slowed the integration of Soviet immigrants and cushioned potential employment losses amongst Israeli natives.

After analyzing the macroeconomic movements caused by the mass immigration, the book then delves deeper into various aspects of the slow matching process in the labor market. The exercise in structural modeling and estimation that follows is a beautiful illustration of the insights that can be gleaned from skillful formulation of discrete choice dynamic programming (DCDP) models of economic behavior. Chapter 4, which is primarily based on published papers by Cohen Goldner and Eckstein, focuses on the link between vocational training and occupational choices. The main finding is that government-provided training raised the probability of job offers and offered wages in white-collar jobs, but had little benefit for the majority of immigrants, who remained occupationally downgraded into either blue-collar jobs or unemployment.

Chapter 5 continues on the theme of occupational downgrading and the speed of labor market adjustment by calculating the loss of human capital in the Israeli economy due to frictions. The chapter is based on a published paper of mine with Yoram Weiss and Chemi Gotlibovski. The estimated DCDP model suggests that the loss of human capital is substantial. In particular, Soviet immigrants can expect to reach only 57% of the lifetime earnings of comparable natives. The majority of the loss in human capital is attributable to low initial wages that fail to grow quickly enough to achieve convergence with natives.

The penultimate chapter of the book, based on the doctoral dissertation of Chemi Gotlibovski, addresses the question of whether location of residence influenced the poor outcomes of immigrants in the Israeli labor market. A classical stationary search model of initial residential location and job choice is used to explain the data. The estimation results yield an important general lesson. Government housing assistance distorted the optimal residential location choices of immigrants, and this distortion contributed to a greater loss of human capital than would have otherwise occurred in the absence of housing subsidies.

The book then concludes with a descriptive assessment of immigrant assimilation some 20 years after the first Soviet immigrants began to arrive in Israel. By that time, more than 900,000 Soviet immigrants landed in Israel, constituting about 20% of the overall population. Although later immigration waves were undoubtedly less exogenous to the economic conditions in Israel, the more recent data confirm the predictions of the models estimated on earlier waves.

The concluding chapter also contains an analysis of assimilation indicators that go beyond the strictly economic. Despite the poor labor market integration, social surveys suggest that Soviet immigrants are generally satisfied with life in Israel. The immigrants were able to establish enclaves that fostered the continued use of the Russian language, as well as other cultural traditions that were lacking in the general population. Perhaps it is for this reason that out-migration has proven to be relatively small.

The book by Cohen Goldner, Eckstein and Weiss is a skillful documentation of an historic immigration episode. Graduate students, academics and professionals interested in the economics of immigration and the structural estimation of behavioral models should consult this book carefully. Policymakers should also take note of the importance of frictions in the immigration context. In the Israeli case, an oversized public sector, severe business concentration, and excessively powerful labor unions combined to create an anti-competitive environment that underpinned the frictions. The resulting lack of flexibility in the labor market and loss of valuable human capital was substantial. Clearly, the institutional setting in which immigration takes place is critical in determining its ultimate success.