

# **Tracking Economic Discrimination by Ethnicity in Israel: the Arab Minority**

**David Feldman**

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**Abstract** This paper holistically examines the factors contributing to the Israeli Arab minority's relative economic disadvantage. The central question that paper seeks to answer is "Are Arabs *economically* discriminated against in Israel, and if so to what extent?" Through assessment of non-discriminatory factors and quantitative analysis of data, we determine that Israeli Arabs are indeed economically discriminated against, and that roughly 40% of Israeli Arabs' earnings gap with Israeli Jews can be attributed to discrimination. Further, we assess that though there may well be a "taste for discrimination" against Arabs in Israel, a portion of the economic discrimination is accounted for by statistical decimation.

## **Introduction**

The study of race or ethnicity-based discrimination in the marketplace has received substantial attention from economists in recent decades. An extensive amount of focus has been placed on studying economic discrimination within the United States (see Bertrand & Mullainathan, 2004). Nonetheless, other countries possess comparably complex marketplace and social dynamics, and are certainly worthy subjects for parallel economic studies. Present-day Israel presents an especially interesting environment for the study of economic discrimination by ethnicity.

Israel's ethnic demographic consists of a roughly 80% Jewish majority and a 20% (and rapidly growing) Israeli-Arab minority. Both ethnic groups are complex in their composition and consist of various subgroups, but this paper will focus on economic interactions between Israeli Arabs and Israeli Jews holistically. Unlike in the United States, where open ethnicity-based hostility is largely unacceptable, there is pervasive and outright animosity between Israeli Jews and Israeli Arabs (Zussman, 2013, p. 449). The Arab-Israeli minority is also economically disadvantaged when compared to the whole of Israel: though Arabs in Israel account for only 20% of the population they make up roughly half of the nation's poor and the net monthly income for Arab households is only 63% of that of Jewish households (Yashiv & Kasir, 2014; Habib *et al*, 2010).

This paper cites previously developed data and analysis to examines economic discrimination against Arab-Israelis in the Israeli marketplace. The fundamental question that this paper tries to address is "Are Arabs *economically* discriminated against in Israel, and if so to what extent?" The first

section of this paper explores and isolates the various (non-discriminatory) economic factors that contribute to Arab-Israelis' economically disadvantaged status. Among the topics discussed are Arab cultural expectations and their impact on workforce participation (highlighting impact on women), Arab-Israeli occupational segregation, the Israeli tech boom and its jobs impact, and *de facto* Arab exclusion from protection under the Israeli Equality of Employment Opportunity Commission. The second section of this paper determines the presence and extent of economic discrimination against Israeli-Arabs. Several data sets and corresponding analyses are assessed and weighed, and further data is generated through applying additional statistical analysis to these data sets. Finally, the last section of this paper applies relevant economic theories to the findings and further examines the individual motives that could lead to the situation presented in the Israeli marketplace.

## **1. Overview of Economic Factors that Negatively Impact Israeli-Arabs**

Arab Israeli households are, in part, economically disadvantaged because of cultural norms and expectations of the Arab-Israeli culture. Though Israel is largely viewed internationally as a "westernized" nation, and Jewish Israeli women's data mirrors women's employment data from many European countries, Israeli-Arab women do not maintain such employment trends. When the Israeli-Arab female workforce participation curve is contrasted with female workforce employment curves for Arab countries, it is apparent that Israeli Arab women's workforce participation mirrors female workforce participation from other Arab countries (Yashiv & Kasir, 2014, p. 24). There exists a substantial gap between Israeli-Arab women's' and Israeli Jewish women's' labor force participation rates (22% vs. 68.2%) and employment rates (18.6% vs. 63.1%). Even educated Arab-Israeli women often must lower their career expectations upon marriage (Habib *et al*, 2010, p. 1,10-11). Female employment largely perceived "as economic assistance to the family rather than an

avenue for career development". Because of familial pressure, Israeli Arab women must often seek work in their immediate locality. Other factors include leading to Israeli Arab women's lack of workforce participation include insufficient non-maternal child-care within the culture, and varying degrees of transportation availability to women. Though Israeli-Arab women are among the more employed Arab women, trailing behind only Turkish women, it is clear that cultural restrictions lead to their relative underemployment in Israel. Low level of female employment is not the sole economic barrier that Israeli Arabs face.

Arab Israelis face a tremendous education deficit when compared to Jewish Israelis. A high percentage of Arab individuals receive less than 8 years of schooling (23.1% of individuals compared to 7.5% of Jews) (Yashiv & Kasir, 2014, p.18). Matriculation rates of 12th grade Arabs were 49.9% in 2011, versus 58.5% for Jews. Looking at threshold qualification parameters, the share of those qualifying for admission to universities in Israel in the Arab sector is relatively low, about 36% of all twelfth-graders, versus about 50% in the Jewish sector.

The effects of this educational gap are apparent in the high degree of occupational segregation that exists within the Israeli marketplace. Arab Israeli men possess a disproportionate share of low-skilled, labor-based occupations, and are forced to retire relatively early age. 50 percent of Arab-Israeli men are employed as skilled laborers in the manufacturing and construction industries and an additional 13% are employed as unskilled laborers (Yashiv & Kasir, 2014, p.31,45). There exists a relatively low percentage of university-educated Israeli Arabs who are employed in their field of study, and even so there exists a lack of Arab Israeli representation in the burgeoning Israeli high-tech and information technology industries. As per a 2007 census poll 63% of Israeli Arabs did not use a computer in the past 3 months compared to around 30% of Israeli Jews (Habib *et al*, 2010, p. 11,16).

What is more, the effects of recent globalization disparately impact Israeli Arab small businesses -- primarily specializing in food supply and construction materials -- that larger globalized competitors outperformed. In their 1990 paper chronicling generalized ethnic discrimination in Israel Semyov & Cohen describe the Israeli-Arab population as entirely "no[n] competing with Jews for high-status, rewarding jobs" (p.112). This seems to have changed little in the decades since.

Wartime turmoil also has a pronounced and negative economic effect on the Arab Israeli population. Palestinian workers living in the West Bank and Gaza strip areas are not directly accounted for in this paper's analysis, and the economic challenges they face warrant separate investigation. Notwithstanding, in the past decade up to 30% of Palestinian workers from the West Bank have commuted into Israel on a daily basis to work (Miaari & Sauer, 2011, p. 133). Their employment is highly subject to war-related volatility: during outbreaks of war or times of turmoil the West Bank and Gaza strip are frequently "closed" to entry and exit, preventing Palestinian workers from working in Israel. In 2004, at the height of the second Intifada, the percentage of West Bank Palestinians working in Israel fell below 10%. Because of the inconstancy of this labor source, Israel initiated a program to import non-citizen foreign workers, primarily from other regions in Asia; though there were only 2500 registered workers in 1987, by 1999 there were in excess of 100,000 of these workers living in Israel, accounting for over 10% of Israel's documented workforce (Semyonov et al, 2002, p.418-420). Such an influx provides "direct competition" for the many Arab Israelis with labor-intensive jobs, and almost certainly has a "negative [economic] effect."

Israeli Arabs have received very limited protection from laws designed to prevent discrimination in Israel. Only 2%, of cases raised under the "Equal Opportunities of Employment act of 1988," are based upon "ethnicity or nationality" compared to roughly 35% of cases brought up under a similar law in the United States (the Israeli law prohibits discrimination based upon 15 categories including, gender, race, religion, age, family status and sexual orientation).

In 2008 the Israeli government formed the Israeli Equality of Employment Opportunity Commission (EEOC), which was designed to aid individuals making claims under the 1988 act. The EEOC has entirely failed to raise claims under these categories, despite that it's substantially increased generation of claims overall (Khattab & Miaari, 2013, p.38-46). An explanation for the lack of claims being filed is perhaps present in their lack of success in Israeli courts: seldom are rulings made which favor the plaintiffs. In a very strong 1999 case against "Tafkid Plus" a large Israeli HR consulting firm, the firm was found guilty of requiring "applicants to have prior military service, disparately impacting Palestinians, despite no occupational justification for such a requirement." Accordingly, they were required to pay of fee of 10,000 ILS, or the 1999 equivalent of roughly \$2500 U.S. Dollars. Khattab & Miaari (2013) assert that Arab plaintiffs claiming discrimination often have has their cases thrown out before appeals processes due to technical missteps, and that the rare successful suit seldom results in meaningful repercussion.

In summation, the relative economic plight of Israeli Arabs is a product of several economic disadvantages characteristic of the group. Though some of the phenomena mentioned above may be unjust in nature, economically impactful, and may represent discrimination in a certain area of Israeli government or society, none constitute direct economic discrimination within the Israeli economy. The next section seeks to isolate economic discrimination from the many other factors preventing Israeli Arabs from becoming more economically successful.

## **2. Analysis of Economic Discrimination Against Israeli-Arabs**

Though many factors undoubtedly contribute to Israeli Arabs' economically disadvantaged status, establishing that Israeli Arabs' differential economic outcomes are in part due to discrimination is difficult. To overcome this challenge, economists turn to experimental methods designed to control for discrimination and to mathematical modeling designed to isolate discrimination.

In a 2013 study Asaf Zussman isolates discrimination against Israeli Arabs by responding en masse to online car advertisements, sometimes using a Jewish name and sometimes using an Arab name. Zussman responds to over 5500 car advertisements using a consistent format for correspondence and found that all else controlled for, Jewish names received a 22% higher response rates from car sellers. Additionally, responses received by Arab names were equal in their frequency to responses received by Jewish names asking for a 5-10% discount on the asking price of vehicles. Through using such a "novel procedure" Zussman illuminates the extent discrimination against Arabs attempting to conduct a simple market transaction.

Using 1983 Israel Census income data, Semyonov & Cohen (1990) mathematically model income as a function of Education, Age, Age Squared (as a proxy for experience) and hours worked per week. Through comparing the results of Arab individuals with the results of Jewish individuals the authors determine that 39% of the wage gap between Arabs and Jews is unexplained, and could be attributed to discrimination. Such findings, however, hold limited present meaning: findings indicating discrimination from one year in the mid 80's do not prove present day discrimination.

In their 2013 book entitled *Palestinians in the Israeli labor market: A multi-disciplinary approach* authors Khattab & Miaari use Israeli Central Bureau of Statistics (CBS) income data from 1997 to 2009 to calculate Arab-Jewish wage gaps (p.70-75). The authors then run a regression that controls for occupational segregation, age, and educational levels amongst Arabs and Jews. Khattab & Miaari find discrimination in their results, but stop short of providing an analysis of the percentage of the yearly wage gap that is accounted for by discrimination. Such calculations were made and are represented in Table 1 below.

**Table 1: Estimation of Wage Gaps between Israeli-Arabs and Israeli Jews**

<i>Year</i>	<b>Total Wage Gap * (SE)</b>	<b>Wage Gap from Discrimination* (SE)</b>	<b>Percentage of Wage Gap due to Discrimination</b>
1997	0.36 (0.017)	0.132 (0.016)	.367
1998	0.372 (0.017)	0.184 (0.016)	.495
1999	0.4 (0.016)	0.192 (0.015)	.480
2000	0.392 (0.018)	0.179 (0.015)	.457
2001	0.362 (0.018)	0.184 (0.016)	.508
2002	0.314 (0.018)	0.112 (0.016)	.357
2003	0.308 (0.018)	0.127 (0.016)	.412
2004	0.306 (0.018)	0.086 (0.016)	.281
2005	0.348 (0.017)	0.141 (0.015)	.405
2006	0.406 (0.016)	0.164 (0.015)	.404
2007	0.396 (0.017)	0.177 (0.015)	.447
2008	0.448 (0.016)	0.208 (0.015)	.464
2009	0.41 (0.016)	0.201 (0.015)	.490
<b>Average (SE)</b>			<b>.428 (.018)</b>

*\*Khattab & Miaari, 2013, p.72*

Roughly 43% of the Jewish-Arab wage gap from the years 1997 to 2007 can be explained by discrimination. This result is consistent with Semyonov & Cohen's (1990) data, and validates the existence of more recent economic discrimination against Israeli Arabs.

Notwithstanding, in their 2014 analysis Plaut & Plaut run a wage gap regression using 2011 CBS data and control for location of employment very specifically (utilizing 4 dummy variables for different geographical regions) in addition to many occupational dummy variables. Through this analysis, Plaut & Plaut determine that all of the Arab Jewish wage gap can be accounted for, and that ethnic discrimination against Arabs is not a substantial factor in the Israeli marketplace. Though Plaut & Plaut's statistical methods are valid, their assumptions might not be: as previously mentioned there is significant occupational segregation by ethnicity in Israel and educated minority individuals cannot always find work within their trained field. Moreover, this model assumes that geographical discrimination is irrelevant in this context; this too might not be a valid assumption to make.

44% of Israeli Arabs are concentrated in 14 municipal areas (the largest being Nazareth with 66,000 inhabitants) where there are comparatively less job opportunities than major Israeli metropolitan areas (Yashiv & Kasir, 2014, p.35-42). The vast majority of Arab-Israelis (including those in the aforementioned localities) live in "the Galilee (especially the western Galilee), the Triangle (central Israel) and the Negev." All of these regions share the following characteristics when compared with the whole of Israel: lower rank on the socioeconomic scale (per the 2008 Israeli Census), substantially lower municipal revenue per capita, substantially lower education achievement rankings, and substantially lower public transportation opportunities. Because of the high concentration of Israeli Arabs in disadvantaged areas, Plaut & Plaut's decision to control for location inherently invalidates their results.

### **3. Application of Economic Theory to Findings**

Several current theories may explain economic market discrimination against Israeli Arabs. In Becker's 1957 "The Economics of Discrimination," Becker focuses on "taste-based discrimination" against certain groups. Indeed, poll results indicate that Israeli Jews share quite the distaste for Israeli Arabs. With a sample size of over 2500 Israeli Jews polled, 59% of Jews agreed "Arabs in Israel are more violent than Jews" 35% that "Arabs are more likely to cheat than Jews" 49% "Arabs have lower natural intelligence than Jews" 51% that "I would not want to live in the same building with an Arab neighbor" 47% that "Jews and Arabs should be separated in recreational areas" and 46% that "There should be a law preventing marriage between Jews and Arabs" (Zussman, 2013, p.449). The individuals polled for this statistic were the same individuals selling used cars as mentioned above. Zussman finds, however, that his results do not indicate taste-based discrimination but instead indicate statistical discrimination because "Jewish car sellers who strongly disagree with the statement that 'the Arabs in Israel are more likely to cheat than the Jews' do not discriminate against the Arab buyer while other sellers do" (p.466). Though there is indeed great bias

against Arabs within Israel, a substantial portion of economic discrimination against Arabs seems to be because of *statistical* discrimination: car sellers fear being cheated and want to statistically avoid those who might cheat them. Indeed this finding compounds the complexity of economic discrimination against Arabs in Israel.

## **Conclusion**

Many compounding factors contribute to the relative economic disadvantage of Israeli Arabs. Among these are complex cultural differences, education deficits, unequal treatment under Israeli law, and wartime volatility. Additionally, when all else is controlled for, the Israeli marketplace discriminates against Israeli Arabs. Though there is a widespread distaste for Arabs amongst Jews in Israel, a portion of this discrimination can be attributed to statistical discrimination.

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