Mobility and Longitudinal Inequality in Earnings: Israel 1983-1995

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Abstract

Individually matched census data for Israel are used to measure earnings mobility between 1983 and 1995. Using a new index of mobility, it is shown that earnings in Israel are highly mobile. The high degree of earnings mobility implies that conventional horizontal measures of inequality considerably overstate the underlying level of inequality. Inequality and mobility are measured for various levels of time aggregation. These include permanent vs transitory earnings, life-cycle vs current earnings, and horizontal vs longitudinal earnings. I also decompose β - convergence into 3 components: mobility, changes in inequality, and income levelling effects. Finally, the change in inequality between 1983 and 1995 is decomposed into within-group and between-group contributions.