

Abstract:

Studies have extensively documented cross-sectional racial gaps between Arabs and Jews in Israel, but less attention has been given to income gaps from an intergenerational perspective. Using paired child-parent administrative data on the universe of Israeli children from birth cohorts 1975-1988, we document four empirical findings. First, using rank-rank correlations we calculate a long-term racial income rank gap of 12 income ranks. Considering birth-cohorts separately reveals that the long-term racial income inequality is decreasing, since Jews are at a constant long-term mean racial income rank, but the Arab's long-term mean racial income rank is on an increasing trajectory. Second, to better understand the long-term racial gaps we delve into the foundations of the intergenerational racial income gap and find that it stems mostly from the gap between Arab and Jewish women at the lower tail of parent income. Third, we consider how a larger set of child outcomes account for the intergenerational racial income gap and find using re-weighting exercises that labor supply and education account for a significant share of the gap between Jewish and Arab women, but number of children in the children's generation accounts for a negligible share. Fourth, we provide evidence that childhood level factors other than parent income, e.g. parent education, account for a substantial amount of the racial income and education gaps at the lower tail of parent income for both genders. But, we find that for women similar childhood environments do not account for the labor supply disparities.