

ABSTRACT

“When is "Too Much" Inequality Not Enough? The Selection of Israeli Emigrants”

by Eric D. Gould and Omer Moav

This paper examines the effect of inequality on the incentives to emigrate according to a person's observable and unobservable skills. Borjas (1987) shows that higher skilled individuals are more likely to emigrate than lower skilled individuals when the returns to skill are higher in a potential foreign destination. Building on this framework, we develop a model which shows that this prediction holds for observable skills like education which are "general" in the sense of being easily transferable to another country. However, we show that the relationship between unobservable skills and the probability of emigrating is an inverse U-shape -- since unobservable skills are a mixture of "general skills" and "country-specific skills" which are not easily transferable. We examine the predictions of our model with a unique data set containing information on who emigrates from Israel between 1995 and 2004, combined with a full set of demographic and labor market variables for both movers and stayers in 1995. By exploiting differences between Israel and the United States in the returns to observable (education) and unobservable skills across different sectors (industries and occupations), we find strong evidence that a lower return to unobservable skills in Israel versus the US entices higher ability Israelis to leave the country. Also, we find that virtually the entire positive relationship between education and the rate of emigration would be eliminated if the returns to education were increased in Israel to US levels within each industry. Overall, the results strongly support our model and the importance of differentiating between general and "country-specific" skills in the analysis of immigrant selection.