

**The Income Determination Process of Public Sector Employees in Israel:
Individual, Organizational and Labor Market Effects.**

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ABSTRACT

The present paper investigates the origins of variations in public sector wages using an interdisciplinary approach drawing from stratification and organizational theory. It is suggested here that organizational antecedents (resources and outputs) and labor market distinctions (periphery, semi-urbanized and urbanized localities) produce variations in individual level earnings controlling for various individual predictors. The results show that local labor markets affect wages in two complementary ways. First, by translating organizational level characteristics into differential returns to human capital characteristics according to the size of locality. Second, by applying institutionalized forms of discrimination based on ethnic considerations, into lower levels of organizational level resources which further, albeit, indirectly, produce variations in wages. The results enable the rejection of previous assumptions in regard to homogeneous determination of wages in public sector employment, based on universal criteria of attainments. They rather point to the existence of intra-sector variations along a geographic/ethnic effect and a general/gender effect cross-cutting the ethnic effect. These result in a gender and ethnic effect on individual wages. The gender effect is highest and prominent to both the Jewish and Arab localities whereas the ethnic effect is lowest and restricted to the semi-urbanized areas.

INTRODUCTION

Differences in wage attainments have often been related to human capital differences and individual level attainments (e.g., Blau and Duncan 1967; Mincer 1973; Sakamoto and Chen 1991), as well as the structure of labor markets (e.g. Kalleberg, Wallace & Althausen 1981; Zagorski 1990; Hodson and Kaufman 1982; Doeringer and Piore 1971; Baron & Bielby 1980). Less importance has been placed however on intra-organizational variations in public sector employment and wage variations assuming intra-organizational homogeneity in the public sector wage attainment process (DiPrete and McManus 1993; Kraus 1992).

Intra-organizational variations in public sector wages are assumed to be minimal for two reasons. First, in bureaucratic systems organizational performance derives from a regular steady performance of repetitive and simple tasks. By using objectively defined, identical classification systems and rules of personnel management these systems facilitate predictability rather than efficiency and put an emphasis on organizational stability. Second, the regularity of public budgets, the unchanging organizational outputs, and the often monopolistic nature of the services in contrast to the dynamic environment of for profit organizations, enhances the stability of organizational processes and hence enable the application of a universalistic wage determination process (Bridges & Villamez 1994). The theoretical and empirical support for the intra-organizational homogeneity in nation-wide employment regulations based on a well-developed grade-system coupled with the implementation of affirmative action theoretically prevent the arbitrary allocation of rewards (Esping-Andersen 1990; Beggs 1995). Not surprisingly, public sector employment is viewed as beneficial to socially weak groups, such as racial, ethnic and gender minorities in both the US (Maume 1985; Eisinger 1986; DiPrete 1989) and Israel (Lewin-Epstein & Semyonov 1994; Kraus 1992) suggesting that benefit from employment in public sector positions.

These claims, however, can be criticized on two grounds. First, in the case of ethnic minorities alleged benefits of public sector employment can be contaminated by

“institutionalized forms of discrimination channeled through the differential, “ethnic-biased” allocation of resources (Kretzner 1990), specially when budget allocation manifests the relative importance of the community’s political power (Dye 1990). Similarly, in the case of women, the application of affirmative policies may be more effective in achieving gender equality in the private than in the public, “politically regulated” sector (Ospina 1997; Rosenfeld & Kalleberg, 1990; Rothenbacher 1997). Second, the increased emphasis on organizational survival in public sector organizations (Osborne & Gaebler 1993; Meyer, Goes, & Brooks 1995), manifest in the unresolved dilemmas regarding budget cuts on the one hand, and the increased demand for public and local services on the other, led public sector organizations to a need to increase autonomous resources and to rely less on public sources, thus conforming to cost effective operations (Meyer, Goes & Brooks 1995). The present study reevaluates the intra-organizational homogeneity in the determination of wages in the public sector (Bridges and Villamez 1994) linking the individual-level (human capital), (b) the organizational level (organizational context), and (c) local labor market level (ethnic composition and location).

THEORETICAL BACKGROUND

In the early sixties human capital models suggested that wage levels reflect the accumulation of the necessary skills needed for the organization of work (Blau & Duncan 1967), as long as on the job investments, such as number of working hours, and labor force participation are similar (Mincer 1973). The structuralist approach suggested that the labor market is structured into primary / secondary jobs (Doeringer & Piore 1971), core / peripheral industries (Tolbert & Beck 1980), internal / external markets (Althausser & Kalleberg 1981) and metropolitan / periphery local labor markets (Zagorski 1990). As a result human capital models do not capture wage variations fully because individual are initially located in different markets.

Similarly, the new structuralist approach (Baron & Bielby 1984) suggested that organizational settings distinguishable by size, technology, employment practices, career

ladders, organizational demography and the existence of internal labor produce variations in individual level outcomes (Cohen & Pfeffer 1986; Kalleberg, Knoke, Marsden & Spaeth 1996). Organizational size is crucial in determining wages (Villemez & Bridges 1988). First, size indicates the type of organizational product. “Virtually all [large] public and non-profit workplaces produce services, either exclusively or together with products (Kalleberg, Knoke, Marsden & Spaeth 1996: 48). Second, size, in terms of organizational demography reflects the organizational homogeneity of employees (Baron, Mittman and Newman 1991). Assumptions about the "characteristics" of the dominant group (e.g. female employees or other minorities) affect organizational policy regarding hiring, promotion and lay-off (Cohen and Pfeffer 1986, Baron, Mittman and Newman 1991; Dobbin, Suttin, Meyer and Scott 1993) and generate organizational-level variations in wages (Pfeffer and Davis-Blake 1987; Tomascovic-Devey and Kalleberg 1997; Davis-Blake 1992). Third, larger organizations enhance the creation of internal labor markets (Baron and Bielby 1980; 1985) that affect the allocation of resources (Bielby and Baron 1986) and the returns to human capital ((Cohen and Pfeffer 1986; Dobbin, Suttin, Meyer and Scott 1993; Sakamoto and Chen 1991). Finally, since large organizations are mostly located in metropolitan rather than periphery locations, size indicates also the geographic centrality of the organization in the national labor market. Variations in the economic activity of different geographic areas and their effects on local opportunities are represented in the conceptualization of local labor markets (Zagorski 1990; Lewin-Epstein & Semyonov 1994).

Indeed, the social context of the individual, distinguished by geographic, cultural and social characteristics, has been an important turning point in the analysis of the structural effects on individual attainments (Sorokin 1927). The “division of labor *that* varies from one type of locality to the another” (Blau & Duncan 1967:243) links individuals to certain areas where they may experience advantages and disadvantages directly linked to environmental characteristics (Logan, 1976; 1978). These experiences can reflect the presence of ethnic minorities in the locality (Al-Haj and Rosenfeld 1988). Indeed, rich empirical evidence in the American setting suggests that opportunity structure is related to unemployment rates in the industrial and regional sectors (Schervish 1981), and the

distinction between peripheral and metropolitan areas (Zagorski 1990), which often reflects the lower / higher socioeconomic levels of whole populations (Lewin-Epstein & Semyonov 1994).

Economic level analyses suggest that the linkage between local economic activity and organizational activity provides a central link in understanding the sources for wage variations. Local labor market conditions generate differences in organizational conditions and create unique features of firms. Good local labor market conditions improve the organizational capability of coping with economic-level changes and hence enhance the odds for organizational stability and growth (Eagly 1965). The distinction between core and peripheral organizations was indeed related to variations in employees' chances for advancement and higher wages (Idson & Feaster 1990; Sakamoto & Chen 1991).

In public sector employment, however, these effects can be controlled by the regulatory practices that can be applied on public sector employment practices (Hodson 1983). The presence of public sector employment across industries seems to increase the odds of an "institutionalized equality" (Beggs 1995). Indeed, the US experience has shown repeatedly that public sector employment is beneficial to black minorities (Kaufman 1986) and women (DiPrete 1989). Similar findings led Lewin-Epstein and Semyonov (1994) to their "sheltered employment" conception of Arab citizens employed in public sector positions in Israel. Local labor market conditions may interfere, however, with this generalized public sector effect. The geographic location of employees in public sector organizations may indirectly reflect the deliberate and "unfair" (relative to the community's size and service needs) allocation of budgets. This linkage was theoretically developed in Kretzner's (1990) "institutional discrimination" and results in lower returns for human capital assets. Empirically, in a recent study of a private/public sector employment in Israel, Lewin-Epstein & Semyonov (1994) showed that variations in earnings in the public sector reflect locality characteristics. The authors classified communities in Israel into the dominant—mainly Jewish populated areas— and the ethnic—mainly Arab populated areas— labor markets and showed that public sector positions are more abundant in the dominant than in the ethnic labor market, favoring expanding local

labor market opportunities for ethnic minorities. In view of these three distinct theoretical directions, it is claimed here that an interdisciplinary approach linking the three levels of analysis is a necessary theoretical and empirical combination, which assumes that these approaches are complementary rather than contradictory.

Organizational Environment

According to the neo-institutional theory, public sector organizations as a specific case of institutionalized organizations, focus on social outcomes conforming to the institutional and normative environment rather than the technical imperatives that enable efficient outcomes (Meyer & Rowan 1977). By contrast, according to a technical conception of environments, known as the contingency approach, adaptation to uncertainty in product technologies and market forces is critical to understanding organizations and employment outcomes. Variations in the stability and homogeneity of the environmental sources that support organizational functions affect organizational practices and outcomes towards increased rationality and technical efficiency (Meyer 1994:560).

Organizational characteristics, such as size, provide vital information in regard to organizational practices. Larger organizations can expand their span of activities by adding new products/services or go after new markets simply because their size and organizational “slack” resources enable them to be less vulnerable to environmental shocks. Size, is also an indicator of the magnitude of tasks that need to be coordinated, generates the need for specialized functions and enlarged administration units that ensure proper coordination between the organizational units and causes structural differentiation (Pugh & Hickson 1976). Size, therefore, affects performance (Gerhard & Milkovich 1990) and survival (Osborne & Gaebler 1993).

In this study the technical approach is employed to predict wage differences.

Organizational resources (height of budgets and number of employees), organizational outcomes (expenses in the provision of public and local services) and organizational demography are used as a proxy for size and organizational “success” to predict wages in public sector organizations.

Hypotheses

The analysis presented in this study draws from the linkage between human capital, organizational and local labor market explanations of wage variations.

Organizational explanations of wage differences focus on the way that organizational characteristics such as size reflect organizational performance and success (Osborne & Gaebler 1993; Meneffe 1997) and the existence of firm internal labor market (Althausser & Kalleberg 1981; Baron & Bielby 1985). Generally, larger, compared to than smaller organizations, are likely to reward higher the otherwise similar human capital assets because they wish to retain their valuable human capital resources (Idson & Feaster 1990; Tomaskovic-Devey 1993). More specifically, organizational size in public sector organizations measured as a function of resources, i.e. budget height and outputs, i.e. expenditures in services) will affect public sector wages. Hence I hypothesize that, *Hypothesis I. It is expected that larger public organizations, having higher levels of budget and government support, will have an added effect on the earnings of public sector employees, while controlling for human capital resources. Accordingly, Hypothesis II. More independent organizations that have higher levels of autonomous income sources (non-government resources) will affect directly the income level of public sector employees controlling for human capital resources.*

Because however, the uneven geographic dispersion of public sector organizations has been related to differences in budgets and expenditures (Kretzner 1990) that may affect earnings (Lewin-Epstein & Semyonov 1994) according to political considerations (Dye 1990) and geographic criteria (Zagorki 1990) it is expected that:

Hypothesis III. The lower organizational resources allocated for public and local services in these areas, the lower the employees wages while controlling for human capital characteristics and .

Hypothesis IV: Lower variations in the earnings of public sector employees would be manifest in larger, in contrast to smaller Jew and Arab localities.

DATA AND METHODS

Data Sources

The data for the present study were obtained from the 1995 Israeli population census (Central Bureau of Statistics 1995). Analyses are limited to the population between 25 and 64 years old and defined as employees of the public administration authorities residing in communities with more than 10,000 residents. Two additional data sets were attached to the above individual-level data. The 1994 Local authorities financial data set including information on the organizational and economic characteristics of each of 83 local authorities in Israel. The 1994 Local authorities Physical data set included information on the demographic and economic characteristics of each of the 83 residence areas. The integration of the above three levels of information -individual, organizational and local labor market- was accomplished using the local authority code as the linking variable. Thus for each individual examined in the study information on the economic and organizational conditions of his/her local, public sector employer organization was available. Also information on the characteristics of his/her local area were available.

Description of the Sample

The data base is a sub-sample of the Census data (1996) that included all Jewish and Arab employees employed in the public sector. Public sector was defined as public services and operationalized on the basis of the industrial classification of the employees. It includes all public and community services, such as local government, education, welfare and health services. First, localities were grouped into three distinct locality types varying in size (10, 000 to 20,000 residents; 21,000 to 80,000 residents and 80,000+ residents). These categories account for differences in development of the locality and stand for the classic peripheral, semi- urbanized, and metropolitan areas. Second, localities were also grouped according to the proportion of the ethnic groups in the community into Arab and Jewish localities. According to this categorization 7.0 % of the Jews and 27.6% of the Arabs were located in the peripheral localities; 31.4% and 30.7%

(respectively) in the semi-urbanized and 40.2 vs. 62.3% in metropolitan areas¹. The sample includes 34,899 Jews and 3,494 Arab citizens.

Measures

The dependent variable in the present analysis was earnings, i.e. the gross monthly earnings from employment (in Israeli shekels) as the mid points on 11 ordinal categories² ((1=1000); (2=2250); (3=2750); (4=3500); (5=4500); (6=5500); (7=6500); (8=7500); (9=8500); (10=9500); (11=10500)). The predictive variables included in the individual level data set were those traditionally utilized in status and earning attainment models. They included: *Age*, measured in mid-points of the reported age-group categories; *Education*, the number of years of formal schooling; *Hours of work*, the number of work hours per week; *Potential labor market experience* [age minus the difference between years of schooling minus 6]; *Occupation*; including 1=scientific/academic; 2=semi professional/technical; 3=managerial; 4=clerical; 5=sales/services; 6=skilled; and 7=unskilled employees.

The organizational level data set predictors were those traditionally utilized in economic studies to predict organizational performance. They included four indicators of economic activity of the local authority, that is, (1) Number of state-budgeted employment positions, (2) total organizational revenues from autonomous sources, (3) total expenditures in local services, and (4) total expenditures in public services. The organizational demographic composition was measured through (1) the ratio of Arabs to the total number of employees and (2) the ratio of female employees to the total number of employees.

The predictive variables included in the level of local labor market effects were those traditionally utilized in economic and stratification studies to predict the socioeconomic

¹ Because the data set is restricted to communities with more than 10, 000 residents (see description of data), small Arab rural communities were automatically excluded from the sample.

status of the locality. Economic level variables included: (1) total of unskilled workers (absolute number) searching for work and (2) total academic workers (absolute number) searching for work. Demographic level variables included: (1) Percent Arab citizens residing in the locality, (2) Percent immigrants residing in the locality, and (3) Locality size. Interaction terms of percent Arab citizens residing in the locality and locality size (see measures) were also included.

FINDINGS

An overall estimation of the three different models using a three step regression analysis was used to predict individual earnings on the basis of the three models. Model I predicts earnings on the basis of individual level characteristics. Model II examines the separate effect of organizational level characteristics while controlling for the effect of variables introduced in the first step. Finally Model III examines the effects of local labor market characteristics while controlling for variations in Model I and Model II of the first and second level predictors using local labor market variables³.

INSERT TABLE 1 ABOUT HERE

The findings presented in Table 1 suggest that the major variance of earnings in public sector employment originates in human capital variations. The square variance amounts to .312 and explains approximately 30% of the variance in public sector wages.

Organizational level characteristics (as shown in the list of variables) explained an additional .06% of the variance in the prediction of earnings. The added effect of organizational level characteristics was significant at $p < .0001$. The effects of local labor market characteristics on the prediction of wages for public sector employees had only a

² Although interval scales for the earnings were available in the original Census, they were not provided for the present study to prevent violation of privacy rights.

³ The first attempt to analyze the data involved the use of hierarchical linear modeling (HLM) which showed a minor level of variance of the dependent variable (2%) across authorities. This does not justify the use of HLM modeling (Bryk & Raudenbush 1996).

minor added effect, amounting to .01%, which, nevertheless, also had a significant impact on the prediction of variations in earnings.

The parameter estimates for Model II suggest several interesting findings. First, organizational demography has a twofold effect. A higher proportion of Arab employees in the organization raises the wage levels. This suggests that Arab employees, as suggested by Lewin-Epstein & Semyonov (1994), are protected in public sector employment. By contrast the opposite is revealed for women. As the proportion of female employees increases, wage levels decrease (Baron and Newman 1991). This finding both supports and contradicts two different theoretical perspectives. According to the sheltered employment hypothesis the female nature of services in the public sector would generate a wage penalty for women's employment (DiPrete 1989; Huffman & Velasco 1997). By contrast, according to the institutionalized equality approach employment in the public sector is subject to institutionalized forces calling for equal opportunities and affirmative action and hence gender-related discrimination in public sector employment would be unlikely (Beggs 1995; Ospina 1997).

Second, the effect of organizational resources positively affected wages. The higher the organizational revenues from public and independent sources, the higher the wages. Yet, the higher the number of employees the lower the wage levels of the employees. This suggests that public sector employment is not so dissimilar from the private sector with one exception. The level of organizational outputs had a negative effect (significant only for the level of welfare services) on wages. This is a natural outcome in socialistic regimes where the allocation of services is regulated through centralized social policy channels. What remains to be tested, though, is how this policy reflects the locality's characteristics.

The results from Model III reveal two major trends. First, the nature of the locality in terms of human resources affects the wages. A higher supply of unskilled workers, in contrast to academic workers, diminishes wage levels. Yet, safety nets seem to protect immigrants from this tendency because wages in localities with a high proportion of

immigrants are slightly elevated by this local labor market feature. It should be noted, however, that this result should be interpreted carefully because the predicted variable is gross wages that may include social welfare benefits. Second, the proportion of Arab citizens in the locality has no effect whatsoever. This contrasts with the previous (Table 1) findings suggesting that the proportion at the organizational level raises wage levels. To untangle these contradictory effects two additional local labor market predictors were tested. The size of the locality and the interaction term between locality type (Arab vs. Jew) and size of locality (distinguishing among peripheral, semi-urbanized and metropolitan areas). The findings confirm that the concept of local labor markets in the analysis of individual attainments is central. Yet, the (negative) direction of the effect is opposite to that expected according to economic studies of market concentration (Zagorski 1990). It is shown that the higher the competition over positions in the public sector, the lower the wages. A negative effect is also revealed in regard to the effect of the interaction between the proportion of Arab residents and locality size. Higher proportions of employed Arabs in public positions in the larger localities affects wages negatively. Although the effect of this interaction with wages is low, it is nevertheless significant in the prediction of wage variations. On the basis of these findings and in order to locate the extent to which organizational effects are related to characteristics of the localities, a decomposition of the organizational effects is provided by type and size of locality. A brief description of the localities in terms of human capital composition and organizational variables of the public authority is presented.

INSERT TABLE 2 ABOUT HERE

The findings suggest that peripheral, semi-urbanized and urbanized localities differ significantly in regard to the characteristics of individual and organizational level characteristics of public sector authorities. Thus, the age of employees in the periphery is significantly younger (and thus they have less work experience), and they are slightly less educated than those in semi-urbanized or urbanized local authorities.

Testing how organizations differ in their characteristics revealed mixed results, however. The number of budgeted positions, and the level of expenditures in local and public services is lowest in the semi-periphery localities. It is only in regard to the level of autonomous assets that peripheral organizations score lower than both the semi-urbanized and urbanized localities. These results suggest that variations in wages can be expected on the basis of local labor market effects for public sector employees.

INSERT TABLE 3 ABOUT HERE

The overall examination of the variance attributed to organizational effects (R Square Change estimates) shows that organizational characteristics have a significant added contribution to the prediction of wages for all locality types. The extent of the organizational level effects, however, differs between localities.

In general, the organizational effects are stronger for public sector employees in Arab localities. This supports the dominant / ethnic labor distinction (Lewin-Epstein & Semyonov 1994) and suggests that public sector employment provides a shelter for ethnic minorities in Israel, as it does in the US (Eisinger 1983). Organizational characteristics of public sector employment in the ethnic labor market account for 2.8% to 4.1% of the wage determination process⁴. Although these differences are small, they are much larger than those observed in the Jewish – dominant labor market- sector.

More importantly, these effects vary in terms of locality size. In the peripheral localities these effects are smaller for both the dominant and ethnic labor markets, amounting to 2.8 % for the Arab and 1% for the Jewish localities. In the metropolitan areas, organizational level effects account for 4.1% for the Arab and 2.2% for the Jewish localities. These differences support the conception of structured opportunities at the geographic level (Zagorski 1990) as well as the institutionalized discrimination hypothesis (Kretzner 1985). Thus, the gap in the organizational effects between Jewish and Arab is lowest in

⁴ Similar results were produced using the HLM statistical program.

the semi-urbanized areas (3.1% vs. 2.0% respectively) and highest (2.8% and 1%) in the peripheral areas. For Arab populated, areas the size of the locality defines the allocation of resources. The larger the community the higher the organizational resources, and the higher the effect of organizational characteristics on wages. For the Jewish populated areas, the effect of organizational characteristics on wages is highest in the semi-urbanized areas and lowest in the peripheral and urbanized areas. These results suggest different processes in the allocation of organizational resources in the public sector.

The analysis of the organizational parameters suggests, indeed, that organizational effects on wages vary by location type and size. First, organizational effects, as an overall organizational phenomenon, are prominent mostly in the Jewish semi-urbanized and urbanized localities. The traditional organization-related predictors, such as the level of autonomous assets, the number of budgeted positions and expenditures, have a variable effect on wages. In the Arab localities, however, these effects were minimized with most of the organizational level parameters having a minor and non-significant effect on wages.

Even for predominant organizational characteristics, such as budget level and autonomous resources, there was a high variance among public sector organizations. There are, however, two variables related to organizational demography assumption, that affect wages equally for Arabs and Jews, in all locality types. Size (with the exception of small Jewish localities) and the proportion of women has a negative effect on wages.

DISCUSSION

The determination of wages in public sector employment is a complex phenomenon. It has been suggested here that using an interdisciplinary approach that combines human capital, organizational and local labor market conceptions, should enable a more accurate prediction of wages. The findings suggest that the major path for wage variations lies in human capital differences and supports the notion of public sector universal criteria of employment. This, however, does not fully explain differences in wages.

The wage determination process of public sector employees reflects also the outcome of two structural effects. The first operates at the level of the organizational setting and the second at the level of the geographic area. The disparities in the effects of organizational characteristics of the public sector organizations on individual level wages suggest that the assumed homogeneity of the wage determination process in the public sector may be misleading.

The overall estimation of the organizational level characteristics suggests that controlling for the major effect of human capital variations, organizational effects have a significant, albeit relatively low, potential for predicting wage variations. These effects, however, differ from the organizational effects analyzed in studies of for profit organizations. Thus, organizational resources, from either public or private sources, and organizational outputs in the form of the provision of services have only a limited effect on wages in public sector organizations. This suggests that the behavior of public sector organizations does not fit a for-profit survival logic.

Not surprisingly, in contrast to the organizational hypothesis regarding the positive effect of organizational size on wages (Idson & Feaster 1990) this is not the case in public sector organizations, where size lowers wages. Wage variations in the public sector cannot be totally attributed to “for profit” related concepts and processes, such as resources and outcomes. Macro-level organizational processes, such as organizational demography, however, capture public sector variations in wages similar to the effect in for profit organizations (Baron, Mittman and Newman 1991; Tomaskovic-Devey 1993). The higher proportion of women produces a negative effect on wages. As public sector

organizations are predominantly composed of women there is a tendency for part time employment. If the number of budgeted positions is distributed among a higher number of employees, this results into many part time, lower-wage positions controlling for human capital characteristics (Hakim 1990). This is similarly true for public sector organizations in both Arab and Jewish localities.

The overall impact of organizational effects on public sector wages becomes more prominent when the type and size of locality are introduced. Considering the organizational effects along the dominant / ethnic sector it is clear that returns to human capital in the public sector, may be beneficial to ethnic minority groups (Lewin-Epstein & Semyonov 1994). The study results show that organizational effects have an overall stronger effect for public sector employees in Arab than in Jewish localities. With the exception of small Jewish localities, the impact of size on wages is negative. This supports the sheltered labor market thesis advanced in Lewin-Epstein and Semyonov' s conclusion about public sector employment for the Arab employees in Israel in that the public sector bureaucratic characteristics and its openness to greater public scrutiny create *for Arabs* (italics added) more advantageous environment (1994: p. 646).

The tenability of this sheltered effect cannot be disconnected from the local labor effects. Although it is clear that Arabs and Jews do not compete for public sector positions because of their spatial distance, it may be that different allocation processes create the variations in the organizational level effects on wages.

The “structural” interference of two allocation agents on the basis of geographic position on the one hand and organizational resources on the other may result in a double subordination of public sector employees, being directly dependent on their organizational setting characteristics and indirectly on their locality resources.

The findings suggest that the institutionalized discrimination approach in the analysis of wage variations in public sector employment applies through two “double-subordination” paths: the “geographic / ethnic” path creating a wage disadvantage for ethnic minorities residing in peripheral areas and the “organization/ gender” path creating a wage disadvantage for women employed in the public sector.

If employment and wage policies are insensitive to the quantity and quality of both the organizational and local labor market characteristics, it will be impossible to determine the real cause of income variations. A deeper comprehensive understanding of the interaction between organizational and local labor market effects will enable a more comprehensive approach to wage-related decisions. This is certainly true with regard to work related policies for a successful absorption of immigrants, and minority equality-related policies.

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