

Differences in earnings assimilation of immigrants from the Former Soviet Union to Germany and Israel during 1994–2005: The interplay between context of reception, observed, and unobserved immigrants' attributes

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Abstract

The present study considers the interplay between patterns of immigrants' self-selection and the context of reception (i.e. migration policies and the operation of the labor market) at the host country on different economic assimilation patterns. We compare three groups of immigrants from the Former Soviet Union (FSU) who arrived in Israel and Germany during 1994–2005: Jewish immigrants who arrived in Israel, Jewish immigrants who arrived in Germany (JQR), and ethnic Germans who arrived in Germany (EG). Using the same questionnaire for the German and Israeli samples, we disentangle the impact of the two effects on immigrants' earnings assimilation by applying the Juhn et al. (1991) method of decomposing the difference in the earnings differentials between natives and FSU immigrants in the two host countries. The results indicate that earnings gaps between FSU immigrants and natives are wider in Germany than in Israel and that the role of contexts of reception is significant in determining patterns of self-selection. We find that the less rigid market attracts the more motivated immigrants, as indicated by the comparison between Jewish immigrant men in Israel and Germany. Within contexts of immigrant reception, the operation of the labor market is more important than

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formal policies in enhancing economic assimilation of immigrants, as indicated by the comparisons between JQR and EG immigrants in Germany and between Jewish immigrant women in Israel and Germany.

Keywords

difference in differences, earnings, economic assimilation, Former Soviet Union, Germany, immigrants, Israel

I. Introduction

Economic assimilation of immigrants at the destination countries is determined by the interaction of two factors. First, by patterns of immigrants' self-selection from their source countries (Borjas, 1987; Chiswick, 1978) and second, 'the context of reception' in the host country (Kogan, 2007; Portes and Rumbaut, 1996; Reitz, 1998, 2003). Starting with immigrants' self-selection, immigrants that their positive self-selection is more intense than that pattern of other immigrants are assumed to better assimilate in the host country. Most studies on immigrants' self-selection focus on measured determinants of earnings, mainly their education levels. However, some attempts have also been made to compare self-selection of immigrant groups or immigrant cohorts on unmeasured earnings determinants (e.g. Borjas, 1990; Cohen and Haberfeld, 2007).

Chiswick (1978) suggests that immigrant men are successful in closing the initial earnings gap with natives due to the process of self-selection from their countries of origin. He argues that economic immigrants are always positively self-selected on unobserved earning determinants such as motivation or risk-taking (Chiswick, 1978, 1986, 1999). Positive selectivity on such unmeasured attributes can explain why some immigrant groups have earnings that not only equal but actually surpass those of natives of the same measured characteristics (Chiswick, 1978).

Subsequent research, however, has questioned the conclusion that immigrants are always positively self-selected. Borjas (1987, 1990) suggests that positive selectivity depends on the relative returns to skills in the countries of origin and destination. Highly skilled immigrants choose to migrate to countries in which the returns to their skills are higher than those received in their home countries. In a series of studies, Borjas (1985, 1987, 1990, 1995, 1999) demonstrates not only that the change in the main source countries of immigrants to the US led to a decline in immigrants' observed skills, but that their unobserved skills are not always above average. Such negative self-selection is used to explain those cases where immigrants fail to significantly narrow the initial earnings gap with natives of similar observed skills (Borjas, 1987, 1990, 1994).

The second determinant of the economic assimilation of immigrants is the context of reception at the host country (Portes and Rumbaut, 1996). One important dimension of the context of reception relates to the government's migration policy and the social climate toward immigrants. State support is critical for immigrants' economic assimilation because it facilitates incorporation by providing financial resources that accelerate integration. The second dimension involves the country-specific labor market (e.g. demand for specific occupations and specific skills) and the economic cycle of the country's economy. These features are critical as they affect labor market outcomes of newcomers in the host countries. These two dimensions of the context of reception interact with immigrants' own resources and can consequently lead to different outcomes (Portes and Rumbaut, 1996). The different modes of immigrants' incorporation into host societies are thus a result of both individual characteristics (i.e. human capital attributes and unobserved attributes relevant to economic assimilation) and structural arrangements (contexts of reception) that circumscribe the economic opportunities, and ultimately the economic successes of immigrants.

Theoretically, the interplay between patterns of self-selection, context of reception, and the impact of both on immigrants' economic assimilation is complicated. Immigrants' self-selection to a certain

destination is shaped by the context of reception in that destination and, at the same time, affects their level of economic assimilation in that destination. Context of reception affects both immigrants' self-selection and their earnings assimilation. Furthermore, the two dimensions of the context of reception – migration policies and market structure at the host countries – might have opposing impacts on either patterns of self-selection or on earnings assimilation, or on both. For example, a country with a liberal migration policy and a flexible labor market may attract low-quality immigrants that can integrate relatively fast in that country's labor market. In addition, empirically assessing the impact of both factors, namely patterns of self-selection and the context of reception on the economic integration of immigrants is a difficult task. It requires an immigrant group from one country of origin whose members were able to choose freely between at least two destination countries that differ in their attractiveness to immigrants of varying levels of qualifications.

Fortunately, immigrants from the Former Soviet Union (FSU) who immigrated to Israel and Germany during 1990s and the beginning of the 2000s fit this description. Since its establishment in 1948, Israel has been granting free entry and citizenship upon arrival to Jewish immigrants and their family members. Almost as soon as the Jewish mass emigration from the FSU began in 1989, Germany became an alternative destination for these emigrants. Between 1990 and 2005 about 200,000 Jews from the FSU and their family members (including non-Jews) entered Germany as refugees, an option open to virtually all FSU Jews. This free choice that immigrants had can also be used to identify different patterns of self-selection among FSU Jews by comparing the observed and unobserved earnings enhancing attributes of the two groups, namely those who chose to migrate to Israel and those who made Germany their home. Thus, immigration from the FSU to Israel and Germany since 1990s provides a natural experiment with which to test the impact of both the reception context and patterns of self-selection on economic assimilation.

In addition to the Jewish immigrants, there was a large group of ethnic Germans who arrived in Germany from the FSU and other East European countries during the same period. These *Aussiedler*, like their Jewish counterparts who arrive in Israel, are entitled to German citizenship upon arriving in Germany. The ethnic Germans who arrived in Germany did not have alternative destinations to choose from. They had the German option only. However, one should expect their earnings assimilation in Germany to be faster than that of the Jewish immigrants since they were entitled to German citizenship upon arrival, while the Jewish immigrants need to wait over five years for citizenship. These two groups of immigrants to Germany differ not only in their context of reception, but also in their self-selection patterns. The ethnic Germans were, on average, less educated than their FSU Jewish counterparts, and unlike the Jews who mostly lived in the major cities of the FSU, they tended to reside there in rural areas. As a result, we have an additional situation in which the impact of both self-selection patterns and context of reception on immigrants' earnings assimilation can be closely studied.

In the present article we estimate the impact of both factors – self-selection and context of reception – on the earnings assimilation of FSU immigrants to Israel and of FSU Jews and ethnic Germans to Germany who arrived between 1994 and 2005. We use the Juhn et al. (1991) method of decomposing the difference in the earnings differentials between natives and FSU immigrants in the two host countries.

2. Context of reception and economic assimilation: Israel and Germany

Starting with the first dimension of the reception context – government policies and regulations – there are similarities between Germany and Israel with respect to immigration (Levy, 2002). Neither country has elaborate migration laws. Instead, both countries have ethno-cultural conceptions of

citizenship and both follow a descent-based migration policy, whereby ethnic Germans and Jews are preferred immigrants who receive citizenship upon arrival. Between December 1989 and the end of 2002, Israel received about 900,000 FSU Jews and their non-Jewish family members (Cohen, 2002), while Germany received about 1.8 million ethnic Germans from the FSU (Münz, 2002).

Immigration of Jews to Germany started in July 1990, and since then about 200,000 Jews from the FSU and their family members entered Germany as refugees, an option open to all FSU Jews. Since 2002, Germany has taken in more FSU Jewish immigrants each year than any other country, including Israel. German authorities recognize as Jewish Quota Refugees (JQR) persons with at least one Jewish parent (Becker, 2001; Dietz, 2000, 2004; Gruber and Rübler, 2002; Schoeps et al., 1996, 1999). This definition is somewhat more restrictive than the Israeli Law of Return, which defines as Jews persons with at least one Jewish grandparent. Both the Israeli and German definitions accept non-Jewish spouses and dependent children of Jewish immigrants. Unlike their Jewish counterparts in Israel and their ethnic German counterparts in Germany, JQR are not immediately entitled to German citizenship. Rather, they must live in Germany for six to eight years before they are eligible to apply for German citizenship. Citizenship is extremely important because it enables access to a wide range of employment opportunities, including public sector employment, and because it ensures fewer hurdles to self-employment (Heckmann, 2003).

In addition to immediate citizenship upon arrival, Germany and Israel provide their ethnic immigrants with generous programs of public assistance in order to facilitate their social and economic integration. In Germany, ethnic Germans (and Jewish immigrants) enjoy extensive state support such as housing allowances, initial absorption assistance, German language course, and unemployment benefits (Doomernik, 1997; Gruber and Rübler, 2002; Harris, 1999). Similarly, in Israel immigrants are entitled to a lump sum upon arrival, language classes, limited unemployment benefits, and retraining courses. However, the value of welfare support is considerably more generous and long-lasting in Germany than in Israel (Cohen et al., 2008; Dietz, 2000; Jewish Agency, 2003; Münz and Ohliger, 2003; Sikron and Leshem, 1998).

The two countries differ not only with respect to immigration policies and the amount and length of material assistance extended to immigrants, but also in the second dimension of the 'context of reception', namely labor market regulations, returns to skills, and the general rigidity of the labor market. Available evidence suggests that the Israeli labor market of the 1990s was less rigid than the German, as indicated by the level of earnings inequality. Earnings inequality in Israel is higher than in Germany (Gottschalk and Smeeding, 1997) and its level places it among the most unequal countries in the developed world (Kristal and Cohen, 2007). Furthermore, the rate of unionized workers is lower (Cohen et al., 2007) and the rate of external and contract workers is higher (Nadiv, 2004) in Israel than in Germany. In contrast to Israel, the quasi-corporatist system (DiPrete and McManus, 1996; Thelen, 1991) is still functioning in Germany and job security there is still widespread (Storrie, 2002).

It should be noted that ethnic Germans (*Aussiedler*) enjoy greater recognition of educational credentials acquired in the FSU than do JQR immigrants. This advantage is specifically important in Germany, a country well known for the strong signaling power of educational credentials (Müller et al., 1998), labor market rigidity (OECD, 1999), and institutional barriers for immigrants without recognized legal status, and above all, German citizenship (Heckmann, 2003). Jewish quota refugees do not enjoy the same degree of recognition for their educational credentials and labor force experience from abroad. Consequently, even though FSU ethnic Germans and Jews arriving in Germany enter the same labor market, the former, possessing German citizenship and profiting from the recognitions of their educational credentials, should have access to a wider range of employment opportunities.

Research on post-1989 immigrants from the FSU focused on both their self-selection on observed characteristics and on their economic assimilation and integration. In Israel, studies have mostly emphasized the high average levels of human capital of FSU immigrants (e.g. Beenstock and Ben Menahem, 1997; Eckstein and Weiss, 2002; Konstantinov, 1995; Leshem, 1997). Others have documented high employment levels of FSU immigrants in Israel achieved, many times, at the cost of occupational downgrading (Eckstein and Weiss, 2002; Flug et al., 1997; Rajzman and Semyonov, 1997, 1998; Semyonov, 1997; Stier and Levanon, 2003; Weinberg, 2001). Finally, the available evidence casts doubt on the ability of post-1989 immigrants to reach earnings convergence with native Israelis (Cohen and Haberfeld, 2007; Eckstein and Weiss, 2002).

There are few studies on the economic integration of post-1989 immigrants from the FSU in Germany, be they ethnic German or Jewish immigrants (Cohen and Kogan, 2005; 2007; Cohen et al., 2008; Doomernik, 1997; Gruber and Rübler, 2002; Kessler, 1996, 1997; Schoeps et al., 1996, 1999). Cohen and Kogan (2005), for example, found that Jewish immigrants in Germany and Israel show similar levels of observed attributes and that both groups failed to reach earnings convergence with natives. In addition, the economic success of ethnic Germans has been found to be limited. Despite the favorable treatment they receive in the German labor market (e.g. their pre-migration educational and occupational qualifications are formally recognized; see Bauer and Zimmermann, 1999; Koller, 1993; Zimmermann, 1999), they nevertheless experience high unemployment rates and downward mobility in Germany (Greif et al., 1999; Janikowski, 1999; Westphal, 1999).

3. Expectations

We have three general expectations, of which two are in opposite directions. First, because the Israeli market is less sheltered than the German labor market, Jewish immigrants who choose Israel should show higher levels of unobserved earnings-enhancing attributes than their immigrant counterparts who chose Germany. Consequently, highly motivated immigrants should expect higher-level outcomes in Israel. A second and opposing expectation suggests that the differences in the context of reception of the two countries should enable immigrants who arrive in Germany to fully assimilate there in a relatively shorter period of time as compared with Israel. Third, EG immigrants should benefit more from the market structure in Germany than their fellow JQR immigrants.

Starting with the first two expectations comparing between FSU Jewish immigrants, immigrants' destination choices are expected to be affected by the 'offer' extended to them by immigrant-receiving countries (Borjas, 1990, 1994). In the present case a major component of the offer is the welfare assistance to prospective immigrants. By this standard, Germany's offer is more attractive than the Israeli offer. But since much of the assistance in Germany is directed to non-employed immigrants, Germany should especially attract immigrants expecting to rely on public assistance for a longer period. In addition, market rigidity and earnings equality are supposed to be higher in Germany than in Israel. Consequently, the earnings differential between natives and immigrants is expected to be smaller in Germany than in Israel. These two characteristics of the German market should encourage the less skilled, less motivated immigrants to select Germany. On the other hand, however, immigrants who are not willing to experience downward occupational mobility are expected to choose Germany. There they can afford a much longer job search than in Israel. Consequently, we expect that first, JQR in Germany experience longer unemployment periods than their FSU counterparts who chose Israel. Second, we expect that that their longer job search helps JQR to find higher level jobs, and to have a steeper earnings-age profile.

Unlike JQR immigrants, EG are entitled to German citizenship and to recognition of their FSU education and experience. In the relatively rigid German market, citizenship and such recognition are

key facilitators of economic assimilation. As a result, we expect the returns on FSU education and FSU experience to be higher among EG than among JQR. An interesting question remaining is whether the citizenship advantage of EG will be offset by the educational and background advantages of the JQR.

4. Data

The same questionnaire was used for the German and Israeli samples. The interviews with the FSU immigrants in both countries were conducted by native-Russian speakers. The questionnaire was designed to collect detailed information about immigrants' earnings, education, market experience at the origin and destination countries, social networks, and more. However, for the purpose of this article we use only those variables included in the standard earnings model. The reason for this is that while most of the detailed data collected by us is relevant for immigrants not for natives, our baseline model is the earnings model of natives.

a) Germany

In order to derive the two samples of German immigrant groups – Ethnic German and JQR immigrants we used the onomastics method. This procedure links respondents' first and last names to their ethnic origin (Humpert and Schneiderheinze, 2000). Telephone directory lists provided the sampling frame for this study. The data collection took place during May–June 2007 and was carried out in the polling center of the University of Mannheim. A total of 891 interviews with Ethnic Germans and 655 with JQR immigrants were completed. Data were collected about the interviewees as well as their FSU spouses (if any), thus raising the number of cases in the two samples to 707 and 801 ethnic German men and women respectively, and 466 and 557 JQR men and women respectively. In the analyses, we made use of 288, 277, 137, and 349 ethnic German men, ethnic German women, JQR men and JQR women respectively for whom data on their earnings from salaried work were available.

The sample of the native-born German benchmark was drawn from the 24th wave (2007) of the G-SOEP. This is a representative sample of nearly 11,000 households, and more than 20,000 persons. Native-born Germans in this longitudinal survey were defined as people who were born in Germany, have a German citizenship, are not naturalized, and do not have any other citizenship. All these procedures yield a sample of 3214 and 3165 native-born German men and women respectively.

b) Israel

A polling firm was hired in order to conduct the survey. It used existing sampling frames of FSU immigrants in Israel and native-born Israelis that are often used by that firm. The data collection took place between July 2007 and March 2008 using telephone interviews. A total of 1303 interviews with FSU immigrants (534 men and 769 women) and 832 interviews with native-born Israelis (383 men and 449 women) who serve as the benchmark group were completed.

5. Descriptive results

a) Men

Table 1 presents the descriptive statistics for the five male groups analyzed – native-born Germans, Ethnic Germans (EG), Jewish Quota Refugees (JQR-Germany), native-born Israelis, and FSU immigrants who arrived in Israel. As expected, all groups of immigrants earn less than natives.

Table I. Means (SD) of variables – FSU immigrants and natives in Germany and Israel, men^a

Variable	Germany			Israel	
	Natives	Ethnic immigrants	Jewish (JQR) immigrants	Natives	FSU immigrants
Ln (earnings)	7.913 (0.576)	7.343*** (0.614)	7.433*** (0.879)	8.975 (0.694)	8.819** (0.527)
Earnings (Euro, NIS)	3,165.6 (1,871.6)	1,779.7*** (819.7)	2,218.4*** (1,375.9)	10,186 (9,978.1 _b)	7,694.8*** (4,106.8 _b)
Labor LF participation rate	93.2	92.8	88.4		
Unemployment rate	4.7	14.4***	24.8***	13.8	16.2
Ln (hours)	3.770 (0.239)	3.667*** (0.280)	3.634*** (0.342)	3.710 (0.489)	3.789 (0.384)
Hours	44.4 (8.6)	40.3*** (8.4)	39.6*** (10.3)	44.7 (15.3)	46.7 (12.4)
Age	41.7 (7.7)	39.0*** (7.2)	41.8 (7.1)	40.5 (8.8)	42.0 (8.2)
Married	0.64	0.96***	0.88***	0.78	0.81
Years since migration	–	9.0 (2.9)	9.2 (2.9)	–	10.9 (2.3)
BA (acquired in FSU or at destination)	0.27	0.18***	0.68***	0.37	0.53***
BA of FSU acquired in FSU	–	0.17	0.56	–	0.51
BA of FSU acquired at destination	–	0.01	0.12	–	0.07
Experience (acquired in FSU or at destination)	18.0 (8.4)	16.7*** (8.2)	17.6 (8.9)	17.2 (9.5)	19.0* (9.3)
Experience of FSU in FSU	–	10.8 (7.7)	12.5 (8.9)	–	9.9 (8.1)
Experience of FSU at destination	–	6.0 (3.2)	5.0 (2.8)	–	9.0 (2.9)
N (earnings variable)	3214	288	137	120	182

^aThe difference in means between natives and immigrants is significantly different from zero at:

* $p < .10$; ** $p < .05$; *** $p < .01$.

^bThe sample contains participants only.

However, some groups do better than others. FSU men in Israel are located at the top of the immigrant groups. They earn, on average, 76 percent of their native counterparts' earnings after spending, on average, 10–11 years in Israel. Within the FSU immigrant sample in Germany, JQR earn on average more than EG. After more than nine years, on average, in Germany the ratio of EG-to-native earnings is 56 percent and the ratio of JQR-to-native earnings is 70 percent. A partial explanation for these across-country earnings gaps with natives is the fact that while immigrants in Germany work fewer hours than do natives, immigrants in Israel work, on average more hours than do natives. As expected, immigrants in Germany have a much higher unemployment rate than that of natives, with JQR having the highest rate (about 25%), followed by EG with about 14 percent.¹

Jewish immigrants have exceptionally high levels of education. About two-thirds of working JQR and more than one half of working FSU immigrants in Israel have an academic degree, as compared with slightly more than one quarter of native Germans and more than one third of native Israelis. The lowest level of higher education (18%) is that of EG men.² EG men are slightly younger than the two groups of Jewish immigrants as well as than natives. Consequently, they also have fewer years of labor market experience. As expected, only a fraction (between one fourth and one third) of the market experience of immigrants in Germany was obtained in that country, as opposed to their immigrant counterparts in Israel whose almost one half of their market experience was accumulated in Israel. Finally, immigrants tend much more than natives to be married.

b) Women

Table 2 presents the descriptive statistics for the female groups – natives and immigrants who arrived from the FSU. On average, immigrant women earn less than natives. Similar to their male counterparts, FSU immigrant women in Israel earn 76 percent of their native counterparts' earnings after spending, on average, 9–10 years in Israel. This ratio is much higher than the ratios found in Germany (67% for JQR and 55% for EG women). Similar to the case of men, this smaller earnings gap can be attributed, at least in part, to the higher number of working hours found among immigrants than among native Israelis, and the lower number of hours among immigrants than among native Germans. While immigrant and native women show similar rates of unemployment in Israel, immigrant women in Germany have a much higher unemployment rates than that of natives.

FSU Jewish immigrant women in Germany and Israel are older than native Germans and Israelis as well as than EG women, and they have higher levels of human capital than native and EG women. Similar to men, two-thirds of JQR working women and more than half of working FSU immigrant women in Israel have an academic degree (acquired mostly in the FSU).³ All groups of immigrants have more experience than do natives, partly because they are less likely to be married (in Israel) and in most cases they are less likely to have young children than native women.

When comparing the human capital gaps between the Jewish immigrant men and women and their native counterparts in Germany and in Israel, two differences between the two countries can be easily observed. First, the educational gap between JQR and native Germans is much wider than the gap between FSU immigrants and natives in Israel. This country-based difference is the result of two factors – the lower level of native Germans' education compared with the education of native Israelis, and the higher level of JQR education compared with their Israeli counterparts. Second, unlike Germany, a large portion of the experience of FSU immigrants who live in Israel was accumulated in Israel. This difference resulted from the fact that FSU immigrants in Israel have high rates of immediate labor market entry.

In sum, the earnings gap between FSU immigrants and natives are wider in Germany than in Israel. Part of this gap is explained by differences in the human capital structures of the immigrants in the two countries. FSU immigrants in Israel have relatively high levels of relevant experience while the immigrants in Germany have only a few years of work experience in their host country due to their long unemployment intervals in Germany.

8. Decompositions

Clearly, the three groups of immigrants analyzed here show different patterns of earnings assimilation. In order to examine the sources of these differences, we apply the Juhn et al. (1991) method for decomposing difference in differentials. This method breaks down a difference between two

Table 2. Means (SD) of variables – FSU immigrants and natives in Germany and Israel, women^a

Variable	Germany			Israel	
	Natives	Ethnic immigrants	Jewish (JQR) immigrants	Natives	FSU immigrants
Ln (earnings)	7.305 (0.750)	6.675*** (0.785)	6.749*** (0.931)	8.514 (0.533)	8.201*** (0.605)
Earnings (Euro, NIS)	1,885.6 (1,274.9)	1,038.3*** (719.6)	1,262.0*** (1,140.0)	5,720.6 (3207.7)	4,349.2*** (2,686.5)
Labor LF participation rate	82.6	76.4	76.1		
Unemployment rate	7.4	21.1***	35.4***	11.3	11.7
Ln (hours)	3.395 (0.483)	3.210*** (0.533)	3.243*** (0.520)	3.465 (0.330)	3.561*** (0.383)
Hours	32.8 (12.5)	28.0*** (12.2)	28.7*** (12.1)	33.6 (9.9)	37.4*** (11.4)
Age	42.0 (7.8)	42.5 (7.4)	44.2*** (6.6)	39.4 (8.0)	41.5*** (7.3)
Married	0.63	0.85***	0.82***	0.79	0.62***
Years since migration	–	9.7 (3.0)	9.3 (2.9)	–	9.6 (2.3)
BA (acquired in FSU or at destination)	0.26	0.23	0.65***	0.47	0.56*
BA of FSU acquired in FSU	–	0.22	0.60	–	0.51
BA of FSU acquired at destination	–	0.01	0.05	–	0.08
Experience (acquired in FSU or at destination)	16.6 (8.3)	18.6*** (9.3)	18.3*** (8.4)	15.7 (7.9)	17.5*** (8.0)
Experience of FSU in FSU	–	13.2 (8.2)	14.1 (8.2)	–	10.5 (7.5)
Experience of FSU at destination	–	5.5 (3.2)	4.2 (3.1)	–	7.0 (2.7)
Young children	0.13	0.17	0.08	0.52	0.20***
N (earnings variable)	3165	277	349	170	349

^aThe difference in means between natives and immigrants is significantly different from zero at:

* $p < .10$; ** $p < .05$; *** $p < .01$.

^bThe sample contains participants only.

gaps (i.e. a difference between two differences) into several components. In our case, this method enables us to decompose the difference in earnings gaps between two groups (e.g. native-born workers and immigrants) in two countries into two components: a) a portion due to inter-country differences in returns to observed and unobserved characteristics, at least partially driven by the differences in market structures; and b) a portion due to differences in the mean attributes of immigrant groups. The second portion, which is due to immigrant groups' attributes, can be further broken down into two factors – the relative difference in the groups' measured characteristics, and

the relative difference in the unmeasured characteristics of the two immigrant groups.⁴ The first component (a) above) captures the impact of differences in the labor market structure of the two countries. Admittedly crude, this proxy for differences in ‘contexts of reception’ still provides us with useful insights into such differences. The second component (b) above) captures the impact of differences in immigrants’ self-selection patterns to the two countries.

There are two relevant comparisons in the context of FSU migration to Germany and Israel. The first is the comparison between Jewish immigrants who chose Germany as their destination and Jewish immigrants who chose Israel. Both groups could freely choose each one of the two destinations. There are both self-selection and country-specific earnings structure issues involved in this comparison. In terms of self-selection, we are primarily interested whether those Jews who preferred Germany over Israel have different observed and unobserved characteristics when compared with the characteristics of those who chose Israel. The answer to this question can help us to better understand differences between levels of earnings assimilation of the two groups.

The second relevant comparison is that of JQR and EG immigrants in Germany. Since this comparison involves the study of two groups who arrived in Germany in the same time, they were presumably faced with the same market structure upon arrival. Consequently, and unlike the first comparison between FSU Jewish immigrants in Germany and Israel, the comparison between JQR and EG immigrants does not require controlling for differences in market structures. However, these two groups had different employment opportunities since EG immigrants, unlike JQR, become German citizens upon arrival. Thus, the possible explanations for differences between these two groups in earnings assimilation are first, differences in their self-selection patterns (which we can account for), and second, better opportunities for EG than for JQR immigrants (which cannot be accounted for).

Starting with the first comparison, we first present the mean ranking of Jewish immigrants on the natives’ earnings and residual distributions in Germany and Israel. In so doing, we take into consideration between-country differences in earnings inequality. Immigrants’ mean ranking on the natives’ earnings distribution is the result of the average levels of immigrants’ measured as well as unmeasured earnings determinants. Their mean ranking on the natives’ (earnings) residual distribution, however, is a function of their unmeasured determinants only (Table 3 and 4).

The results point at two separate selection processes among Jewish immigrants to Germany and Israel. While Jewish men arriving in Israel have higher levels of both observed and unobserved characteristics than Jewish men heading for Germany, Jewish women arriving in Israel have lower levels of characteristics than their Jewish counterparts choosing Germany as their destination. Higher-level characteristics (both observed and unobserved) are manifested by a higher mean percentile ranking of immigrants on natives’ earnings distributions (e.g. 37th percentile for Jewish men in Israel as compared with 25th percentile only in Germany). A higher-level of unobserved characteristics is manifested by a higher mean percentile ranking of immigrants on the natives’ residual distribution (41st and 29th percentiles of the natives’ residual distributions for Jewish men in Israel and Germany respectively).

When turning to the second comparison – that of JQR and EG immigrants, we find that the mean ranking of both groups on the natives’ earnings distributions is very similar, with a small advantage to JQR over EG immigrants. However, EG immigrants show a higher mean ranking in terms of natives’ residual distribution. This finding might indicate that EG immigrants have higher levels of unobserved earnings-determinants than JQR immigrants arriving in Germany.

Table 5 presents the results of the decomposition of the difference between Israel and Germany in the differences in mean (ln) earnings between natives and Jewish immigrants who arrived in the two countries between 1994 and 2005 (‘difference in differences’). To this end, earnings models of

Table 3. Mean percentile ranking of natives and Jewish immigrants on the earnings and residual distributions of natives in Germany and Israel, by gender^a

Variables	Germany		Israel	
	Men		Women	
	Native-born	JQR immigrants	Native-born	JQR immigrants
Mean ranking on natives' earnings dist.	0.50	0.25	0.50	0.27
Mean ranking on natives' residual dist.	0.50	0.29	0.50	0.29
N	3098	130	3022	123
			Immigrants	
			Native-born	Immigrants
			0.50	0.37
			0.50	0.41
			118	176
			141	304

^aThe independent variables included in the earnings equations used for deriving the residual distributions are (ln) working hours, academic degree, experience and its squared term, age, and marital status. The variable indicating the presence of children younger than six years is added to the women's equations.

Table 4. Mean percentile ranking of natives and immigrants on the earnings and residual distributions of native Germans, by gender^a

Variables	Jewish Quota Refugees		Ethnic Germans	
	Men		Women	
	Native-born	JQR immigrants	Native-born	JQR immigrants
Mean ranking on natives' earnings dist.	0.50	0.25	0.50	0.27
Mean ranking on natives' residual dist.	0.50	0.29	0.50	0.29
N	3098	130	3022	123
			Ethnic Germans	
			Native-born	Ethnic Germans
			0.50	0.22
			0.50	0.32
			3098	278
			3022	247

^aThe independent variables included in the earnings equations used for deriving the residual distributions are (ln) working hours, academic degree, experience and its squared term, age, and marital status. The variable indicating the presence of children younger than six years is added to the women's equations.

Table 5. Decomposition of the differences between Israel and Germany in mean (ln) earnings gaps between natives and Jewish FSU immigrants who arrived during 1994–2005: salaried men and women, 25–54 years of age^a

	Total difference in differences between Israel and Germany ^b	Due to relative difference in natives' and immigrants' measured characteristics	Due to relative difference in natives' and immigrants' unmeasured characteristics	Due to difference in mean group-specific	Due to difference between Germany and Israel in returns to observed characteristics	Due to difference between Germany and Israel in returns to unobserved characteristics	Due to difference between Germany and Israel in market structure characteristics
	1 (4+7)	2	3	4 (2+3)	5	6	7 (5+6)
Men							
LN earnings (SE)	-0.298** (0.116)	-0.073 (0.075)	-0.303** (0.128)	-0.376** (0.154)	0.033 (0.045)	0.045 (0.071)	0.078 (0.84)
Percent of total gap	100%	-25	-102	-127	11	15	26
Women							
LN earnings (SE)	-0.194** (0.098)	-0.111 (0.074)	0.117 (0.130)	0.007 (0.143)	0.017 (0.039)	-0.218** (0.087)	-0.201* (0.101)
Percent of total gap	100%	-57	60	3	9	-112	-103

^aThe independent variables included in the earnings equations used for the decompositions are (ln) working hours, academic degree, experience and its squared term, age, and marital status. The variable indicating the presence of children younger than six years is added to the women's equations.

The decomposition is based on the relative ranks of the residuals and the inverse residual distribution functions (nonparametric). A decomposition analysis based on standardized residuals and residual standard deviations (parametric) yields identical results to those presented in the table.

^b $[D_{(nb-imm) Israel} - D_{(nb-imm) Germany}]$.

* $p < .1$; ** $p < .05$.

native-born men and women in each country were first estimated. The dependent variable in each equation is the (ln) monthly earnings. The list of earnings determinants includes (ln) monthly hours of work, academic degree, total years of experience and its squared term, age, and an indicator for being married. An indicator for presence of children younger than six years was added to the women's equations.

The results of the earnings equations for natives are used to decompose the between-country difference in native-to-immigrant earnings gaps. The inter-country difference in earnings differentials (Table 5, column 1) is further decomposed into two main components. The first (column 4) is the portion of the difference due to differences between the mean measured (column 2) and unmeasured (column 3) attributes of the two immigrant groups in the two countries (Jewish immigrants in Israel and JQR in Germany). The second component (column 7) is the portion of the difference in earnings gaps due to dissimilarities in the earnings structures of the two countries. Like the first component, this one is also made up of two parts. The first (column 5) provides the between-country differences in returns to observed characteristics, and the second (column 6) provides the differences in returns to unobserved characteristics (differences in residual inequality) between the two countries.

Finally, we used the bootstrap method for deriving confidence intervals for each of these decomposed components. Bootstrapping allows us to test whether the difference between Israel and Germany in the immigrant-to-native differentials on each component (e.g. unobserved attributes) has an impact that is significantly different from zero on the total between-country difference in differentials.

The major source of the between-country difference in the earnings gaps between native and immigrant men is the inter-country difference in the unobserved attributes of immigrants, and the major source of between-country difference between native and immigrant women is the inter-country difference in market structure (which is the closest proxy we can have for the inter-country difference in 'context of reception').

Starting with men, there is a total difference of -0.298 log points between Israel and Germany in the earnings gap between native and immigrant men (column 1). Namely, the gap between native and immigrant earnings in Israel is smaller by 0.298 log points than the equivalent gap between natives and JQR immigrants in Germany. Put differently, based on earnings means only, immigrants to Israel did much better (relative to natives) than did JQR immigrants to Germany.

Recall that this total gap between the two countries is decomposed into two main components – a portion attributed to the differences between the two countries in the native-to-immigrant differences in mean attributes (column 4), and a portion attributed to the differences between the two countries in market returns to natives (column 7). The effect of the market structure component (column 7) is found to be very small and statistically not different from zero. In other words, differences in market structures between Israel and Germany do not explain why FSU immigrant men do better in Israel than they do in Germany. The entire difference between the two countries can be attributed to differences in the native-to-immigrant difference in mean attributes. This difference is further broken down into two components – the first is attributed to the relative difference between Israel and Germany in natives' and immigrants' observed characteristics (column 2), and the second to the relative difference between these two countries in natives' and immigrants' unobserved characteristics (column 3). Column 3 shows that 0.303 log points out of the 0.298 (102%) between-country total difference in earnings gaps between native men and the FSU immigrant men (column 1) are attributed to the higher gap in Germany than in Israel of the natives-to-immigrants unobserved earnings determinants. These results indicate that when it comes to unobserved earnings determinants, FSU immigrant men to Israel belong to a much more selective group than their counterparts in Germany. Their more intense positive self-selection on unmeasured earnings-enhancing characteristics is manifested in their better position on the Israeli earnings distribution, as compared with

the position of JQR immigrants on the German distribution. Clearly, we do not know what these unmeasured attributes are. What we do know, however, is that higher levels of these attributes among FSU immigrants to Israel are the main reason for their better economic assimilation in Israel as compared to the assimilation of JQR immigrants in Germany.

Turning to FSU and JQR immigrant women to Israel and Germany, Table 5 shows that the narrower earnings gap between FSU and native Israeli women can be entirely attributed to differences between the two countries in market structure. Unlike the German market, the Israeli market enables immigrant women to have earnings that are more similar to natives' earnings. The decomposition results show no difference between FSU women in Israel and JQR women in Germany on their observed or unobserved earnings determinants.

In sum, the results regarding Jewish immigrants in Germany and Israel vary by gender. Among men, the group of FSU immigrants to Israel is found to be superior to the group of JQR immigrant men to Germany on unobserved earnings determinants. Among women, there are no differences between FSU and JQR immigrants to Israel and Germany respectively.

The comparisons between EG and JQR men and women does not require any controls for differences in labor market structures. Both groups arrived during the same years to the same market, and as a result were faced with the same market structure upon their arrival and during their first years in Germany. In this case, the only factors that can be responsible for this differential is the difference between the two immigrant groups in earnings determinants (which we account for), and the better employment opportunities of EG (which cannot be controlled for with our data).

The results are simple and clear. The difference between the earnings of native Germans and JQR immigrants (both men and women) is smaller than the difference between native Germans and EG immigrants. Although these differences in differentials are not statistically significant, they are entirely the result of the (significantly) higher levels of measured earnings' determinants of JQR immigrants as compared with the same determinants among EG immigrants (results not shown).

In sum, three groups of immigrants from the FSU were studied: Jewish immigrants who arrived in Israel (FSU), Jewish immigrants who arrived in Germany (JQR), and ethnic Germans who arrived in Germany (EG). The most selective group among male immigrants is that of FSU immigrants in Israel (mainly due to their unobserved attributes), followed by JQR immigrants in Germany (mainly due to their observed attributes). The least selective group is that of EG immigrants. Their relative advantage over JQR in the German labor market does not cancel out the JQR's advantage in observed attributes. Among women, while no differences between Jewish immigrants to Israel and Germany were found, EG women scored lower on the observed earnings determinants. In addition, between-country differences in market structure led to a better assimilation of FSU immigrant women in Israel than in Germany.

9. Discussion

In the present article we studied the impact of two inter-related factors – self-selection and context of reception – on the earnings assimilation of FSU immigrants to Israel and of FSU Jews and ethnic Germans to Germany. The experiment-like situation of FSU Jewish immigrants who could freely choose between Germany and Israel as their destination provided us with a unique research setting. These immigrants belong to the same population at risk (i.e. the pool of potential immigrants – Jews living in the FSU). Studying them at the two labor markets of destination enabled us to estimate separately the two effects (i.e. self-selection and context of reception) on their earnings assimilation. Our expectations were based on two, somewhat conflicting factors, namely the immigration policies adopted by the two countries, and the nature of their respective labor markets. On

the one hand, the German policy is much more generous than the Israeli, and especially so with respect to ethnic Germans. On the other hand, the Israeli market is much more flexible than the German market.

The results clearly show that the earnings gap between FSU immigrants and natives is larger in Germany than in Israel. Part of this gap is caused by differences in the human capital structures of the immigrants in the two countries. While there are small educational differences favoring JQRs as compared to their Jewish counterparts in Israel, FSU immigrants in Israel obtain much higher levels of relevant experience at their destination. Due to the long unemployment spells experienced in Germany, immigrants there were only able to obtain a few years of work experience in their host country. In general, immigrants' labor market attachment is much stronger in Israel than in Germany.

Notwithstanding the impact of the more generous benefits provided to the unemployed in Germany, these differences might indicate that those Jews who chose Germany are different than those who chose Israel on two dimensions. First, it might indicate at higher levels of unobserved attributes among FSU immigrants in Israel than those of their counterparts in Germany. Second, it could be related to different job-search strategies adopted by the two groups. While FSU immigrants in Israel try to minimize their search time by taking the first job available to them, JQRs maximize their search time in order to find the highest-paying job which fits their qualifications. These differences in job-search patterns are, of course, not independent of the differences between the immigration policies formulated in the two countries. The third group studied – that of ethnic Germans – shows the lowest levels of human capital of all three groups.

The immigrants who arrived in Israel were more economically successful than the immigrants who arrived in Germany. While differences in unobserved attributes explain the better assimilation of Jewish men in Israel than in Germany, differences in market structure were found to explain the better earnings assimilation of Jewish women in Israel. In sum, both – patterns of self-selection (among men) and market structure (among women) – were found to be responsible for the more successful earnings assimilation of FSU Jewish immigrants in Israel than in Germany.

Within the FSU immigrants in Germany, the Jewish immigrants did better than the ethnic Germans despite the citizenship and recognition in the FSU academic credentials granted to EG immigrants upon their arrival to Germany. The JQR did better due to their higher levels of measured attributes. True, these two populations of immigrants were drawn from two entirely different populations in the FSU. While the ethnic Germans arrived from low-educated, mainly rural population, the JQR belonged to a highly educated, urban population. Thus, the human capital with which the FSU Jewish immigrants arrived to Germany was found to be more important to economic assimilation than the leverage provided by the forms of formal status granted to the ethnic Germans.

To conclude, our findings show that within the 'context of reception', the role of labor markets is more significant than that of governmental migration policies in determining both patterns of self-selection and economic assimilation. First, less rigid markets attract the more motivated immigrants, as indicated by the comparison between Jewish immigrant men in Israel and Germany. Second, the operation of the market is much more important than any formal policies in enhancing economic assimilation of immigrants, as indicated by the comparisons between JQR and EG immigrants in Germany and between Jewish immigrant women in Israel and Germany.

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Notes

1. The unemployment figures in our Israeli sample are much higher than those derived from the 2007 Israeli Labor Force Survey (4.9, 3.6, 5.9 and 6.7 for native-born men, immigrant men, native-born women, and immigrant women respectively). These differences are probably the result of the higher likelihood of unemployed people to be at home and to respond to the interviewers, and the tendency of people to report that they are unemployed even when they are not seeking employment actively. Some scholars call for a correction of possible sample selection bias when estimating wage models of groups with a relatively low labor force participation rates. Such a correction is based on referring to wage offers rather than actual wages (Heckman, 1980). In our case, such a correction is relevant for the German sample only because the Israeli one is composed of labor force participants only. The most widely used correction is that developed by Heckman (1980). However, 'although the Probit selection model is ingenious, its value in practice is controversial' (Little and Schenker, 1995: 57). The most serious problem with this model is its lack of robustness (e.g. Manski, 1989). A relatively small departure from its assumptions (e.g. normality) or about the way that selection occurs (Winship and Mare, 1992) may lead to large biases in the estimates. Another practical problem associated with this model is that of identification. In order to get stable estimates, it is necessary to have some variables that are used exclusively in the probit equation and not used in the wage (Y) equation. Theoretically, it is very difficult, of course, to find explanatory variables that determine wage offers but not wages. For these reasons, more and more researchers many times intentionally avoid using the two-step probit model (e.g. Blau, 1998).
2. The ratios of those who arrived in Germany and Israel with an academic degree *obtained in the FSU* out of *all* arrivals are 18.4, 58.6, and 42.7 among EG men, JQR men and FSU immigrant men in Israel respectively.
3. The ratios of those who arrived in Germany and Israel with an academic degree *obtained in the FSU* out of *all* arrivals are 22.5, 61.0, and 46.3 among EG women, JQR women, and FSU women in Israel respectively.
4. See Haberfeld (forthcoming) for a detailed discussion about the application of this method.

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