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Parental Wealth & the Living Standards of Young Couples in Israel

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Seymour Spilerman
Columbia University
New York, NY

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Center for Social Development
Washington University
George Warren Brown School of Social Work
Campus Box 1196
One Brookings Drive
St. Louis, Missouri 63130
Telephone: (314) 935-7433
Fax: (314) 935-8661
http://gwbweb.wustl.edu/csd
E-mail: csd@gwbmail.wustl.edu

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I. INTRODUCTION

There are two basic mechanisms by which parents transmit economic advantage to their children: via investments in human and cultural capital and through material assistance. Parental transfers in the form of socialization and schooling have been intensively studied, especially under the rubric of the human capital/occupational attainment model (e.g., Becker 1975, Blau and Duncan 1967). Parental transfers of material resources--intervivos gifts and bequests--have also been well documented, especially in recent years (e.g., McGarry and Schoeni 1997; Cox and Rank 1992; Holtz-Eakin and Smeeding 1994), but little attention has been given to examining the consequences of transfers for the well being of offspring, though see Oliver and Shapiro (1995) and Conley (1999) for an important beginning. Even less consideration has been directed to assessing the respective contributions to living standards from the two transfer mechanisms, despite Becker's (1981) early insights into the subject.

The theoretical framework that is most developed for explaining a family's living standard is an outgrowth of research into labor market attainment. Since the main determinant of attainment (measured by earnings or occupational status) that is also amenable to exogenous manipulation is school achievement, much policy research has been focused on strategies for improving educational performance, motivated by a desire to reduce economic dependency and raise living standards, as well as to enhance economic productivity in the population.

For most American families labor market attainment is, indeed, the principal determinant of economic well-being. Estimates of the proportion of household income deriving from labor market activity are in the neighborhood of 84% (Lenski 1984, p. 188). Further reinforcing the inclination of social scientists to focus attention principally on labor market issues, the theoretical formulations that have guided much research in the stratification tradition (e.g., functional theory) have tended to emphasize the linkage between "services performed" and social rewards--a formulation more attuned to explaining inequality in society on the basis of labor market attainments than in terms of inherited wealth or financial assistance from parents (Davis and Moore 1945).

At the same time, there is a growing appreciation of the role of household wealth, apart from labor market earnings, as a determinant of living standards and economic well-being (Sherraden 1991, Chap 8; Spilerman, 2000). This assessment comes from a recognition that wealth has attractive features which makes it a vital supplement to labor market rewards. In particular, the income that derives from wealth does not require a tradeoff between leisure and work; unlike labor market earnings the income flow continues in times of illness and unemployment. Moreover, if the income generated from wealth holdings is taken in the form of capital gains, it is taxed more lightly than earnings--the maximum rate on capital gains is currently 20%, versus 39.6% for labor market income. Last, in times of economic crisis the wealth principal can be consumed, which is hardly the case with "human capital."

Beyond the role of household wealth in bolstering economic security, wealth holdings contribute to living standards in several ways. Household wealth can be held in a form that can be enjoyed (even as it appreciates), such as a fine painting or a vacation home. Wealth reduces the need to purchase life insurance, to save for retirement or to offset a possible future crisis, permitting a

larger share of household income to be directed to "life style" expenditures. Even modest asset holdings, necessary to establish credit-worthiness, can facilitate entry into the credit market, permitting a small business to be started, or a home or car purchased, on the basis of a downpayment and a bank loan.

The growing recognition of the importance of asset holdings has stimulated new interest in the intergenerational transmission of wealth, along with the subsidiary theme of the impact of transfers on the living standards of offspring--witness the year 2000 election campaign debates on estate taxation. It is the accepted wisdom that a substantial proportion of current household wealth derives from parental transfers, though the precise figure is in dispute (Modigliani 1988; Kotlikoff and Summers 1981, 1988). In policy discourse it is also recognized that a large transfer of parental resources can give the recipient "a leg up" in the competition for an attractive living standard, and this raises issues of equity. Yet, though much has been written about the life styles of the super rich who subsist on large inheritances (e.g. Mills 1956; Baltzell 1958), few studies have been carried out to reveal how modest levels of parental transfers might affect the living standards of offspring.

The intent of the present paper is to begin an investigation of the impact of parental wealth on living standards in the State of Israel. Israel was chosen as the research setting because there is reason to expect that household wealth has a greater impact on living standards in that country than in the United States (see below). To the extent this is true, the task of unraveling the pathways by which parental wealth influences living standards should be easier with Israeli data. At the same time, it must be noted that some of the structural arrangements that make for the heightened importance of wealth in Israel have little counterpart in the United States. From the perspective of extrapolating to the American context, this is a disadvantage. However, it is an asset if one seeks to understand the variety of ways by which elements of social structure can influence the respective contributions made by household wealth and labor market income to living standards.

II. HOUSEHOLD WEALTH IN ISRAEL.

There are several reasons why household wealth may have a greater impact on living standards in Israel than in the United States.

1) The cost of maintaining what is considered by Israelis to be a minimally acceptable living standard is high, relative to median earnings. Automobiles and household appliances, viewed by many to be necessities, are subject to steep import duties that can raise an item's price substantially in excess of its cost in Europe or the U.S. The median earnings in Israel, in contrast, is low. As a result, a considerable segment of the middle class--not just poor families--consumes its monthly earnings, restitution payments from Germany when available, and draws upon assistance from family members in order to cover its living expenditures (Plessner 1994, pp. 81-82). This existential situation was summarized some years ago in the headline of an Israeli newspaper reporting results from a consumer expenditure survey: "Income 2,800 Shekels, Expenditures 4,200 Shekels?" (Yedeot Achronot 1991, p. 17).[1]

2) The wealth/income ratio in Israel is high. From U.S. House of Representatives (1992, pp. 1446, 1573) a net worth/income ratio of 1.31 was calculated for the United States, based on median figures. Israel has not conducted a wealth survey, but using the median value of owner-occupied dwellings as a proxy for net worth, a ratio of 4.30 was calculated (Israel Central Bureau of Statistics 1994a, p. xiii; Israel Central Bureau of Statistics 1994b, p. 106). While this computation pertains to homeowners--73% of the population--even assuming that non-owners have zero net worth the ratio would be 3.14, still more than twice the U.S. figure.[2]

To summarize: in Israel, expenses are high, the median salary is low, but the majority of the population has a considerable net worth, relative to income, though much of this is tied up in home equity.

There are two further considerations that pertain, especially, to young Israeli couples.

3) Israelis are home owners. Rental tenancy is not the norm and few apartments are available for long-term rental. Some 73% of householders own their residence, and much of the remaining tenancy is accounted for by new immigrants residing in temporary quarters and by collective institutional arrangements, such as kibbutz dwellings.

What this means is that young Israeli couples must seek to purchase a residence early in their marital career. Yet, apartment prices are high, especially in the main cities. To ease the burden of acquisition the government offers subsidized mortgages to young couples (and to immigrants). But the subsidies are small, unless one is prepared to reside in an underdeveloped region of the country or, in the recent past, in the disputed territories of the West Bank (Elmelech 1992). Because large down payments are usually required and bank loans are difficult to secure, young couples--even young professional couples--face a liquidity constraint at the time of marriage. This makes parental assistance critical if the couple is to purchase housing, especially a residence in the more desirable, central region of the country.

4) Tax policy in Israel. Despite a high tax rate on labor market earnings--the top marginal rate was 50% in 1995, the date of the survey--there is no tax on capital gains and no taxation of intergenerational transfers, whether gifts or bequests. Thus, wealth appreciation is treated much more favorably in tax law than earned income, and asset transfers can be carried out unimpeded by considerations of taxation. This also makes for a strong transmission of advantage across generations, which tends to reinforce a major fault line in Israeli society, between Ashkenazim (Israelis of European descent) and Sephardim (Israelis of North African and Middle Eastern origin), analogous to the racial divide in the U.S. In Israel, the former are more educated, have higher incomes and greater household wealth with which to assist their children.

The preceding account makes clear the importance of intergenerational transfers in Israel and the life stage at which the transfers are most consequential, namely time of marriage. For this reason the present paper examines the impact of parental wealth on various aspects of the living standards of young couples in the years immediately following marriage. Particular attention is given to the acquisition of a residence because this is a critical step in the establishment of the new family.

A question of equal importance for family welfare concerns the long term consequences of early parental transfers. How much of a head start does an early advantage convey to offspring in their accumulation of household wealth and in their standard of living over the life course? While not treated here, this is the subject of a companion paper (Spilerman 2001)--an investigation into the effects of parental wealth and early transfers on the living standards of Israelis at later stages in their lives.

The data for the study come from the 1994/95 Survey of Families in Israel, in which 1,607 respondents were interviewed on topics relating to work behavior, income, wealth, assistance received from parents, and views about financial obligations between parents and children.[3] The data cover the urban, Jewish population of the country; Israeli Arabs were excluded because the basis of social obligation in that community is more rooted in tradition and local village arrangements, and a different study design would have been required to probe these intergenerational linkages.

Additionally, to be included in the survey, respondents had to be in their first marriage, with at least one spouse between the ages of 30 and 65, and at least one spouse having resided in Israel during the prior ten years. A comparison between characteristics of the sample and the civilian labor force in Israel is reported in Appendix Table A-1. Except for differences in the age distribution (which reflects the sample design), the correspondence is fairly close.

III. MOTIVATION AND FORMULATION OF THE STUDY

Marriage is a critical time in the lives of young Israelis. Most marry shortly after completion of military service, a four year obligation for males during much of the period covered by survey questions about the early marital years. The accumulated resources of young couples therefore tend to be modest, yet the financial demands of launching a new household are considerable, especially the need to purchase and furnish a residence. Because these expenses often exceed a young couple's resources, newly marrieds tend to turn to their parents for assistance. In Israel it appears to be normative for parents to go to considerable lengths to provide financial support, possibly in recognition of the reality that, in the absence of assistance, their children's living standard would be severely compromised.

Responses are reported in Table 1 to three questions from the survey that tap parental attitudes toward the provision of financial aid to adult children. Question 1 is a scale item, assessing the perceived difficulty in Israel of coping without financial support from parents. Fully 90% of the sample believe that this is very difficult, if not impossible. Question 2 inquires about the duration of a parents financial obligation. Some 57% of parents believe that the obligation extends beyond a child's marriage year; indeed, until the time when assistance is no longer required. Question 3 measures the force of the parental obligation. Some 45% of respondents hold the view that it is a parent's responsibility to fund the bulk of a child's home purchase costs--even if this means working longer hours or accepting a second job.

Table 1 about here

The preceding is a rather strong expression of parental values and sets the stage for investigating the relationship between parental assets --a key ingredient in the ability to provide assistance-- and the living standards of young couples. Consequently, in this paper, we explore the impact of parental wealth on the well-being of offspring in their early years of marriage. The data come from survey items which inquired about the respondent's living standard shortly after his/her marriage and about the resources of the two sets of parents of the young couple.

Dependent variables. The living standard variables cover home and automobile ownership, formal education by either member of the couple, and include a subjective measure of well-being. All questions were asked in reference to the first three years of marriage. Home and automobile ownership are dichotomous variables; formal education is coded 0-2, a count of the number of spouses who attended school during all or part of the three year period. The subjective living standard variable is coded 1-5, with 1= much below the average in Israel, and 5= much above the average. The distribution of responses on the four dependent variables is reported in Table 2. Excluded from the tabulation are 73 couples who were married for less than three years at the time of the survey; the dependent variables are considered to not be defined for these households.[4]

Table 2 about here

Explanatory variables. The regressors of primary interest are of two sorts: variables that tap the couple's ability to finance a particular purchase from its own income and savings, and measures of the parents' ability to assist with the expense of an item. Regarding the couple's own resources, we lack income data for respondents in their early years of marriage. Moreover, were such data available they would be of questionable utility, considering the range in year of marriage in our sample--from 1949 to 1994--and the great variation in the inflation rate during this period, from single digit to values that exceeded 200% annually in the early 1980s. Instead, we proxy household income in the early years of marriage by three variables: husband's education, number of spouses employed, and age of husband at marriage. The last is intended to tap both the income returns to labor market experience and the accumulated savings of the principal wage earner.

The education variable requires special treatment. The measure of husband's education available to us (EducH) is years of schooling in 1995, the survey year. Some 23% of husbands in the sample continued their studies after marriage, either full-time or part-time; for them, the reported schooling level probably overstates educational attainment at time of marriage. Rather than delete these observations, we correct for the mismeasurement by introducing an indicator variable--EducH(i3)--coded "1" if the husband continued studies after marriage, and "0" if he did not.

With this coding, b_1 in the regression,

$$\text{Depvar} = b_1\ \text{EducH} + b_2\ \text{EducH(i3)} + \text{other terms} \qquad (1)$$

reports the effect of husband's education at time of marriage on a dependent variable, while b_2 conveys the average additional effect from mismeasurement of the education term. A negative

b_2 is expected and would suggest that, where the husband continued his studies, the couple's reported living standard in the early years of marriage was below the value predicted by the education term.

The measurement of parental wealth at time of marriage also poses problems, not the least being the wide range in year of marriage and the fluctuation in real asset values due to the changing rate of inflation. But an even greater difficulty is posed by the immigrant background of Israelis; many came from countries in Europe, Africa, and the Near East, each with its own monetary currency. With this complexity, it was decided that the most reliable measure of parental wealth in the data set would be one based on parental home ownership. The constructed wealth proxy is "number of homes owned by parents of husband and wife when each was sixteen." Cases where husband or wife did not live with a parent at the indicated age--not uncommon for immigrants from Europe after World War II--were coded as missing. Other variables included in the study, which may affect the receipt of parental assistance, are number of siblings of husband and wife, and number of living parents at the time of marriage; the rationale for the former is that it measures competing demands for the parental resources.

Two additional sets of regressors warrant mention. Dummy terms were added for year of marriage and for geographical region of origin--Israel, Western Europe/United States, Eastern Europe, Africa (mainly Egypt, Algeria, Morocco), and Asia (principally Iraq, Iran, Yemen). The former were included because marital year correlates with the level of economic development in Israel and may therefore tap the ability of parents to make transfers. The latter terms permit a consideration of the extent to which disparities among the ethnic groups in providing assistance to children can be attributed to differences in parental resources. For convenience, we base the couple's ethnic affiliation on husband's origin. Also, to better reflect cultural background, Israel-born husbands were coded in terms of father's country of birth. Thus, the "Israel" ethnic category refers to couples in which both husband and husband's father were born in Palestine/Israel.

A final set of terms was added in order to retain observations in which there was missing data. While the amount of missing data is not excessive for any single variable, in equations with several regressors the accumulated lossage due to missing data would not have been acceptable. Missing data was handled by creating an indicator term for each regressor with a sizeable number of missing cases. The indicator term is coded 1 for cases where data are absent, and 0 where data are present. Analogous to the discussion at equation (1), the coefficient of an indicator term, when significant, conveys the average contribution from observations for which data are lacking. Descriptive statistics for the regressors are presented in Appendix Table A-2 .

Regression results for the four living standard measures are reported in Tables 3-6. Each measure is first regressed against the ethnic terms and year of marriage, then against the full set of explanatory variables. Note that the first two sets of regressions are logistic models because the dependent variables are dichotomous, while the schooling regressions are logistic because the dependent variable is binomial (probability of 0, 1, or 2 members of the couple in school). The above were estimated within the generalized linear models (GLM) framework,

$$g[E(y)] = b_0 + b_1x_1 + b_2x_2 + ... + b_nx_n \qquad (2)$$

where the link function g[] is logit, and the distribution family equals (binomial, n=1) for the initial two dependent variables and (binomial, n=2) for the schooling equation. The subjective living standard regressions were estimated with an ordinal logistic model because of the ranked categorical structure of that dependent variable.

Tables 3-6 about here

IV. THE IMPACT OF PARENTAL WEALTH

Home ownership at marriage. First consider the full model in Table 3 and ignore the ethnic terms. Column (2) reports the determinants of home ownership by a young couple in the early years of marriage. The first four substantive regressors following the time period terms are measures of the young couple's own resources, which could cover at least part of the cost of financing an apartment purchase. From among these variables the term for husband's education--a measure of human capital--is not statistically significant. This variable was introduced as a proxy for husband's earnings capacity at time of marriage, but it is probably a better indicator of earnings potential in later life. As Ornstein (1976, p. 143) has noted, the labor market income and occupational status of young workers are not well differentiated by educational attainment. The indicator for husband's schooling during the first three years of marriage--a correction term to pick up the effect from a possible mismeasurement of education--is also insignificant, though it has the expected negative sign.

The remaining labor force variables--number of spouses employed in the year of marriage and age of husband--are better measures of the income flow into a young household, and both are significant. Two-earnings families and couples with an older husband have more resources for a home purchase in the years following marriage. The coefficients reported in the table are logits and are not readily interpretable, but the odds ratios, obtained by exponentating the coefficients, provide an interpretable metric. These show that an additional employed spouse increases the odds of a home purchase in the initial years of marriage by some 42%. Similarly, each additional year in husband's age raises the odds by 5%, reflecting the likelihood that husband has advanced in his career and has a higher income, as well as the financial savings that would accrue with age.

However, it is the parental resource variables that are the focus of our interest. They are measured by number of parental homes when husband and wife were each sixteen, and by number of siblings of husband and wife. Not surprisingly, in light of the introductory comments about the importance in Israel of parental assistance in the home acquisition process, number of parental homes is highly significant and has a strong impact on the odds of homeownership in the early years of marriage. Exponentiating the logistic coefficient indicates that an increase in one parental home raises the odds of ownership by 57%; an increase from zero to two parental homes raises the odds by 147%. Thus, the consequence of parental wealth for the capability of a young couple to purchase a residence early in their marital career is considerable.

The indicator term for missing parental home ownership data is also significant, with an odds ratio of 1.74. This says that where the respondent or spouse did not live with parents at age sixteen, or where the respondent declined to provide parental asset information, the odds of homeownership at marriage are 74% greater than for couples where neither set of parents was a homeowner. Essentially, then, the missing data population with respect to parental homeownership acts like couples with an average of 1.23 parental homes ($e^{[1.23][.4519]} = 1.74$).

This result is not surprising. The baseline group--couples with no parental homes--represents the poorest segment of the Israeli population in terms of parental assets. The missing data category, by comparison, contains couples with substantial family resources but who declined to respond to the parental asset question, couples where one set of parents owned a home but his/her spouse did not live with parents at age 16, as well as couples who grew up in an institutional setting, such as a kibbutz.

The second parental term--number of siblings of husband and wife--was introduced as a measure of the demands on parental assets. Where there are several siblings it is expected that the wider scope of parental obligations will reduce the level of assistance provided to each child. This expectation is borne out. The sibling term is significant and negative; each brother or sister reduces the odds of early home ownership by 6.4%. With four siblings--close to the median for husband and wife in the Israeli population--the odds are reduced by 23%. The final parental variable, number of living parents at time of marriage, was not significant.[5]

To summarize: while the employment activity and accumulated savings of a young couple make a discernable contribution to the likelihood of home ownership in the early years of marriage, the effect of parental wealth--even when imperfectly measured by number of parental homes several years before the marriage--is massive. Young couples from families that have the resources to provide financial assistance are greatly advantaged in their quest for early home acquisition. In the Israeli context, in which home ownership is the norm, the estimates from equation (2) translate into a predicted home ownership probability of .49 and .69 for young couples having zero and two parental homes, respectively, but who are otherwise identical on the measured characteristics.

Automobile, education, subjective living standard. In Israel, an automobile is a luxury item since public transportation is quite dependable in most sections of the country. Moreover, car prices are high, as a result of steep import duties, and gasoline is expensive--as it is in much of Western Europe. Nonetheless, automobile ownership is greatly valued by Israelis. It is also clear from Table 2 that some 40% of young couples in our sample found the means to purchase a car within their first three years of marriage.

In Column (2) of Table 4 the determinants of automobile ownership are examined. The parental effects are similar in pattern to those in the home ownership regression: the odds of acquisition increase with parental wealth and decline with number of siblings of husband and wife. What is noteworthy in this equation is the greater importance of the labor market terms, relative to the parental resource variables, as a factor in automobile acquisition. Husband's educational attainment is now significant and the other proxies for a couple's earnings have somewhat greater effects than in the home ownership equation. The parental terms, by comparison, show no

consistent difference in the two equations--though number of living parents now attains significance. We would like to interpret the findings as suggesting that the financing of an automobile, since it is a luxury item, comes more from the couple's own resources than from parental assets, but the results provide only weak evidence for this contention.

Whether or not formal education was continued by husband or wife in the years immediately following marriage is examined in column (2) of Table 5. Since zero, one, or two spouses might have attended school, the dependent variable is specified as a binomial probability and estimated in GLM with a logistic link function. With this formulation, the model describes the effects of the regressors on the proportion of household members in school.

The present analysis also requires a different specification of explanatory variables from the preceding models. First, husband's educational attainment in 1995 was dropped from the regressors because it can hardly serve as a determinant of the dependent variable. Second, the measure of work activity by husband and wife following marriage was deleted because this represents an alternative use of time to schooling, rather than standing as a determinant of formal study. Third, in conformity with the stratification literature, terms for educational attainment and occupational status of husband's and wife's fathers were added; these suggest the extent to which educational attainment is encouraged in a parental household, and are well established as causal links in the achievement of offspring (e.g., Blau and Duncan 1967). With this revised formulation we address the impact of parental wealth on the decision to continue schooling, net of the contribution of parental values and childhood socialization.

Observe, first, that parents' education and occupational status have the effects expected of them. The educational attainments of both husband's and wife's fathers are statistically significant. The same is true for husband's father's SES, though the comparable term for wife's father does not reach significance. With the exception of the last, these results replicate established findings (e.g., Jencks 1972; Featherman and Stevens 1982). Age of husband at marriage is also significant and negative; not surprisingly, a late marriage reduces the odds of attending school. Turning to the parental resource proxies--number of parental homes and sibship size --both are significant with the expected signs: number of parental homes increases the likelihood of study; sibship size depresses the prospects of additional schooling.

A comparison of the relative importance of socialization and home environment with parental wealth is informative. If the educational attainments of husbands' and wife's fathers were each raised by four years--e.g., from high school completion to college graduation--this would translate into a 57% increase in the odds of study by the young couple. A change from zero to two parental homes, by comparison, has much the same effect--an improvement of 64% in the odds. The conclusion, then, is that home environment and parental resources each plays a considerable role in the decision to continue with schooling--the latter effect, however, has been largely omitted in the stratification literature.

Respondents were also asked to rate their standard of living during the first three years of marriage, relative to the average living standard in Israel. This subjective measure ranges from 1= very low to 5= very high; the distribution of responses was reported in Table 3. A subjective measure is a very different sort of beast from the three objective items we have thusfar

examined. It requires a judgment by the respondent about the average living standard in the country, as well as an assessment of his/her own quality of life. Moreover, the latter is vulnerable to individual dispositions to see oneself as middle-class and successful, or, possibly, as disadvantaged and deprived.

With these caveats, we report in column (2) of Table 6 a model of the determinants of the subjective living standard. Because of the ranked categorical structure of this dependent variable, ordinal logistic regression was employed. The results are largely consistent with the earlier findings. Husband's education and the other proxies for household income in the early years of marriage are significant and positive, as is the parental wealth measure, number of parental homes. Number of siblings, while having the expected negative sign, does not reach statistical significance.

To summarize the preceding material: In all of the regressions the proxy for parental wealth was statistically significant, often having a substantial effect on the dependent variable. Number of siblings-- introduced to obtain a refined assessment of the parental resources available for transfer, in that it measures competing demands for the resources--always has the expected (negative) sign and it is significant in three of the four equations. Thus, in combination, the four models make clear that parental wealth plays a considerable role in the living standards of young couples in Israel, aiding their likelihood of car ownership, engaging in study and, most importantly, acquiring a residence.

A comment on the time period dummies. In the home ownership and subjective living standard equations there is no discernible pattern, whereas, in the equations for automobile ownership and schooling there is a clear trend to higher rates of acquisition over time. This can be understood from the point of view that home ownership has been a necessity throughout the country's history, whereas an automobile is a luxury item, more frequently acquired in recent years as median family income has increased. Education shows the same trend as automobile ownership, but the time path is less steep, especially after the initial periods. Possibly schooling was also once viewed as a luxury, when household incomes were very low. But it is also the case that the number of colleges and universities in Israel has expanded over time, in excess of population growth, permitting a larger proportion of young adults to contemplate advanced study and to enroll in institutions of higher education.

Ethnic effects. A discussion of the ethnic effects was deferred until the full model of the determination of early living standards could be explored. We now turn to an examination of the ethnic disparities in living standards in the first three years of marriage. The question of interest concerns the extent to which they can be attributed to differences in human capital endowments and the employment status of young couples, to disparities in parental resources, and to other factors.

For simplicity, we consider the ethnic gap to equal the largest difference between the ethnic terms in an equation. Regarding home ownership, from column (1) of Table 3 we compute the gap to equal .902 (in the logit metric)--the difference between Western European and African origin Israelis. Introduction of controls for the human capital/employment experiences of husband and wife (not shown) lowers the gap to .770--a reduction of 15% from the initial

disparity. Addition of the parental resource terms further reduces the disparity by 58%, to .325 (column 2 of Table 3). With regard to the gap in early home ownership, we therefore conclude that differences between the ethnic groups in parental resources are by far the more important factor, accounting for some 77% of the reduction from the initial ethnic disparity.

In Table 7 we report the ethnic gaps for the various living standard measures, before and after introduction of controls for the human capital/employment terms and the parental resource variables. With respect to car ownership, the larger reduction in the ethnic gap is also effected by the parental resource terms, possibly because the outlay necessary to acquire a car, as well as a home, is often substantial, exceeding the resources available to a young couple.

Table 7 about here

Parental wealth appears to play less of a role in explaining the ethnic gap in schooling; however, the comparison set of regressors in this equation is a proxy for home environment and childhood socialization and, therefore, not strictly comparable to the other equations. Possibly, parental resources are less consequential because tuition costs are not high in Israel; possibly because the decision to continue schooling heavily reflects cultural orientation, which is partially captured by ethnicity. Yet, even in the case of schooling, some 27% of the gap reduction can be attributed to differences in parental assets.

Last, with regard to the subjective measure, there is little reduction in the initial ethnic gap, either from the human capital variables or from the parental resource terms. As suggested earlier, it is not clear how respondents interpreted this question or how the appraisals of perceived living standards relate to ethnicity--note that, in contrast with the other measures, it is the Israel origin group (omitted term in Table 6) that reports the lowest subjective assessment of its early living standard.

To summarize, in all the equations with objective measures of living standards (Tables 3-5), the largest ethnic gap is between Askenazim (Europeans) and Sephardim (Middle Eastern origin Israelis)--a well documented cleavage in Israeli society. In the instances of material assets (home, auto), the acquisition gap is largely explained by ethnic disparities in parental resources and demands on the resources--European origin parents have larger asset holdings and fewer children competing for the resources. In the case of schooling, a similar advantage is found for Europeans, relative to Israelis from a Middle Eastern background. Although disparities in parental assets contribute to the schooling gap, the primary factors in this instance appear to be non-economic and derive from home environment and childhood socialization.

V. CONCLUSIONS AND IMPLICATIONS FOR SOCIAL POLICY

Parental resources and, presumably, transfers of resources--thought the latter process was not examined directly--have had a massive impact on the living standards of young Israelis. They are critical factors in early home ownership, automobile acquisition, and in the likelihood of school attendance after marriage. This is the case even with controls present for indicators of the earnings capacity and financial savings of the young couple. While our data are limited to a few

aspects of living standards, because the measures that were examined tap different components of this construct and because the findings are consistent across measures, we suggest that the consequence of parental asset holdings for living standards and life chances is quite pervasive.

At one level these results are not surprising. We expect children from wealthier homes to have access to greater financial resources and to live more comfortably than offspring from poor families. What is significant in the Israeli context is the huge difference that parental wealth makes for acquiring the basic ingredients of a modest living standard--a residence, a car, schooling. This is to be contrasted with the possible contribution of parental wealth to the acquisition of luxury items--a prestige auto, a vacation home, the opportunity to drink fine wine. In short, the issue is not whether parental wealth confers an advantage, but at what point in the continuum of living standards it becomes a critical asset. In Israel, a recognition of the necessity of parental aid for maintaining even a modest life style is apparent in the expressions reported in Table 1.

A comparison of the Israeli context with the opportunities of young adults in the United States to establish a "middle class" living standard can be illuminating. In the United States a well educated young couple, even a couple from poor families, can expect to live comfortably on their labor market earnings upon school completion. It is possible to rent an attractive apartment and purchase an auto solely from earnings, especially if both spouses are employed. Indeed, to a considerable extent, the decision to rent or purchase housing is a life style choice. However, as noted earlier, this is not the case in Israel because of the absence of a rental market. Young Israeli couples are compelled to purchase and the role of parental resources in facilitating the acquisition is considerable. In our data, the homeownership rate in the initial three years of marriage closely tracks our proxy for parental wealth--the rate is 42%, 57%, and 69% for couples with zero, one, and two parental homes.

In Israel, moreover, early home ownership is not just a living standard consideration. Because of restrictions on currency transfers and investment in foreign assets, and because of the absence of a local stock market during much of the country's history, the principal vehicle of wealth accumulation has been residence purchases. Since housing values have climbed more steeply than the inflation rate, the acquisition of a home shortly after marriage has meant a greater number of years in which a couple might grow its resource base. As a consequence, the possibility of early home ownership, facilitated by parental assistance, has operated to magnify the existing disparity between the resources of the poor and the more affluent, as family assets are transmitted from one generation to the next.

This replication of advantage has served to reinforce ethnic cleavages in Israeli society. In our data, Israelis of North African heritage own homes that have an average value of $133,000 (1995 values, U.S. dollars) versus $181,000 for European-origin Israelis.[6] Also, the average number of children in families with completed childbearing is 4.2 for the former group, 2.7 for the latter.[7] Thus, Israelis from European backgrounds are at a considerable advantage in regard to the parental resources potentially available for transfer. Nor is it evident, especially in the absence of estate taxation, that this advantage can be eroded by the sorts of policies commonly instituted to uplift poor families: investments in schooling and human capital, in the hope of narrowing the earnings gap. Because of the critical role of household wealth and the difficulty of asset

accumulation from earnings in Israel, it is unclear that the ethnic disparity in living standards can be much reduced by a focus on educational attainment and skills deficits. The gap in household wealth, it must be remembered, captures the cumulative impact of past inequalities and is resilient to change via policies that merely seek to modify the incremental contributions to wealth via savings from earned income.

What implications can be drawn for the United States from this analysis? Earlier we remarked that the institutional arrangements that have bolstered the importance of parental wealth for the living standards of young couples in Israel have little counterpart in the United States. At the same time, there are developments of a different sort in this country that may be inflating the role of parental wealth. Since the early 1970s, the average family income of household heads under age 25 has declined by some 23% (Mishel et. al. 1999, p. 45). This erosion is probably responsible for a corresponding decline in the homeownership rate by young Americans (Wolff 1998, Table 7). While, unlike in Israel, there is the alternative of rental housing, the ownership decline can nonetheless be interpreted as an indicator of growing economic distress among young families.

At the same time, since the 1970s, there has been an increase in both the income and net worth of Americans in the age group 55-64--presumably the parents of the preceding, younger cohort (Mishel et. al. 1999, p. 45; Wolff 1998, Table 7). Thus, although little attention has been given to the possibility of a growing financial dependency by young families on the resources of their parents, the preceding, brief account raises this prospect. If this is the case, we are likely to witness a strengthening in the United States of the linkage between the living standards of young families and the resources that can be transferred by their parents.

NOTES

1. Similar expressions of mystification about family economics in Israel have appeared in other sources. For example, in a N.Y. Times article, Chartrand (1990, p. A4) remarked: "...the average combined salary for a two-income family of four [in Israel] is ...$1,400 a month. ...The same average family spends $1,650 a month on basic expenses, leaving a gap of at least $250."

2. An earlier estimate of the net worth/income ratio, for 1963/64, was 2.61 (Israel Central Bureau of Statistics 1967, p.xxxix). This compares with a computed value of 1.27 for the United States in 1962 (Projector 1964, p. 291; U.S. Bureau of the Census 1964, p. 339).

3. The data were collected by the author, in collaboration with Noah Lewin-Epstein and Moshe Semyonov of Tel Aviv University.

4. A three year interval was chosen because some decisions at marriage can require a lengthy waiting period before realization. For example, even after a decision has been made to purchase a home, a suitable residence must be found, or constructed, and a bank mortgage arranged.

5. There were only 12 cases in which neither husband nor wife had a living parent at the time of marriage. Consequently, this variable essentially serves as a contrast between one or both members of the couple having a living parent.

6. Home value data were collected in terms of five dollar categories--U.S. dollars are the currency of apartment sales in Israel. In computing home value figures, the bracketed categories were assigned their mean values; the low end category (less than $75,000) was assigned the value $50,000, and the high end, open category (greater than $300,000) was assigned the value $400,000. The sensitivity of results to alternate assignments was examined and was found to be minimal, presumably because some 91% of respondents reported housing values that fell into a bracketed category.

7. Computations from the survey, based on women 45 and older.

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TABLE 1. PARENTAL VALUES IN REGARD TO THE PROVISION OF FINANCIAL ASSISTANCE TO ADULT CHILDREN

1. How important is it for parents in Israel to provide financial assistance to their children?

	Percent
a. Impossible to manage without parental assistance.	24.5
b. Extremely difficult to manage without parental assistance.	38.5
c. Very difficult without parental assistance.	27.2
d. Not very difficult to manage without parental assistance.	8.1
e. Easy to get by without parental assistance.	1.7
(N=1,606)	100.0

2. Until when, in your opinion, should parents provide financal support to their adult children?

a. Until the child reaches age 18.	2.7
b. Until the completion of military duty.	5.6
c. Until the child leaves home.	7.5
d. Until the completion of studies.	7.9
e. Until the time of marriage.	15.0
f. Until the adult child no longer requires financial support.	56.7
g. Other, don't know	4.6
(N=1,606)	100.0

3. In your opinion is it the responsibility of parents to carry the main financial burden for the purchase of an apartment at the time of a child's marriage?

a. Yes, even if this means that the parents have to work longer hours or accept a second job.	45.1
b. Yes, but only if the parents have the financial means.	51.0
c. No, it is the responsiblity of the children to carry this financial burden.	3.9
(N=1,595)	100.0

TABLE 2. DISTRIBUTION OF RESPONDENTS ON THE LIVING STANDARD MEASURES,

FIRST THREE YEARS OF MARRIAGE*

Q1. Home ownership in first three years.

0 (No)	600
1 (Yes)	904
	1,504

Q2. Automobile ownership in first three years.

0 (No)	912
1 (Yes)	610
Missing	9
	1,531

Q3. Number of spouses in the couple engaged in full or part time study in first three years of marriage.

0	1003
1	360
2	165
Missing	3
	1,531

Q4. Subjective standard of living in first three years.

1 (very low)	100
2	256
3	998
4	137
5 (very high)	33
Missing	7
	1,531

*Seventy three couples who married between 1993 and 1995 were dropped from the study, and are omitted from this table, since the dependent variable is not well-defined for these cases.

TABLE 3. DETERMINANTS OF HOME OWNERSHIP IN FIRST THREE YEARS OF MARRIAGE, LOGISTIC REGRESSIONS (STANDARD ERRORS IN PARENTHESES)

Variable	(1)	(2)
Constant	-.3256 (.2767)	-2.8228** (.6556)
Origin Region[1]		
Western Europe	.3269 (.2819)	.1903 (.2906)
Eastern Europe	.1349 (.2483)	-.0019 (.2571)
Africa	-.5752* (.2508)	-.1347 (.2672)
Asia	-.1286 (.2515)	.1441 (.2652)
Year of Marriage (YOM)[2]		
1960-69	.7652** (.1938)	.6137** (.2048)
1970-78	1.1155** (.1898)	.9784** (.2042)
1979-86	.8772** (.1954)	.5562** (.2140)
1984-94	1.0587** (.2068)	.5159* (.2363)
Human Capital/Employment		
Educ-Husband		.0201 (.0200)
Educ-Husband(i3)[3]		-.0726 (.1480)
No. Spouses Employed in YOM		.3525** (.0972)
Age of Husband in YOM		.0529** (.0150)
Parental Resources		
No. Parents Alive in YOM		.1601 (.1866)
No. Parental Homes		.4519** (.0898)
Parental Homes(i)[4]		.5535** (.1849)
No. Bros./Sisters		-.0652** (.0176)
-2LL	1883	1806
N	1450	1450

*p<.05 **p<.01 (two tail test)

1. Omitted term is for Israel origin.

2. Omitted term is for marriage before 1960.

3. Indicator term for whether husband was a student during first three years of marriage.

4. Indicator term for missing data in parental homes variable.

TABLE 4. DETERMINANTS OF AUTOMOBILE OWNERSHIP IN FIRST THREE YEARS OF MARRIAGE, LOGISTIC REGRESSIONS (STANDARD ERRORS IN PARENTHESES)

Variable	(1)	(2)
Constant	-2.6869 (.3880)	-7.3411** (.8739)
Origin Region[1]		
Western Europe	.4320 (.2972)	.2294 (.3057)
Eastern Europe	.2473 (.2645)	.1049 (.2735)
Africa	-.6977** (.2704)	-.2082 (.2899)
Asia	-.3314 (.2694)	.0024 (.2869)
Year of Marriage (YOM)[2]		
1960-69	1.3689** (.3312)	1.0848** (.3396)
1970-78	2.3713** (.3189)	2.1183** (.3286)
1979-86	3.0692** (.3238)	2.6547** (.3346)
1984-94	3.8158** (.3361)	3.1743** (.3524)
Human Capital/Employment		
Educ-Husband		.0946** (.0240)
Educ-Husband(i3)[3]		-.0444 (.1554)
No. Spouses Employed in YOM		.3676** (.1074)
Age of Husband in YOM		.0572** (.0161)
Parental Resources		
No. Parents Alive in YOM		.6764* (.2686)
No. Parental Homes		.4477** (.1041)
Parental Homes(i)[4]		.6739** (.2204)
No. Bros./Sisters		-.0496* (.0203)
-2LL	1642	1551
N	1470	1470

*p<.05 **p<.01 (two tail test)

1. Omitted term is for Israel origin.

2. Omitted term is for marriage before 1960.

3. Indicator term for whether husband was a student during first three years of marriage.

4. Indicator term for missing data in parental homes variable.

TABLE 5. DETERMINANTS OF SCHOOLING IN FIRST THREE YEARS OF MARRIAGE, LOGISTIC REGRESSIONS (STANDARD ERRORS IN PARENTHESES)[1]

Variable	(1)	(2)
Constant	-1.7254** (.2308)	-1.7086** (.5811)
Origin Region[2]		
Western Europe	.2162 (.1982)	.1248 (.2099)
Eastern Europe	.0710 (.1780)	.1177 (.1903)
Africa	-.9694** (.1930)	-.3175 (.2129)
Asia	-1.0276** (.1947)	-.5170* (.2098)
Year of Marriage (YOM)[3]		
1960-69	.5230** (.1921)	.5162* (.2018)
1970-78	.9121** (.1831)	.9107** (.1937)
1979-86	1.0873** (.1868)	.9929** (.2015)
1984-94	1.3314** (.1913)	1.1877** (.2154)
Parental Chars./Employment[4]		
Educ-Husband'S Father		.0431** (.0138)
Educ-Husband's Father(i)		.0819 (.1669)
SES- Husband's Father[5]		.0061* (.0030)
SES- Husband's Father(i)		.1907 (.2200)
Educ-Wife's Father		.0695** (.0137)
Educ-Wife's Father(i)		.2574 (.1800)
SES- Wife's Father5		-.0037 (.0030)
SES- Wife's Father(i)		-.0171 (.2126)
Age of Husband in YOM		-.0572** (.0128)
Parental Resources		
No. Parents Alive in YOM		.0790 (.1849)
No. Parental Homes		.2461** (.0798)
Parental Homes(i)[6]		.1808 (.1719)
No. Bros./Sisters		-.0433* (.0172)
-2LL	2992	2820
N	1486	1486

*p<.05 **p<.01 (two tail test)

1. Dependent variable is the binomial probability of zero, one, or two members of the couple in school during first three years of marriage.

2. Omitted term is for Israel origin.

3. Omitted term is for marriage before 1960.

4. Indicator terms for missing data noted by "(i)".

5. Socio-Economic Status (SES) coded according to Vered scores for Israeli occupations (Kraus 1978).

6. Indicator term for missing data in parental homes variable.

TABLE 6. DETERMINANTS OF SUBJECTIVE LIVING STANDARD IN FIRST THREE YEARS OF MARRIAGE, ORDINAL LOGISTIC REGRESSIONS (STANDARD ERRORS IN PARENTHESES)

Variable[1]	(1)	(2)
Origin Region[2]		
Western Europe	.6360* (.2707)	.5608* (.2730)
Eastern Europe	.5775* (.2403)	.5093* (.2437)
Africa	.1659 (.2434)	.3719 (.25524)
Asia	.1270 (.2438)	.2517 (.2516)
Year of Marriage (YOM)[3]		
1960-69	.5759** (.1888)	.4041* (.1958)
1970-78	.6433** (.1810)	.4548* (.1917)
1979-86	.6526** (.1877)	.3584 (.2027)
1984-94	1.1257** (.1997)	.6886** (.2254)
Human Capital/Employment		
Educ-Husband		.0459* (.0195)
Educ-Husband(i3)[4]		-.2260 (.1398)
No. Spouses Employed in YOM		.3087** (.0937)
Age of Husband in YOM		.0403** (.0137)
Parental Resources		
No. Parents Alive in YOM		.0115 (.1788)
No. Parental Homes		.2025* (.0863)
Parental Homes(i)[5]		.0239 (.1794)
No. Bros./Sisters		-.0156 (.0168)
-2LL	3058	3018
N	1471	1471

*p<.05 **p<.01 (two tail test)

1. Cut points omitted from table.

2. Omitted term is for Israel origin.

3. Omitted term is for marriage before 1960.

4. Indicator term for whether husband was a student during first three years of marriage.

5. Indicator term for missing data in parental homes variable.

TABLE 7. ETHNIC DISPARITIES IN LIVING STANDARDS, FIRST THREE YEARS OF MARRIAGE

Ethnic gap	Standard of Living Measure (1) Home Ownership	(2) Automobile	(3) Schooling	(4) Subjective SOL
Initial disparity[1]	.902	1.130	1.244	.636
Addition of human capital/employment terms[2]	.770	.812	.801	.568
Addition of parental resource terms[3]	.325	.437	.635	.561

1. Largest disparity between ethnic terms in equations (1), Tables 3-6.

2. Regression not shown in Tables 3-6. In the schooling equation this set of terms also contains proxies for childhood socialization and parental values.

3. Largest ethnic disparity in equations (2) of Tables 3-6.

TABLE A-1. CHACTERISTICS OF THE SURVEY RESPONDENTS, COMPARED WITH THE CIVILIAN LABOR FORCE IN ISRAEL (PERCENTAGES)

	1994/95 Family Survey .	1993 Labor Force Survey
Gender		
Females	54.0	48.2
Males	46.0	51.8
Origin		
Asia	23.5	25.4
Africa	24.5	23.1
Europe-America	44.7	45.6
Israel	7.2	5.7
Education		
Can't remember/don't know	0.1	1.8
No education	1.0	--
Elementary school/heder	8.9	18.5
Intermediate school	6.5	1.2
Vocational/agricultural school	24.9	22.8
Yeshiva	21.6	23.7
High school including yeshiva high	14.2	12.1
Post High school	23.7	19.8
Age		
Under 34*	25.0	13.2
35-44	29.5	30.5
45-54	25.8	21.7
55-64	16.3	16.6
Over 65*	3.5	18.0
Occupation		
Academic, manager, free profess.	38.3	36.6
Clerks, agents, sales and service	39.4	38.4
Blue-collar, skilled and unskilled agricul., building, and industry	22.4	22.5
N	1,607	34,827

*Over/under representation in these categories stems from the restriction of respondents in the survey to ages 30-65.

TABLE A-2. DESCRIPTIVE STATISTICS FOR THE EXPLANATORY VARIABLES

Variable	Mean	Standard Deviation
Origin Region:		
Israel	.060	.238
Western Europe	.121	.327
Eastern Europe	.332	.471
Africa	.239	.426
Asia	.247	.431
Year of Marriage (YOM):		
Before 1960	.125	.331
1960-69	.216	.411
1970-78	.272	.445
1979-86	.215	.411
1984-94	.171	.376
Human Capital/Employment:		
Educ-Husband	12.313	3.456
Educ-Husband(i3)[1]	.236	.425
No. Spouses Employed in YOM	1.483	.588
Age of Husband in YOM	25.470	4.226
Parental Characteristics[2]:		
Educ-Husband's Father	8.140	5.307
Educ-Husband's Father(i)	.308	.462
SES-Husband's Father	42.612	18.522
SES-Husband's Father(i)	.082	.275
Educ-Wife's Father	8.570	5.051
Educ-Wife's Father(i)	.235	.424
SES-Wife's Father	42.540	18.332
SES-Wife's Father(i)	.084	.277
Parental Resources:		
No. Parents Alive in YOM	1.897	.327
No. Parental Homes	1.380	.743
Parental Homes(i)[3]	.197	.398
No. Bros./Sisters	6.820	4.404

1. Indicator term for whether husband was a student during first three years of marriage.

2. Indicator term for missing data noted by "(i)".

3. Indicator term for missing data in parental homes variable.