

Over-Education in Higher Learning in Israel

By: Ori Katz

This paper substantiates the claim that Israel's system of higher education, planned and subsidized by the state, is bloated beyond its optimal level, at the same time that vocational education is being neglected. Empirical analysis is based on the OECD's 2012-2015 Survey of Adult Skills (PIAAC), and the Israel Central Bureau of Statistics' surveys on income and labor force for 1990-2015.

The **first chapter** introduces the subject, first explaining the objectives and structure of the paper, then looking at what the goals of a higher education system are and why it is hard to observe over-education, and describing Israel's expansion of the supply of higher education institutions at the expense of professional training, and the impact of that in Israel.

The **second chapter** discusses the repercussions of the expanded higher education system, looking at the general growth in the population's level of education; the growth in academic education in various sectors; and the change in higher education's budget model.

The **third chapter** conducts an international comparative analysis and the **fourth chapter** an analysis of individual-level data according to the OECD's Survey of Adult Skills (PIAAC).

The **fifth chapter** analyzes over-education according to data from the Israel Central Bureau of Statistics' surveys.

The **sixth chapter** summarizes the findings and makes recommendations.

Summary:

Ever since the 1990's, the government has expanded the supply of higher learning institutions in Israel by increasing their public funding. This expansion policy was based on the premise that greater accessibility to higher education was the key to economic growth for both individuals and for the nation as a whole, and to the reduction of disparities between weak and strong sectors of the population.

In the past decades, the average level of education in Israel has significantly increased, according to markers such as number of years of education or the percentage of individuals who attended an academic institution. However, current research does not support the claims that led to the expansion of the supply of education; namely, that it would promote equality of opportunity and reduce disparities. An international comparison shows that while Israel is one of the most educated countries in the world, this does not translate into high labor productivity or high human capital as they are measured by international assessments. Israel is an outlier in the percentage of academics who cannot find work that matches their educational level, and this holds true even when controlling for immigrants. The economic advantage of academic education for the overeducated is low and in the younger age groups, not significantly different than zero. Since the 1990's, the demand for academic positions has had a lower growth rate than the percentage of academics in society. For academics working in non-academic professions, the economic advantage of academic education is very low, particularly for younger people.

The harms of over-education in Israel are primarily:

1. **Young people waste time and money** on academic studies because degrees have become a signal to employers;
2. **Students are frustrated** with the need to attend studies they are not necessarily interested in;
3. **Graduates are frustrated** with the difficulty of finding jobs commensurate with their academic achievements;
4. **Taxpayer money is wasted** on funding a public system that (i) has small external impact, (ii) contributes nothing to economic growth and (iii) does not lead to any improvement in equality of opportunity;
5. **Resource allocation in the market is impaired** by directing young people to unnecessary professions and creating a shortage of high-demand, non-academic professions, and by directing capital and high quality human resources to maintaining an excessive academic training apparatus.

Recommendations:

1. **Ordered and consistent data collection on over-education:** Annually gather data on academic education premiums in terms of average salary, median salary, and the percentage of academic graduates who found jobs matching their education.
2. **Change the Planning and Budgeting Committee (PBC) budget model:** The primary source of income for publically funded colleges and universities is their direct budget from the PBC, calculated by several variables, and divided into separate funding for instruction and research.

The payment model should be adjusted to reduce the instruction funding for fields with a low education premium while leaving research funding unchanged, thus preserving financial support for those schools of study in the social sciences and humanities that have external positive effects beyond market returns for students.

3. **Reevaluate the component in the public sector's salary model that is based on academic education:** Academic education is automatically rewarded in the public sector, and this contributes to the bloat; a study should be conducted to locate the instances where such reward does not contribute to labor productivity and substitute it with rewards for excellence or for attending specific, relevant professional courses.
4. **Present potential higher education students with reliable information regarding future salaries:** Data should be annually published in an accessible manner, shortly before future students send in their applications to institutions of higher education.
5. **Direct funds to a vocational training apparatus** – As subsidies for academic courses are reduced, the newly available resources should be directed to vocational training, making it more attractive to future students and public sector employees.

[For the full Hebrew paper](#)