SOCIOECONOMIC MOBILITY OF DEVELOPMENT TOWNS IN ISRAEL[1]

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Abstract

This study finds that development towns have improved their socioeconomic conditions relative to their own past (absolute mobility) and have developed at a faster pace than other Jewish localities (relative mobility) over the past six decades. During the period examined, 1961–2019, economic mobility was reflected in a narrowing of the gap between development towns and other Jewish localities across each of the five indicators of economic development analyzed: population size, median age, education, per capita income, and relative ranking on the socioeconomic index. Despite this progress, the group of localities defined as "development towns" remains, on average, below the median of the socioeconomic ranking. In terms of relative position, only three development towns were ranked above the bottom 31 places in the socioeconomic ranking in 1961, a number that increased to fourteen development towns by 2019. The socioeconomic mobility of development towns was not uniform. Alongside development towns that climbed up the socioeconomic ranking, there are a few development towns that deteriorated in their socioeconomic standing, with particularly sharp declines in Yavne'el and Beit Shemesh. The empirical analysis also presents measures of absolute and conditional economic convergence. It finds that the change in socioeconomic ranking between 1961 and 2019 was more pronounced in localities that were ranked lower in 1961. The degree of conditional convergence was even stronger once differences in local characteristics were taken into account. This article shows that the two standard measures of mobility and convergence, which appear in two separate literatures, are in fact closely related and represent two sides of the same coin. According to the central hypothesis advanced here, the

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reduction in socioeconomic inequality between development towns and other Jewish localities stems from free universal public education and a relatively advanced health-care system compared with those in the countries of origin, as well as from cultural diffusion following interaction with the receiving population.

1. INTRODUCTION

The purpose of this study is to examine whether development towns have developed over six decades since their establishment. The inferior economic starting point of development towns makes this question particularly interesting due to the great challenge of overcoming it. The establishment of development towns was an opportunity taken by the state leadership at that time, which arose as a result of large waves of immigration from Asia and Africa, to establish Jewish sovereignty on the ground in remote areas as well, through the settlement of immigrants. The inferior initial conditions stemmed both from the educational and occupational background of the immigrants and from poor planning in the establishment of development towns, which was expressed in a weak economic base, distance from Centers of economic activity, an unbalanced population composition of veteran residents and immigrants, and the small population size of a typical development town. The very term "development town" implies a low starting point that requires compensatory government assistance, without which the chances for socioeconomic development are reduced. Due to the economic dependence of immigrants from Asia and Africa, their absorbers were able to exert greater control over the place of settlement to which the immigrants were sent, and therefore the starting point of development towns was largely exogenous.

A study of this kind requires defining the term "development town." It turns out that there is no agreed upon definition of a development town, even though this term has been entrenched in public discourse for decades. From the outset, different government ministries used different lists of development towns eligible for government assistance (Efrat, 1987, p. 111). There was also no uniform definition among researchers. Second, it is necessary to decide according to which variable to measure whether a locality has developed economically and socially. Third, it is empirically essential to determine whether to measure the development of development towns between two points in time relative to themselves (absolute mobility) or relative to a comparison group of localities (relative mobility), and to specify the appropriate comparison group. In addition, this study presents a long-term analysis over six decades in order to capture policy steps the full effect of which is felt only after several decades. The choice of a long period involves compromises regarding the variables according to which socioeconomic development is measured, because of data availability.

Compared to inequality between regions, research on inequality between localities in Israel has attracted greater interest among researchers, particularly the socioeconomic condition of development towns. Development towns received extremely broad research coverage from various perspectives, especially in the first five decades of the state. In the last two decades, the flow of research has moderated significantly, but still continues. The considerable research interest is evidence of the intensity of public attention that development towns have attracted. This study does not presume to provide a full review of the many works conducted over the years, but rather to note those that examined their socioeconomic development. A comprehensive review of research on development towns in the first four decades of the state appears in Lifshitz (1990) and Efrat (1987). Because of the focus of this study on economic mobility, reference will be made only to studies that examined economic development of development towns over time.

Efrat presents the socioeconomic situation at the end of the 1970s and reaches gloomy conclusions regarding the socioeconomic development of development towns, as can be learned from the following statement: "Most of them are today in danger of existence and continued consolidation" (p. 171). Lifshitz, who examined in a more systematic manner economic mobility of development towns according to various variables between 1972 and 1983, found a more complex picture, and in particular highlighted the substantial internal variation in socioeconomic terms among development towns. The work of Justman and Spivak (2004), which analyzes economic mobility of 100 localities using more advanced tools, with specific reference to development towns, is the closest to this study. Justman and Spivak find a negative coefficient for development towns in a regression of the change in socioeconomic ranking between 1983 and 1995, indicating deterioration in their condition, after controlling for locality characteristics such as geographic district, share of immigrants, and socioeconomic condition in the base year (1983). The findings indicating a decline in the economic ranking of residents of six development towns in the south of the country (Yeruham, Dimona, Netivot, Ofakim, Kiryat Malachi, and Sderot) are obtained even without controlling for locality characteristics. However, the study of Justman and Spivak covers a relatively short period between 1983 and 1995.

The study of economic inequality between regions and between localities was a natural development of the empirical literature on growth that examined economic convergence of countries. The early studies that broke new ground found economic convergence, expressed in faster growth of poor countries compared to rich countries, when differences in characteristics between countries are taken into account (Mankiw et al., 1992; Barro and Sala-i-Martin, 1992). In a recent study, it was found that in recent years there is convergence even without taking into account differences in characteristics (Kremer et al., 2022), although some researchers cast doubt due to the short period examined (Johnson and Papageorgiou, 2020). Studies at the regional level also found evidence that weaker regions grew at a faster

rate than more affluent regions in the United States (Young et al., 2008) and in Europe (Cartone et al., 2021; Jankiewicz, 2024).

Studies on inequality between regions were also conducted based on data for Israel, both by Beenstock and Felsenstein (2007), who found convergence in the years 1991–2002 when differences in purchasing power between regions are taken into account, and by Portnov and Erell (2004), who did not find a consistent pattern of reduction in inequality between regions in the period 1948–95, with the conclusion depending on how inequality is measured.

The main contribution of this study is in presenting a general evaluation of an exceptional Israeli project of establishing dozens of localities within a short period of time, which suffered from particularly inferior initial conditions. Thanks to the long period covered by this study, it is possible to track the effects of processes whose maturation took several decades. Second, this study presents, for the first time, a measurement of ethnic convergence (reduction of gaps according to origin) of localities, since the definition of development towns here is based on the composition of the locality's population by origin. The study of inequality between localities is more suitable than inequality between regions if the motivation of the study relates, at least in part, to the link between inequality and social cohesion. It is reasonable to assume that in Israel, social identity at the national and locality level is stronger than regional social identity, if such exists. Third, this study proposes a closed definition of development towns that has thematic logic and is relevant even today. For example, defining a development town according to the origin composition of the locality's population in 1961 predicts current political behavior, such as voting for Likud and Shas. In the elections held in November 2022, Likud and Shas received 51 percent of the votes in development towns according to the definition proposed in this study, compared to 37 percent of the votes in other Jewish localities. The double-digit gap between development towns and other Jewish localities is a phenomenon observed in all election systems since 1984. It should be noted that this gap does not control for other characteristics found to be important for voting, such as education and income (Dahan, 2025).

In the next section, a conceptual framework that provides inspiration for the empirical examination will be presented. Section 3 describes the methodology for measuring absolute and conditional convergence of development towns, as is customary in the literature on economic growth of countries and localities, and its connection to measuring economic mobility. Section 4 defines what a development town is and presents the data sources and processing required to measure convergence and mobility. The findings of this study appear in Section 5, and the following section concludes with a discussion of the findings.

2. THE CONCEPTUAL FRAMEWORK

The conceptual framework that guides the empirical examination of the extent to which development towns reduced the gap relative to other Jewish localities (convergence) or moved away from them (divergence) is inspired by the residential choice model of Benabou (1996). This model presents the conditions that encourage or prevent spatial segregation of the population according to the level of human capital, and is therefore suitable for understanding the factors that influence the mobility of localities. According to this model, the interaction between the educational background of parents and the level of human capital in the residential environment in the process of producing children's human capital is a key factor in shaping spatial inequality. The Benabou model predicts that a positive interaction will lead to divergence and persistence of spatial inequality if the attraction of an educated residential environment is greater for children of more educated parents than it is for children of less educated parents. Inequality in the level of education in the children's generation is expected to be greater compared to the parents' generation if the contribution of an educated environment is greater for children of educated parents, since children benefit not only from an advantage stemming from family background but also from the level of human capital in the residential environment through interactions, imitation of role models, local behavioral norms, and social networks.

The forces that operate toward divergence and persistence are strengthened under conditions of imperfections in the capital market for financing the purchase of a dwelling. The implied rent of "rich" individuals (people who finance the purchase of their dwelling from their own resources) is lower than the implied rent of "poor" individuals (people who must finance the purchase of a dwelling through borrowing) if the capital market is imperfect. As a result of this advantage, an educated individual wins the competition for an educated neighborhood. Differences in the financial wealth of parents constitute an additional force that operates toward segregation, if parents with higher education and greater resources attribute lower marginal utility to consumption compared to a person with limited resources (wealth effect). The meaning is that an educated parent, compared to a less educated parent, values more the quality of their children relative to consumption due to diminishing marginal utility. As a result of this difference, an educated parent is willing to pay higher rent, compared to a less educated parent, in order to enable their children to enjoy residence in an educated environment. Finally, local taxation combined with a positive interaction between parental education and locally financed education will increase the willingness of educated parents to pay higher local taxes in their area of residence, thereby pushing less educated parents and their children into less educated areas.

The flawed economic planning of development towns at the beginning is an additional factor that operated to strengthen the forces of divergence. The creation of development towns without appropriate planning of employment opportunities created a mismatch between the

skills of the residents (educational and occupational background) and the needs of employers in their area. Many development towns were intended to serve as service Centers for rural settlements, and their residents were supposed to be agricultural workers in the rural settlements. However, supplying the needs of the rural settlements was too little to sustain the development towns economically. Moreover, the kibbutzim and moshavim developed their own service systems, among other reasons because of the underdevelopment of services in development towns due to their small size, and thus the potential for economic development contracted even further. Studies have shown that purchases of kibbutzim in nearby development towns were of negligible magnitude (Cohen, 1967; Amiran and Shachar, 1975; Kipnis, 1972). The plan to assign residents of development towns to agricultural work also did not match the background of the residents and initially conflicted with the ideological opposition of the kibbutzim to hire outside workers. The starting point was also inferior because of an unbalanced composition of immigrants and veteran residents, which slowed the emergence of local leadership with a municipal background.

Settlement size: Many researchers of development towns saw their relatively small size as a barrier to economic development. For example, Efrat (1987) believed that the multiplicity of development towns instead of a large city was a planning mistake, and attributed the failure in the economic development of small development towns to population size, even specifying the "magic number" of ten thousand residents as a minimum threshold for economic development (p. 45). A settlement that is too small limits the development of a variety of services and a variety of employment, which are part of the manifestations of economies of scale.

Peripheral location: Incorporating distance from Centers of economic activity into the theoretical model that was presented strengthens the forces toward persistence of spatial inequality if there is a fixed component in migration costs. Most development towns were located far from Centers of economic activity, and this disadvantage is important if migration costs from one locality to another are partly fixed, and constitute a lower share of income for high-income individuals. Support for this can be found in the study of Broida and Navon (2007), which showed that a population with higher income tends to migrate more than a disadvantaged population. The forces of persistence are strengthened if there is an advantage in production or consumption (agglomeration) to the concentration of people in an existing economic Center.

The importance of location can change over time, and thus strengthen or weaken the forces toward persistence. It appears that in the past the negative effect of peripheral location was weaker than it is today. Periphery did not necessarily negatively affect the level of economic development, according to the findings of Lifshitz (1990). In 1983, most development towns in central areas such as Beit Dagan, Kfar Yona, Or Yehuda, Tirat Carmel, Kiryat Ekron, and

Rosh HaAyin were ranked at the bottom in terms of higher education (Lifshitz, Figure 4.2, p. 48). Surprisingly, one of the explanations provided by researchers for this was the proximity of some development towns such as Kiryat Malachi, Yehud, and Mevaseret Zion to large cities, which constituted a factor that hindered the development of development towns. Later, the location of these development towns became an advantage, and some of them became suburban villa areas for affluent populations from the large city. This may be related to the rise in housing prices.

Alongside the forces that operate to perpetuate or exacerbate inequality between development towns and other Jewish localities, there are factors that operate to create socioeconomic mobility. The population of development towns consisted of new immigrants who arrived from countries less developed economically compared to Israel, who, and even more so their children, were expected to be influenced by the encounter with a new country with a different population and institutions from the country of origin. The transition to a country with more advanced healthcare services, and the natural tendency to adapt patterns of behavior in the absorbing society, pushed for far-reaching demographic changes, foremost among them a reduction of inequality in family size and age at marriage. These changes occurred with greater intensity among the descendants of the immigrant generation, and therefore a relatively long period is required to see their full effect.

Another important institution with potential influence on economic mobility is public education financed by progressive national tax, as predicted by the model of Benabou (1996). Children from poor families who receive free public education can reduce the gap relative to children from affluent families, and thus the gap relative to the parents' generation narrows. Immigrants from Asia and Africa who arrived in development towns had low levels of education, but their children received education in Israel. This policy has potential for the children of immigrants who were born in Israel, which is expressed in the economic arena only after several decades. Children who were born in the 1960s joined the labor market for the first time in the 1980s and reached their peak in the 2000s, or later. the effects of the policy can be observed only after several decades, as done in this study.

In addition, Israeli governments over the years implemented regional development policy, which partly stemmed from recognition of the original sin of channeling immigrants from Asia and Africa to development towns. Over the years, capital investments received generous grants if plants were established in development towns, tax benefits were given to residents, and local authorities received grants according to the socioeconomic profile of their residents and the geographic location. These policy steps were intended to encourage residents to remain in development areas and to encourage migration of residents with higher education and strong professional background from the Center to the periphery. Potentially, such government intervention is supposed to create economic mobility of localities, but various

studies pointed to low effectiveness of some of the policy measures, particularly the Encouragement of Capital Investment Law, 5719-1959, in improving the economic condition of development towns (see, for example, Schwartz, 1986; 1988). In addition, beginning in the 1980s, competition developed by Jewish localities in Judea and Samaria and Gaza, which receive extensive governmental assistance and incentives to migrate to these areas.

Migration of Jewish ultra-Orthodox population: Due to high fertility and low labor-force participation rates of ultra-Orthodox men, the attractiveness of a locality for the ultra-Orthodox population may affect its economic development. The potential attractiveness is represented here by the share of ultra-Orthodox at the beginning of the examined period. This factor is particularly important in light of the expansion of the ultra-Orthodox population, which is one of the central social phenomena in Israel in recent decades.

Immigration: The share of immigrants from the former Soviet Union at the initial point is a potential focal point for later immigration waves from this part of the world, particularly the immigration wave at the beginning of the 1990s, which significantly increased Israel's population. The choice of immigrants to arrive in a locality may affect the pace of its economic development. The share of immigrants who arrived cumulatively between 1990 and 1995 was 17 percent of the residents of development towns, compared to 12 percent in Jewish local authorities that are not development towns. Over time, the share of immigrants of the 1990s in development towns declined relative to its expansion in other Jewish localities, and in recent years it became similar in both groups of localities and stood at about 15 percent.

In summary, the forces that operate toward divergence and inequality between localities until reaching equilibrium and then toward its persistence are the socioeconomic background at the starting point, population size, geographic location, and migration of ultra-Orthodox population. In contrast, the factors operating in the opposite direction include the benefits of advanced health and education systems for the descendants of immigrants who arrived in the 1950s and 1960s, as well as regional development policies favoring the periphery.

3. METHODOLOGY

Absolute mobility of localities is measured in this study in a conventional way according to a comparison of the level of economic development in 2019 versus 1961. A locality or a group of localities is defined as mobile if the economic condition today is better than it was in the past according to a series of variables that represent economic development. The measurement in this study parallels the measurement of absolute intergenerational mobility

at the individual level, which is calculated according to the share of children whose income is higher than that of their parents. Such a measurement can be found in Chetty et al. (2017). Measurement of absolute mobility of this type is less ideologically loaded if one adopts the Pareto principle. According to this principle, an increase in the income of one group, given the income of another group, increases social welfare (as long as individual welfare does not depend on one's relative position in society or on the welfare of others). There are measures of "absolute upward mobility," such as the average rank of a child whose parents are located in the 25th percentile, the chances of a child to climb to the top quintile given that the parents were in the bottom quintile, or the chances of a child to be, in adulthood, with income above the poverty line if their parents were in the 25th percentile (Chetty et al., 2014). Measures of "absolute upward mobility" are formulated in terms of probabilities that require a large number of observations, and therefore are less suitable for a study on mobility of localities.

In addition to absolute mobility, this study evaluates relative mobility metrics, acknowledging the normative implications associated with comparative social positioning. For instance, increased relative mobility may result from income contraction among upper-income cohorts, which does not necessarily constitute a Pareto improvement. To examine to what extent the current economic condition of a locality is affected by the initial conditions sixty years earlier, the following statistical model is estimated:

$$(1)\quad \mathrm{R_{it}} = a + \mathrm{b}\,\mathrm{R}_{\boldsymbol{i0}} + \varepsilon_{\mathrm{it}}$$

where $\mathrm{R_{it}}$ is an outcome variable of a given locality (i) in a given year (t). The main outcome variable is the percentile of the economic ranking of the locality, which is calculated as its position in the economic ranking scale from 1 (the lowest) to 93 (the highest) divided by the maximum position, which is 93. The estimator *b* is a measure of relative immobility, and it is identical to a common measure of relative intergenerational mobility at the individual level, known as the rank-rank slope (Chetty et al., 2014). For the purpose of comparison between different estimations, a fixed group of localities over time is used.

The initial condition of the locality is represented in equation (1) by the variable $\mathrm{R_{i0}}$, which is measured at the beginning of the studied period (1961). The coefficient *b* measures the degree of socioeconomic immobility if the socioeconomic percentile in 1961 represents the starting point. Measuring economic immobility of localities in this way allows comparison of the estimation results to estimates of immobility at the individual level, which is estimated in an identical equation: $r = \mathrm{a} + \mathrm{b}p + \varepsilon_{\mathrm{i,t}}$

where *r* represents the income percentile of children in the national distribution and (p) represents the income percentile of their parents in the national distribution.

The estimators *b* and *a* in equation (1) can also be used to measure "absolute upward mobility" by calculating the average rank of a child whose parents are located in the 25th percentile (Chetty et al., 2014). Technically, it is possible to calculate "absolute upward mobility" according to the formula (R_t = a + b 0.25) for localities as well, but the range of error of the estimator is large due to the small number of localities (compared to a large number of observations at the individual level).

Beyond measuring relative mobility, Equation (1) identifies the strength of mean reversion across generations. The higher the degree of immobility, *b*, the weaker the strength of regression to the mean. If *b* equals zero, full regression to the mean is expected, and the current relative position of a locality is independent of its relative position in the past. In contrast, if *b* equals one, no regression to the mean will occur, and the expected relative position of a locality is identical to its position in the past. In short, it is possible to learn about the strength of regression to the mean from the degree of relative immobility, and the degree of relative mobility indicates the strength of regression to the mean. Substantively, the degree of regression to the mean may indicate the importance of structural constraints that prevent or encourage economic mobility, and it depends on the stability of coefficients and on differences in coefficients between localities or social groups. Mechanical regression to the mean, which stems from the fact that localities at the top of the relative ranking scale cannot rise beyond the ceiling of the top percentile, and localities at the bottom cannot fall below the lowest percentile, increases the importance of presenting measures of absolute mobility. A comparative view of mobility measures over time and across relevant comparison groups is an additional tool to neutralize the mechanical component of regression to the mean. In Section 5, the findings will be compared to results of studies in Israel and abroad.

The coefficient *b* measures ethnic immobility if the independent variable is a dummy variable for development towns. This estimation provides an answer to the question of whether the category "development town" is still relevant today, according to the strength of the statistical relationship between the current economic condition (the dependent variable) and a locality defined as a "development town" (the independent variable). The relationship between current economic ranking and initial conditions will also be examined by using alternative indicators of economic development such as median age, median years of schooling, or population size, as measured in 1961.

In the literature on economic growth of countries, regions, and localities, it is customary to estimate a convergence (or divergence) equation in order to answer the question of to what extent (if at all) the economic gap between development towns and other Jewish localities has narrowed. As will become clear immediately, there is a close connection between the measurement in the literature on intergenerational mobility and the convergence equation in economic growth. A common convergence equation is of the following type:

$$(2.1)\ \log Y_{it} - \log Y_{i0} = \Delta Y_{it} = \propto + \beta \log Y_{i0} + \boldsymbol{C}\boldsymbol{x}_{it} + e_{it}$$

The common dependent variable in the growth literature is the difference in log income per capita between two points in time, and the explanatory variable is the log of income per capita at the starting point, (log Y_{i0}). Equation 2.1 facilitates a distinction between conditional convergence, which incorporates the influence of exogenous factors x_{it} on long-run per capita income, and absolute convergence, which omits these variables. The coefficient β expresses absolute convergence if it is negative, and absolute divergence if it is positive.

In this study, the change in the socioeconomic percentile from 1961 to 2019 is the main outcome variable. It is possible to write equation 2.1 for estimating absolute convergence in terms of socioeconomic percentile as follows:

$$(2.2)\ R_{it} - R_{i0} = \Delta R_{it} = a + (b-1)R_{i0} + e_{it}$$

R_{it} denotes the ranking of a given locality in terms of socioeconomic percentile in a given year, and R_{i0} reflects the ranking of that locality in the initial year. It can be easily seen, by transferring R_{i0} from the left-hand side to the right-hand side of equation 2.2, that the coefficients *a* and *b* are identical to those of equation (1). The formulation of equation 2.2 shows that the coefficient of economic convergence in terms of ranking (percentiles) equals the coefficient of immobility minus 1. Note that if the convergence coefficient, (*b - 1*) in equation (2.2), equals zero, it implies that the current economic ranking is fully correlated with the economic level at the starting point, and hence inequality between localities is carried over time. In terms of equation (1), the coefficient of immobility, *b*, is at its maximum and equals one. In contrast, if the convergence coefficient, (*b - 1*), equals minus one, this means that the current economic ranking is random (and constant) and independent of the economic condition at the starting point. In terms of equation (1), this is a description of maximum mobility, according to which *b* equals zero, and there is no relationship between current economic ranking and past ranking. To the best of my knowledge, this is the first study that shows this connection between the literature on mobility and the literature on economic growth.

Conditional convergence can be operationalized using relative socioeconomic ranks, as expressed in the following specification of Equation (2.2):

$$(2.3)\ R_{it} - R_{i0} = \Delta R_{it} = a + (b-1)R_{i0} + \boldsymbol{c}\boldsymbol{x}_{it} + e_{it}$$

In the empirical part, an estimation of conditional convergence will be presented, where the list of independent variables includes, in addition to the economic ranking at the beginning of the studied period, a series of locality characteristics including ethnic diversity of the

population composition of the locality in 1961, the potential attractiveness of the locality for the ultra-Orthodox population and for immigrants, and distance from the Center.

Alongside the standard estimation of convergence according to socioeconomic ranking, economic-ethnic convergence will be estimated using a dummy variable for development towns or the share of those born in Asia and Africa among the foreign-born only, defined as Mizrahi), which replaces the economic ranking at the starting point. Since the dummy variable for development towns represents a low level of economic development at the starting point, a positive coefficient expresses convergence, and a negative coefficient reflects divergence between localities over time.

4. DATA

4.1 Data Sources

Socioeconomic index. The study will focus on five variables that capture economic performance: socioeconomic ranking, income per capita (or per equivalized capita), education, median age, and population size. These variables were selected according to two considerations. First, variables were selected that directly represent the economic condition of the residents of the locality, such as income per capita or economic ranking. In years in which data on the economic condition are not available, alternative variables such as median age and education, which are highly correlated with socioeconomic ranking, are used to represent the economic status.

The second consideration is the availability of data of the selected variables for as long a period as possible, and for as comprehensive a list of localities as possible. It should be noted that only population size and its composition, which is represented by median age, are measured in a uniform manner over the entire period. In contrast, local educational level is proxied by the median years of schooling in 1961 and, for subsequent periods, the proportion of academic degree holders within a different age cohort in different years.

In this study, priority is given to the socioeconomic ranking to learn about the economic progress of development towns because of its multidimensional nature. The Central Bureau of Statistics began to systematically publish a socioeconomic ranking of localities starting in 1983 but at nonregular time intervals, according to the timing of the population census (1983, 1995, 2008). In recent years, the socioeconomic index has been published every two years, and as a result the index is available for the years 2013, 2015, 2017, and 2019, which is the last available year. The list of variables included in the socioeconomic ranking has changed over the years, and also the list of localities for which this ranking is available has changed and expanded over time.

To complete a time series over six decades, a socioeconomic ranking was calculated for the year 1961 as a simple average of ranking according to median age and ranking according to median years of schooling. This calculation relies on the high correlation between these two characteristics and the economic index in later years. According to Table 1, median age and level of education are correlated with the socioeconomic ranking at all five time points that were examined (1972, 1983, 1995, 2008, 2019). In the past, median age appears to better represent the socioeconomic status according to the high correlation between median age and economic ranking in 1983. Due to possible measurement errors of the socioeconomic index of 1961 as compared to the other years, the results are presented for shorter periods as well.

The socioeconomic percentile of localities was recalculated only for the population of the study localities in order to ensure that the changes in the relative position of development towns compared to other Jewish localities over time do not stem from changes in the economic development of localities that are not included in the study population, such as ultra-Orthodox and Bedouin localities. A changing list of localities may push upward (or downward) the economic ranking of localities only because localities ranked at the bottom (or at the top) of the economic ranking were added to the list.

The economic ranking for 1972 is according to a study published by Moshe Egozi in 1978, and is based on 15 characteristics of localities in the 1972 census, which cover socioeconomic ranking (income, occupation, economic branch, level of motorization, housing density, education, demography, and more). The population of localities was divided into 10 equal deciles, and each locality received a socioeconomic score ranging from 1 to 10. Completing the information on socioeconomic ranking for the two census years 1961 and 1972 creates six time points that are spread over sixty years: 1961, 1972, 1983, 1995, 2008, 2019.

Income. A natural economic variable which captures economic progress over time of development towns compared to other localities is the level of income per capita. The level of income per capita (or per standardized capita) is included in the socioeconomic index, and therefore is available for all the years for which the Central Bureau of Statistics published a socioeconomic index. It should be noted that in the 1961 census no data on income were collected. The level of income per capita in 1972 was taken from the work of Egozi (1978), which was based on the 1972 census data.

Median age, population size, and level of education. Data on median age and population size were taken from the publications of the 1961 and 1972 censuses and from publications of the socioeconomic index of the Central Bureau of Statistics. The level of education is represented by the median years of schooling in 1961, and the percentage of academic degree holders within a certain age cohort in the years thereafter.

Share of Mizrahim. Data on the composition of the population according to continent of birth for the year 1961were taken from the publications of that census (1961 Census Publication No. 28, Table 6). The share of Mizrahim in the locality was calculated according to the share of those born in Asia and Africa among the foreign-born only in the years 1961, 1972, 1983, 1995, and 2008. The data were taken from census publications. In 2020, the share of Mizrahim was calculated according to the share of those born in Asia and Africa among both the foreign-born and those born in Israel (two generations), according to data provided to me by Aviel Kranzler from the Central Bureau of Statistics.

Distance from the Tel Aviv district. The measurement of the degree of peripherality of a locality in this study is according to the shortest distance in kilometers from the Center of the locality to the boundary of the Tel Aviv district, in the road network system, and these data were taken from the peripherality index published by the Central Bureau of Statistics on a regular basis starting in 2015 at five-year intervals. Before that, a pilot of the peripherality index was conducted, and it was published in 2004. The most recent index published refers to the year 2020. The peripherality index is predicated on the assumption that a locality's spatial marginality is a function of its geographic distance from other population centers, weighted by their respective demographic mass. That is, the Center is not defined in advance but is determined according to population concentrations. The index in Israel is a mixture of a predefined Center, measured by the distance from the boundary of the Tel Aviv district, and a Center measured according to population concentrations. The preference for a peripherality index according to distance in this study is intended to neutralize changes in the distribution of the population, which is endogenous.

Percentage of ultra-Orthodox in 1961. The percentage of ultra-Orthodox in a locality was calculated according to the percentage of votes received by ultra-Orthodox party Agudat Yisrael in the Knesset elections held in 1961.

Percentage of immigrants from the USSR in the years 1970–1972. The percentage of immigrants who arrived from the USSR to a locality in the early 1970s serves as an indicator of the potential attractiveness of the locality for immigration waves that were absorbed in Israel after the 1970s. The percentage of immigrants was calculated based on the 1972 census data.

4.2 Definition of a Development Town

A locality is defined as a "development town" if in 1961 two-thirds or more of its residents who were born abroad originated in Asia or Africa. According to this definition, the list of development towns includes the following 31 localities: Ofakim, Or Yehuda, Or Akiva, Elyakhin, Ashdod, Ashkelon, Beit Dagan, Beit She'an, Beit Shemesh, Bnei Ayish, Gan Yavne, Dimona, Hatzor HaGlilit, Tiberias, Tirat Carmel, Yavne'el, Yavne, Yeruham, Kfar

Yona, Mevaseret Zion, Migdal HaEmek, Ma'alot Tarshiha, Netivot, Pardesya, Kadima, Kiryat Malachi, Kiryat Ekron, Kiryat Shmona, Rosh HaAyin, Sderot, and Shlomi (Table 2).

The definition according to two-thirds or more Mizrahim creates a group of 31 development towns that constitutes one-third of the study population, and a comparison group of 62 local authorities. This definition is flexible, since it is possible to change the list of development towns according to the degree of homogeneity of the residents of the locality according to continent of birth. The degree of homogeneity and the number of localities in each group change with the threshold for entry into the list of development towns. Seven localities drop (Or Akiva, Ashdod, Beit Dagan, Tirat Carmel, Yavne'el, Kfar Yona, and Kiryat Shmona) from the list of development towns if the threshold that defines a development town rises from two-thirds to three-quarters, and if the threshold rises to 80 percent, four more localities drop: Dimona, Migdal HaEmek, Tiberias, and Kadima (Table 2). If the definition of development towns were determined according to the upper third of localities according to the share of Mizrahim (sorted from highest to lowest) in 1972 instead of 1961, the list of development towns would include the localities Tel Mond, Kiryat Gat, Be'er Ya'akov, Yokneam Illit, and Yehud, and would not include the localities Pardesya, Tirat Carmel, Yavne'el, Migdal HaEmek, and Ashkelon.

The main advantage of defining development towns on the basis of the composition of the locality's population according to origin lies in the identification of development towns with the Mizrahi population. A definition of localities based on origin creates a category with thematic logic and allows examination of ethnic socioeconomic convergence. The list of development towns is fixed as it is derived from the population composition in 1961.

The category "development towns" was created mainly for policy purposes, and was intended to create a target group of localities in need of economic assistance for their development. The similarity in ethnic terms between development towns at the beginning led the government to treat them as a homogeneous group that requires uniform policy, but according to the description of Naor (1973) and Efrat (1987), government ministries used a different and changing list of development towns. This may stem from a combination of different objectives and heterogeneity of the localities. In addition, because of the economic benefit of being classified as a development town, politicians acted to include in the list localities that might contribute to their re-election even if they did not meet professional criteria. The inclusion of localities for political reasons in the list of development towns "contaminates" the category of development towns from a research perspective, and it is not clear what it represents. A multiplicity of definitions, not to say chaos, also characterized the research on development towns, which defined them according to socioeconomic profile of the residents, composition of origin of the residents, geographic location, population size, year of establishment, and localities eligible for government support. The differences between lists

of development towns stemmed from the weight given to these criteria, but it is not clear what these definitions capture.

The definition of development towns in this study also captures the inferior level of economic development at the beginning of the 1960s without including in the definition an explicit reference to development, and this is another important advantage. At the beginning of the 1960s there was a close relationship between a person's country of origin and their economic condition (Patinkin, 1959). The chosen definition adds small localities that were not included in the well-known lists of development towns such as Elyakhin, Bnei Ayish, Yavne'el, Pardesya, and Kadima. This addition helps to compare economic development to other small localities and to larger development towns.

4.3 Study Population

The main study population includes 93 Jewish local authorities established before 1970, of which 31 localities are defined as development towns and another 62 localities are other Jewish localities. A fixed list of local authorities ensures that changes in inequality between development towns and other Jewish localities are not "contaminated" by changes in the list of localities. The study population does not include 54 regional councils, 81 Arab localities, and another 27 localities that were established after 1970. The last group of localities was not included because it is not possible to compare their development from 1961 (or from 1972). The number of localities in some of the analyses is smaller than 93 because there are no data in the 1961 census on Carmiel, Arad, and Omer, whose population in that year was only 64, or due to limited availability of the socioeconomic index for certain localities in other years.

The study population covered 83 percent of the 2.2 million residents of the country in 1961, of which residents of development towns constituted 8 percent of the country's population and another 75 percent lived in the 62 other Jewish local authorities. The Arab population in non-mixed urban localities was about 10 percent, and another approximately 7 percent lived in Jewish rural localities that were grouped under regional councils.

The study population covered 70 percent of the 9 million residents of the country in 2019, of which residents of development towns constituted 12.5 percent of the country's population and another 57.5 percent lived in the 62 other Jewish local authorities. The population not included in the study in 2019 consists of 1.3 million residents living in non-mixed Arab urban localities (14.4 percent), about one million residents in regional councils (10.5 percent), and another approximately half a million in Jewish local authorities established after 1970 (5 percent).

4.4 The Period Studied: 1961 to 2019

The vast majority of development towns were established in the 1950s, and for some of them it took time until they consolidated as a separate and independent local authority. This reason, together with the population census in 1961, which provides comprehensive data on localities, stood behind the choice of 1961 as the beginning of the studied period. The period of investigation ends in 2019 because this is the last year for which a socioeconomic index exists.

5. FINDINGS

5.1 Absolute and Relative Mobility

Table 3 shows absolute mobility of development towns according to three indicators of socioeconomic development: population size, median age, and education. Population growth is a common indicator in measuring the economic development of localities because it represents "voting with the feet" (for example, Glaeser et al., 1995). Thriving localities attract residents, whereas declining localities drive their residents away. Population size has also gained a prominent status as an indicator of success among researchers of development towns (for example, Efrat, 1987). Based on this indicator, development towns experienced substantial demographic expansion; the mean population size increased sevenfold between 1961 and 2019, reaching an average of over 36,000 residents (Table 3).

Absolute mobility of development towns was also recorded according to median age, which is also considered an indicator of socioeconomic progress. A higher median age means lower fertility and longer life expectancy, which are prominent characteristics of a more developed society both at the country level and at the regional or locality level. The median age in development towns rose from 17.7 in 1961 to 30.7 in 2019 (Table 3). The share of university graduates within the population is employed as a key indicator of socioeconomic progress, providing an additional metric for evaluating economic mobility. It can be seen that inequality declined between these two groups of localities because there was a fourteenfold increase in the percentage of educated individuals in development towns, compared to a sixfold increase in Jewish localities that are not development towns, and therefore also according to this indicator development towns recorded absolute mobility.

The findings indicate that development towns also exhibited relative mobility as measured by socioeconomic ranking. Specifically, these localities reached the 36th socioeconomic percentile by 2019, representing a near-doubling of the rank observed in 1961. Relative mobility of development towns was also documented according to four additional indicators:

relative population size, relative median age, percentage of academic degree holders, and log income per capita in development towns compared to other Jewish localities (Table 3). The demographic share of development towns relative to other Jewish localities expanded between 1961 and 1972, followed by a period of relative stagnation through 1983. However, a significant increase has been observed since 1983, largely driven by the exogenous immigration shock of the 1990s. In 2019 the average size of a development town is 43 percent of the average size of another Jewish locality, compared to 22 percent in 1961. The ratio of log income between development towns and other Jewish localities, which is a standard metric for assessing economic convergence, increased from 1972 to 2019, reflecting a narrowing of the income gap, (Table 3). The climbing of development towns up the economic ladder in the last 25 years is consistent with significant upward mobility observed among Mizrahi households in recent empirical studies (Dahan, 2016; Gordon et al., 2022).

To complete the picture that emerges from comparison of averages, it should be noted that 24 out of 31 development towns improved their relative position according to socioeconomic ranking in 2019 compared to 1961, alongside 7 that declined in ranking. Only 3 development towns were located above the bottom 31 places in the economic ranking in 1961, and this number increased to 14 development towns in 2019 (Table 4). Eight of them climbed above the median of the economic ranking, and two of them reached the top two deciles in 2019.

The estimates for Equation (1) are presented in Table 5, incorporating different baseline characteristics. The specification in Column 1 employs a single explanatory variable to examine the long-term effect of development town status on contemporary economic positioning. The results indicate a statistically significant negative correlation between the historical demographic origins of residents and current economic outcomes. The magnitude of the coefficient is substantial: on average, the socioeconomic rank of a development town in 2019 is 21 percentiles lower than that of other Jewish localities. Seemingly there is a contradiction between the description at the beginning of the section, which shows mobility of development towns, and this estimation, which hints at immobility. This combination of findings stems from the fact that development towns climbed the economic ranking scale but most of them are still located below the median percentile, and their presence in the upper deciles is relatively sparse. Similar findings are obtained in an estimation of a regression of the economic ranking percentile in 2019 with the share of Mizrahim as a single explanatory variable instead of a dummy variable for development towns (Table 5, column 2). In addition, the current economic condition is found to be significantly positively related to past characteristics of the residents of the locality such as socioeconomic ranking and median age, but no significant relationship was found with median years of schooling and population size at the starting point.

Column 3 in Table 5 presents a classic estimation of relative mobility at the locality level that parallels relative mobility at the individual level, and is known as the rank-rank slope. The size of the coefficient of the socioeconomic percentile in 1961 in a regression of the socioeconomic percentile in 2019 is 0.37. The coefficient of immobility at the locality level is higher than estimates of economic immobility based on income data of parents and their children in Israel, a finding that raises questions. In recent years, several studies have been published on the degree of association between children's income and their parents' income in Israel, all of which present a lower estimate of immobility than that estimated here: 0.24 (Aloni and Karil, 2017), 0.25 (Heller, 2020), 0.28 (Gordon et al., 2022), and 0.29 (Batz and Karil, 2022). Part of the gap is explained by migration of residents with a high economic level from development towns to other localities, alongside aggregation; when mobility is measured at the locality level, mobility of individuals who climbed upward is offset by mobility resulting from individuals who declined downward within the locality. However, a comprehensive analysis of the underlying drivers of these disparities is beyond the scope of the present paper and warrants a separate study.

The finding that place of residence (development town) is still relevant to current economic ranking is consistent with findings at the individual level that emerge from studies in Israel and in other countries. The importance of place of residence in childhood for economic performance in adulthood emerges from the large variation in the degree of individual mobility by geographic area documented in the United States (Chetty et al., 2014; Chetty and Hendren, 2018), Canada (Corak, 2020), Sweden (Heidrich, 2017), Italy (Güell et al., 2018), and Israel (Heller, 2020; Batz and Karil, 2022). Based on individual-level data, Batz and Karil found that individuals who lived in the periphery of Israel recorded lower upward absolute mobility. Interestingly, Batz and Karil did not find a correlation between individual mobility and the level of segregation by origin. In contrast, Chetty and his co-authors find lower mobility of individuals who lived in racially segregated neighborhoods in the United States (Chetty et al., 2014). The finding in this study, which is based on localities, presents the opposite result. Development towns, which by definition are more segregated by origin, recorded higher upward absolute mobility, and reduced the gap relative to other Jewish localities that are not development towns. The coefficient 0.37 in the rank-rank regression means that the gaps in 2019 between development towns and other Jewish localities are 37 percent of what they were in 1961.

Figure 1 presents visually the relationship between the relative ranking of localities in 1961 on the horizontal axis and the relative ranking in 2019 on the vertical axis, similar to the figure commonly used in studies of mobility at the individual level. The trend line does not originate at the origin and its slope is smaller than 45 degrees. Figure 1 illustrates the relationship between measuring mobility and regression to the mean. A locality that was in the lower part of the distribution in the past is expected on average to jump in ranking, and

vice versa for a locality that was previously in a high ranking, and the strength of regression to the mean is related to the degree of mobility. The coefficient of the trend line is similar to estimates found at the individual level in the United States, which stand at 0.34 (Chetty et al., 2014) or 0.35 (Chetty et al., 2020). The caveat concerning the distinction between locality-level and individual-level mobility metrics is equally applicable to this comparison.

5.2 Absolute and Conditional Convergence

Table 6 presents the estimated coefficients for absolute convergence, derived from Equation 2.2, and conditional convergence, derived from Equation 2.3. Initial economic conditions are operationalized through two distinct proxies: the first is represented by the status of development towns, and the second utilizes the socioeconomic percentile from 1961. The convergence coefficient of development towns is positive and significant, indicating that the socioeconomic ranking of development towns increased more compared to other Jewish localities. The economic progress of development towns relative to other Jewish localities over the entire period is 27 percentiles. The annual rate of convergence of development towns is about one percentile every two years (27 percentiles over 58 years). The coefficient of absolute convergence is negative and significant if the economic condition at the starting point is represented by the socioeconomic percentile in 1961. From this estimate it follows that the change in socioeconomic ranking of localities between the two time points was larger in localities that were ranked lower in 1961. Localities positioned at the lower end of the initial distribution, including numerous development towns, exhibited an improvement in their relative standing. Figure 2 illustrates the relationship between the change in socioeconomic percentile from 1961 to 2019 and the initial percentile in 1961. Many localities that began in a lower socioeconomic percentile shifted upward in the rankings, as indicated by the data points situated above the horizontal axis. Conversely, many localities that were initially situated in high socioeconomic percentiles tended to experience a relative decline between 1961 and 2019.

As detailed in the methodology section, the estimated convergence coefficient is -0.63 (Table 6), which corresponds to the immobility coefficient minus one (0.37, as reported in Table 5). These two estimates illustrate the link between the economic mobility and economic convergence literatures. While the convergence coefficient in Table 6 captures the extent of relative mobility, the immobility coefficient in Table 5 reflects the degree of persistence or "half-empty glass" of economic movement.

Estimation of conditional convergence of countries is intended to distinguish between differences that stem from gaps in distance between the starting point and the long-run equilibrium (absolute convergence) and differences that reflect gaps in characteristics of countries such as the quality of institutions, which lead to a different level of output in long-

run equilibrium. Estimation of conditional convergence at the locality level is supposed to neutralize differences in the fundamental characteristics of localities such as their location in space. The geographic location of a locality represents a battery of characteristics such as distance from the center, the distance from populated localities (how isolated it is), the topography of the locality, proximity to the sea coast, proximity to the border, climate, or the presence of historical sites in the locality. This array of characteristics, together with additional factors such as regional policy, dictates the economic attractiveness, and as a result the long-run economic potential of the locality. Alongside distance from Tel Aviv, which represents an exogenous fundamental variable of the attractiveness of a locality, ethnic diversity at the starting point, the percentage of ultra-Orthodox in 1961, and the percentage of immigrants from the USSR in the early 1970s were included in the estimation of convergence, in order to capture the potential attractiveness of the locality for migration of ultra-Orthodox and arrival of immigrants.

The estimated coefficient of conditional convergence is larger (in absolute value) than the coefficient of absolute convergence, and therefore failure to take into account differences in characteristics between localities underestimates the degree of convergence and economic mobility of development towns (Table 6). The convergence coefficient increases from −0.63 to −0.74 (in absolute terms), suggesting that the economic mobility of localities at the lower end of the distribution is greater once cross-sectional differences in characteristics are controlled for. The increase in the convergence coefficient stems entirely from adding the variable of distance from the Center, and is almost not affected by the variables such as ethnic diversity, percentage of ultra-Orthodox and immigrants. The coefficient of conditional convergence when controlling only for distance from the Center is −0.75, which is almost identical to the coefficient of conditional convergence when the other control variables are included (Table 7).

This study further demonstrates that localities in closer proximity to the Center ascended the socio-economic hierarchy at the expense of more distant localities. Consequently, the relative cost of peripheral status, measured in socioeconomic ranking, intensified over the sample period. Notably, both the initial proportion of the ultra-Orthodox population and the share of immigrants from the USSR in the 1970s are statistically insignificant.

The lack of a statistically significant effect of the ultra-Orthodox variable on changes in the economic ranking of localities requires explanation, particularly given that localities with an ultra-Orthodox population above the median declined by an average of 5 percentiles, compared to a 6-percentile increase in localities below the median in 2019. This finding may be attributed to the extensive demographic expansion of the ultra-Orthodox population over the last six decades, which necessitated household migration to localities lacking a prior ultra-Orthodox presence, such as Arad and Beit Shemesh.

The coefficient of immigrants from the USSR in the early 1970s, which represents the potential attractiveness of a locality for later immigration waves from the USSR, is not significant. This result is surprising in light of the decline in socioeconomic ranking recorded in localities characterized by a high share of immigrants from the 1990s, who arrived mainly from the former USSR. Localities with a percentage of immigrants above the median declined by 13 percentiles on average, compared to an increase of 13 percentiles in localities with a percentage of immigrants below the median. The explanation given earlier regarding the ultra-Orthodox likely also applies to immigrants, since the immigration wave of the 1990s, which constitutes more than 15 percent of the absorbing population, was even larger than the expansion of the ultra-Orthodox population. That is, it is possible that the choice of locality by immigrants was diverse and did not concentrate in localities that absorbed immigrants from the USSR in the 1970s.

The coefficient of ethnic diversity, which is measured according to the Herfindahl index of the composition of the population according to country of birth in 1961, is not significant and does not affect the rate of convergence. This result is particularly noteworthy given the prevailing consensus that population distribution by country of origin constitutes a fundamental determinant of a locality's long-term economic development. However, a thorough examination of the question of the relationship between ethnic diversity and economic growth requires a separate study, which would be based on a larger number of observations.

The sign of the coefficients of distance, percentage of ultra-Orthodox, and percentage of immigrants is the same whether the starting point is represented by development towns or by socioeconomic percentile in 1961. Including development towns and socioeconomic percentile in 1961 together leads to the disappearance of the significance of development towns, but one should be cautious in drawing conclusions due to the high correlation between development towns and socioeconomic percentile in 1961 (Table 6, column 5).

The risk of bias due to measurement errors is small because the findings are repeated across a variety of variables and do not depend on a single variable. In this context, it should be noted that the main variable by which mobility of localities is measured is a socioeconomic index composed of several variables. The measurement error of a composite index is smaller than the measurement errors of its components if the errors in these components are independent or weakly correlated. Random errors tend to cancel out, and the variance of the error of a composite index is lower than the variance of each component separately due as well to the diversity of the sources from which the variables come.

Table 7 illustrates absolute and conditional convergence, controlling for geographic location across sub-periods from 1961 to 2019. While the convergence rate remains relatively stable,

it was more moderate during the initial decade (1961–1972), accelerated between 1972 and 1995, and decelerated over the most recent period. Convergence measurements for shorter intervals are inherently more susceptible to statistical noise; however, the process persisted uninterrupted throughout the study period. Consequently, prior research may have failed to capture the comprehensive impact of fundamental determinants on socioeconomic mobility.

The findings regarding convergence in the years 1961–1983 appear to contradict the pessimistic conclusions of Efrat (1987) or the mixed findings of Lifshitz mentioned in the introduction; however, a look at the data that appear in these publications could have led to the conclusion that there was convergence. These studies show a significant improvement in the level of motorization, level of education, and a drastic decline in the share of welfare recipients and in housing density in development towns. However, Justman and Spivak found an economic retreat of development towns if one controls for economic percentile at the beginning of the period. An analysis of the data of Justman and Spivak that I conducted indicates that the gap in findings stems from the definition of development towns. Justman and Spivak define development towns based on the list of localities eligible for benefits under the Encouragement of Capital Investment Law, 5719-1959. This definition is subject to selection bias, as the eligibility criteria fluctuated in response to changing economic conditions; specifically, localities that experienced upward economic mobility were removed from the list, while those experiencing decline were added. In contrast, the definition employed in this study remains fixed, predicated on the population composition as of 1961.

The estimated coefficient of absolute convergence remains similar in magnitude if the definition of a development town changes such that the threshold for entry into the list of development towns rises to three-quarters of the residents of the locality born abroad whose origin is in Asia and Africa, or if a development town is defined according to a threshold of two-thirds in 1972, or when removing each time a different locality (these analyses can be obtained from the author).

The estimation of absolute and conditional convergence was also performed using log income per capita (instead of the socioeconomic index) but for a shorter period covering the years 1972 to 2019 due to the absence of income data for 1961. The picture that emerges from the coefficients of absolute and conditional convergence is quite similar to the estimation based on economic ranking percentile, which also indicates economic mobility of development towns (Table 8). This estimation allows comparison of the annual rate of convergence that emerges from this study to estimates found in studies on countries and regions within countries. The annual rate of convergence stands at 2 percent according to the coefficient of absolute convergence (Table 8, column 3) and at 2.7 percent according to the coefficient of conditional convergence (Table 8, column 4).

The rate of absolute convergence estimated here is high compared to early studies on convergence between countries because there was no absolute convergence across countries (Barro, 1991; Pritchett, 1997). A recent study (Kremer et al., 2022) found that the rate of absolute convergence is not zero but higher, yet it is still lower than the 2 percent found in this study. The estimate of conditional convergence that emerges from this study (2.7 percent) is higher than the rate of conditional convergence of 2 percent that was found repeatedly in cross-country and within-country ("states" within the United States) research, which has been called the "iron law" (Barro, 2012). In studies published recently, conditional convergence ranges between 1.5 percent and 2.5 percent (Cartone et al., 2021; Jankiewicz, 2024).

Table 9 examines whether the rate of convergence differed between groups of localities according to geographic location and according to type of locality (development towns versus others). No statistically significant difference was found in the rate of convergence between localities in the Center and peripheral localities according to the interaction coefficient between geographic location and economic percentile in 1961. Table 9 shows again that localities in the periphery moved backward but independently of their position on the economic scale in 1961. The interaction coefficient between economic percentile and development town is positive and indicates faster convergence of development towns, but the coefficient is not significant.

6. SUMMARY AND DISCUSSION OF FINDINGS

This study demonstrates that development towns have achieved significant socioeconomic mobility over the past six decades. Absolute mobility within these localities is evidenced by three primary indicators of socioeconomic development: population sizes have expanded substantially since the early 1960s, the median age has increased significantly, and there has been a marked rise in the proportion of the population with higher education. Furthermore, the analysis reveals positive relative mobility for development towns when measured against a standardized socioeconomic index. Development towns were ranked in 2019 at a socioeconomic percentile that is almost twice that measured in 1961, alongside a decline in the socioeconomic percentile of other Jewish localities. Even after impressive progress, the group of localities defined as "development towns" is on average located at the 36th socioeconomic percentile, which is below the median of the socioeconomic ranking.

This study documents the relative mobility of development towns across four additional indicators: relative population size, relative median age, the proportion of academic degree holders, and relative income per capita. Notably, the relative income of development towns increased in comparison to other Jewish localities between 1972 and 2019. Furthermore, the population size of development towns expanded significantly relative to other Jewish localities; by 2019, the average population of a development town represented 43 percent of the average size of other Jewish localities, a substantial increase from 22 percent in 1961.

Like any relative measure, relative mobility may stem from deterioration of localities in the comparison group. The expansion of the ultra-Orthodox population and the change in its characteristics in terms of family size and labor market participation reflects a central process in Israel. This process led to economic deterioration of localities with a large share of ultra-Orthodox population. Rechasim, Bnei Brak, Safed, Jerusalem, and Arad took the place of development towns deep at the bottom of the socioeconomic ranking. Jewish localities with a large Arab population (a quarter or more) that expanded, such as Ramla, Lod, Acre, Jerusalem, and Nof HaGalil, declined in ranking and took the place of development towns at the lower end of the socioeconomic ladder.

The upward economic mobility of development towns is particularly noteworthy as it occurred despite a significant initial disadvantage, the disproportionate absorption of the ultra-Orthodox population, the selective out-migration of educated residents to other Jewish localities, and the widening economic inequality between the center and periphery, as well as between households (Dahan, 2020). What explains the socioeconomic trend of development towns over the last six decades? This question necessitates future research capable of identifying specific exogenous shocks or random variations to establish a causal relationship. In the interim, I propose several hypotheses, evaluated alongside supporting or contradicting evidence.

The main hypothesis here attributes the reason for the reduction in socioeconomic inequality between development towns and other Jewish localities to universal free public education and a relatively advanced health system compared to the countries of origin. The children of immigrants from Asia and Africa, who were absorbed into the Israeli education system, acquired higher education than that of their parents who arrived with low levels of education, and thus the gap between development towns and other Jewish localities narrowed.

The availability of primary and secondary education had a potentially greater impact on raising the level of education of the children of immigrants from Asia and Africa compared to their parents who arrived in Israel with lower education, relative to the parents of children of immigrants from Europe and America. According to the 1958 Statistical Yearbook (Table 28), about 23 percent of immigrants from Europe and America completed secondary or higher education, compared to only 8.5 percent among new immigrants from Asia and Africa. The differences recorded among veteran residents who were born in Israel or arrived by 1947 were even larger. In 1980, the share of those who had with very few years of schooling disappeared among those born in Israel whose parents were born in Asia and Africa (half a percent), compared to nearly one-fifth among those born in Asia and Africa. As a result, education gaps declined sharply. The share of those who had not studied among those born in Asia and Africa was ten times that of those born in Europe and America, and this ratio

declined to 2.5 among those born in Israel (Central Bureau of Statistics, Statistical Yearbook 1980, Table 22/3).

In line with the hypothesis regarding the beneficial effect of the Israeli education system on mobility, one should expect that the degree of reduction in inequality in education among children of immigrants compared to inequality among their parents is greater the larger the inequality in the parents' generation. The education survey conducted in 1961 provides an indication in this direction. The median years of schooling of women born in Asia and Africa who immigrated to Israel (before 1947) at age 30 and above was less than one year of schooling, compared to the parallel group of women born in Western Europe and America, which stood at about 10 years of schooling. The gap between the two origin groups declined from 9 to 4 years of schooling among women who immigrated to Israel up to age four (1961 Census, Publication 30, Table 20). That is, the gap among women who received education in Israel was smaller.

The children of immigrants born in the 1960s completed their formal education during the 1980s; consequently, the comprehensive impact of educational attainment on earnings only became manifest after several decades. Given that the full economic returns of education are typically realized over a twenty to thirty-year career trajectory, a six-decade longitudinal perspective was required to capture the cumulative effect of educational acquisition on the socioeconomic disparities between development and non-development towns.

In addition to educational attainment, the exposure of immigrants to Israel's advanced healthcare system—relative to their countries of origin—played a significant role. The marked reduction in infant mortality compared to those in their countries of origin led to a decrease in family size. This demographic shift exerted a direct economic influence by increasing per capita income for a given household earnings level, as well as an indirect effect by facilitating greater labor market participation among women. In the early years of the state, large differences were recorded in fertility rates between mothers born in Asia or Africa and mothers born in Europe or America. The total fertility rate of mothers whose origin is Asia or Africa declined steeply from 6.3 in 1951 to 3.0 in 1980. Within a relatively short period of time, a large gap in total fertility rate between the two origin groups almost disappeared—from 3.1 children in 1951 to 0.3 children in 1980 (Central Bureau of Statistics, Statistical Yearbook 1981). Additionally, the reduction of the large gaps that existed in age at marriage between the two origin groups (Peres and Katz, 1981), which contribute to reducing gaps in women's participation in the labor market by origin, is consistent with this hypothesis.

It is easy to assume that decisions regarding family size, age at marriage, and women's participation in the labor market were also influenced by natural cultural diffusion. Cultural

diffusion was also expressed directly in a smaller gap in the degree of religiosity between Ashkenazim and Mizrahim born in Israel compared to the difference between Ashkenazim and Mizrahim born outside Israel (Yuchtman-Yaar, 2005), and in the reduction of ethnic gaps in leisure activities such as theater, entertainment, and social gatherings (Haas, 1998).

The demographic composition of development towns by origin converged with that of other Jewish localities between 1961 and 2019, primarily due to a reduction in the share of Mizrahi residents following the wave of immigration that commenced in 1990 (Table 10). However, the relative socioeconomic improvement of these towns was not driven by this demographic diversification; the study indicates a decline in the socioeconomic rankings of localities that absorbed a higher proportion of these immigrants. Even within the group of development towns, the socioeconomic position of a development town deteriorated if it absorbed more immigrants. Moreover, the economic mobility of development towns also occurs in the years 1961–1983 without a significant change in the share of Mizrahim in development towns. No visible difference developed over the years in the share of Mizrahim between development towns that improved their condition versus those that did not (Table 11).

The absolute convergence suggests that regional policy had a very small contribution to the economic mobility of development towns. The Encouragement of Capital Investment Law, 5719-1959, was the flagship of regional policy. Industrial plants that were established with government encouragement under this law were not connected to local raw materials, and were not created due to proximity to the market or due to a large number of high-skilled workers.

The underlying economic rationale relied on government capital grants awarded to individual industrial plants—often a single enterprise employing hundreds of residents. This model lacked diversification, creating high risk and a structural dependence of the locality on a single investor. The weak economic justification for these interventions frequently resulted in plant closures and employment volatility. Consequently, it is unsurprising that numerous studies have reached pessimistic conclusions regarding the effectiveness of the Encouragement of Capital Investment Law, 5719-1959. While other regional policy components existed, such as the "Build Your Home" project and the Neighborhood Rehabilitation program, these initiatives were temporary and constrained by limited budgets, making them unlikely to generate long-term economic transformation.

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Table 1 | The correlation between Socioeconomic index and median age and education

	Number of localities	**Correlation**
1961	90	1.00
1972	93	0.92
1983	150	0.94
1995	186	0.87
2008	199	0.91
2019	255	0.93

Note: The correlation is calculated between the socioeconomic ranking and the average rankings of median age and education.

Table 2 | Localities by the share of Mizrahim in 1961

Percent of Mizrahim	Number of localities	Name of localities
0%-17%	9	Kfar Shmaryahu, Savyon, Mazkeret Batya, Nof HaGalil, Yesod HaMa'ala, Kiryat Motzkin, Metula, Givatayim, Haifa
18%-32%	9	Kiryat Bialik, Kiryat Tivon, Rosh Pina, Tel Aviv, Ramat Yishai, Azur, Nahariya, Rechasim, Ramat Gan
32%-38%	9	Even Yehuda, Nesher, Pardes Hanna, Givat Shmuel, Bnei Brak, Holon, Bat Yam, Netanya, Hadera
38%-43%	9	Rishon LeZion, Rehovot, Kfar Tavor, Ra'anana, Kfar Saba, Kiryat Yam, Herzliya, Petah Tikva, Eilat
44%-53%	9	Kiryat Ata, Ramat HaSharon, Jerusalem, Hod HaSharon, Mitzpe Ramon, Afula, Gedera, Zichron Ya'akov, Ganei Tikva
53%-61%	9	Acre, Kiryat Ono, Safed (Tzfat), Yokneam Illit, Ness Ziona, Binyamina, Lod, Be'er Ya'akov, Be'er Sheva
61%-66%	5	Yehud, Ramla, Migdal, Kiryat Gat, Tel Mond
67%-74%	7	Or Akiva, Tirat Carmel, Yavne'el, Beit Dagan, Kiryat Shmona, Ashdod, Kfar Yona
75%-83%	9	Kadima, Tiberias, Migdal HaEmek, Dimona, Gan Yavne, Beit Shemesh, Yavne, Beit She'an, Pardesiya
84%-95%	9	Hatzor, Yeruham, Kiryat Ekron, Ofakim, Kiryat Malachi, Sderot, Shlomi, Ma'alot, Ashkelon
96%-99%	6	Or Yehuda, Mevaseret Zion, Bnei Ayish, Netivot, Elyakhin, Rosh HaAyin

Table 3 | Absolute and relative mobility of Development Towns

	Absolute mobility						**Relative mobility**	
	Population size		Percent with academic degree		Median age		Socio-economic percentile	DT income relative to NDT
	DT	NDT	DT	NDT	DT	NDT		
1961	5,732	26,462	2%	6%	18	26	19%	--
1972	10,126	36,629	1%	4%	19	25	19%	0.940
1983	12,934	45,360	3%	9%	23	26	23%	0.948
1995	20,699	58,730	10%	16%	26	30	30%	0.965
2008	29,306	71,273	17%	27%	29	32	32%	0.966
2019	36,483	84,391	27%	34%	31	34	36%	0.977

Note: DT and NDT stands for development town and non development towns, respectively.

Table 4 | Socioeconomic mobility of DT by their ranking

	1961	1972	1983	1995	2008	2019
DT above the bottom 31 localities	3	5	6	12	12	14
DT above the socio-economic median	0	0	3	6	7	8
DT in top two deciles	0	0	0	1	0	2
Total number of (ranked) localities	90	93	87	93	93	93

1. The socioeconomic ranking in 1961 is calculated using the average ranking by median age and education. According to this ranking, three DT are above the lowest 31 places.

2. In 1983, the CBS did not calculateed the socioeconomic index of five small localities.

3. DT and NDT stand for development town and nondevelopment towns, respectively.

Table 5 | Estimating relative immobility
The dependent variable: Socioeconomic percentile in 2019

	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
Development Town	-0.21***					
	(0.06)					
Percent Mizrahim, 1961		-0.42***				
		(0.11)				
Socioeconomic percentile, 1961			0.37***			
			(0.10)			
Median years of schooling (Log), 1961				0.34		
				(0.18)		
Median age (Log), 1961					1.14***	
					(0.29)	
Population size (Log), 1961						-0.07
						(0.05)
Constant	0.58***	0.73***	0.32***	0.19	-1.03**	0.78***
	(0.03)	(0.06)	(0.06)	(0.15)	(0.39)	(0.18)
Number of observations	93	90	90	75	90	90
R^2	0.12	0.15	0.14	0.05	0.15	0.03

*, **, *** indicate the level of significance of 5%, 1% and 0.1%.

Table 6 | Estimating absolute and conditional convergence, Development Towns
The dependent variable: the change in socioeconomic percentile between 1961 and 2019

	(1)	**(2)**	**(3)**	**(4)**	**(5)**
Socioeconomic percentile, 1961			-0.63***	-0.74***	-0.88***
			(0.10)	(0.10)	(0.15)
Development Town	0.27***	0.27**			0.12-
	(0.07)	(0.08)			(0.09)
Distance from Tel-Aviv (Log)		-0.12**		-0.16***	-0.16***
		(0.04)		(0.04)	(0.04)
Percent Ultra-orthodox Jew, 1961		-0.87		-1.14	-1.21*
		(0.69)		(0.59)	(0.59)
Percent USSR Immigrants, 1970-1972		-3.52		-3.48	-3.30
		(2.34)		(1.98)	(1.98)
Ethnic Diversity: the composition of immigrants by country of birth		0.22		0.14	0.14
		(0.20)		(0.17)	(0.17)
Constant	-0.09*	0.07	0.32***	0.64***	0.73***
	(0.04)	(0.08)	(0.06)	(0.11)	(0.13)
Number of observations	90	90	90	90	90
R^2	0.16	0.27	0.32	0.48	0.49

*, **, *** indicate the level of significance of 5%, 1% and 0.1%.

Table 7 | Sensitivity analysis by sub-period
The dependent variable: the change in socioeconomic percentile

	Coefficient of socioeconomic percentile in the starting year: without controling for distance from TLV	**Coefficient of socioeconomic percentile in the starting year: controling for distance from TLV**	**Coefficient of distance from TLV**	**Constant**
1961–2019	-0.63***	-0.75***	-0.15***	0.58***
	(0.10)	(0.09)	(0.04)	(0.08)
1961–2008	-0.51***	-0.61***	-0.13***	0.48***
	(0.09)	(0.09)	(0.04)	(0.08)
1961–1995	-0.40***	-0.48***	-0.10**	0.38***
	(0.09)	(0.09)	(0.03)	(0.07)
1961–1983	-0.23**	-0.27**	-0.05	0.19**
	(0.07)	(0.07)	(0.03)	(0.06)
1961–1972	-0.08*	-0.09*	-0.01	0.04
	(0.04)	(0.04)	(0.02)	(0.03)
1972–2019	-0.63***	-0.72***	-0.15***	0.58***
	(0.10)	(0.09)	(0.04)	(0.08)
1983–2019	-0.46***	-0.58***	-0.15***	0.48***
	(0.09)	(0.09)	(0.03)	(0.08)
1995–2019	-0.15**	**21-0.	-0.06*	0.18**
	(0.05)	(0.06)	(0.02)	(0.05)
2008–2019	-0.04	-0.07*	-0.02	0.07*
	(0.03)	(0.03)	(0.01)	(0.03)

*, **, *** indicate the level of significance of 5%, 1% and 0.1%. Standard errors are reported in parentheses. The calculations refer to the 90 localities in the sample that existed in 1961.

Table 8 | Estimating absolute and conditional convergence by log income per capita
The dependent variable: the change in log income per capita between 1972 and 2019

	(1)	**(2)**	**(3)**	**(4)**	**(5)**
log income per capita, 1972			-0.60***	-0.72***	-0.74***
			(0.10)	(0.10)	(0.19)
Development Town	0.12***	0.15***			
	(0.03)	(0.03)			
Distance from Tel-Aviv (Log)		-0.05**		-0.07***	-0.07***
		(0.02)		(0.02)	(0.02)
Education percentile 1972					-0.01
					(0.08)
Median age percentile 1972					0.14*
					(0.07)
(Log) population					-0.09***
					(0.02)
Constant	-0.28***	0.35***	2.44***	2.91***	3.32***
	(0.02)	(0.03)	(0.36)	(0.36)	(0.64)
Number of observations	78	78	78	78	78
R^2	0.17	0.24	0.31	0.42	0.54

*, **, *** indicate the level of significance of 5%, 1% and 0.1%.

Table 9 | Estimating absolute and conditional convergence with interactions
The dependent variable: the change in socioeconomic percentile between 1961 and 2019

	(1)	**(2)**	**(3)**
Socioeconomic percentile, 1961	-0.63***	-0.69***	-1.09***
	(0.10)	(0.18)	(0.21)
Development Town		0.03	
		(0.15)	
Socioeconomic percentile, 1961 X Development Town		-0.50	
		(0.44)	
Distance from Tel-Aviv (Log)			-0.31**
			(0.09)
Distance from Tel-Aviv (Log) X Socio-economic percentile, 1961			0.24
			(0.13)
Constant	0.32***	0.37**	0.82***
	(0.06)	(0.12)	(0.15)
Number of observations	90	90	90
R^2	0.32	0.34	0.46

*, **, *** indicate the level of significance of 5%, 1% and 0.1%.

Table 10 | The characteristics of Development Towns and Non-Development Towns

	Percent Mizrahim		**Percent Ultra-orthodox Jews**		**Percent 90s immigrants**		**Distance from Tel-Aviv (km)**	
	DT	NDT	DT	NDT	DT	NDT	DT	NDT
1961	84%	39%	3.0%	3.1%				
1972	87%	52%	5.7%	3.3%				
1983	84%	53%	6.5%	4.0%				
1995	65%	46%	18.7%	11.0%	16.9%	11.9%		
2008	59%	44%	18.4%	10.5%	17.0%	14.8%		
2019	64%	46%	18.0%	10.5%	14.9%	14.7%	62	54

Note: DT and NDT stand for development town and nondevelopment towns, respectively.

Table 11 | The characteristics of mobile and non-mobile Development Towns

	Percent Mizrahim		**Percent Ultra-orthodox Jews**		**Percent 90s immigrants**		**Distance from Tel-Aviv (km)**	
	Mobile DT	Non-mobile DT	Mobile DT	Non-mobile DT	Mobile DT	Non-mobile DT	Mobile DT	Non-mobile DT
1961	85.9%	82.4%	4.3%	2.0%				
1972	90.4%	84.9%	6.0%	5.5%				
1983	85.9%	83.0%	6.1%	6.9%				
1995	69.0%	62.0%	14.1%	22.5%	12.0%	21.0%		
2008	60.8%	57.9%	12.0%	23.7%	12.5%	20.6%		
2019	67.2%	61.6%	7.2%	20.6%	11.6%	17.5%	30	88

Note: A development town is defined as "mobile" if its socioeconomic ranking is above the 31 lowest-ranked localities. There are 14 mobile development towns and 17 immobile development towns. DT and NDT stands for development town and nondevelopment towns, respectively.

Figure 1

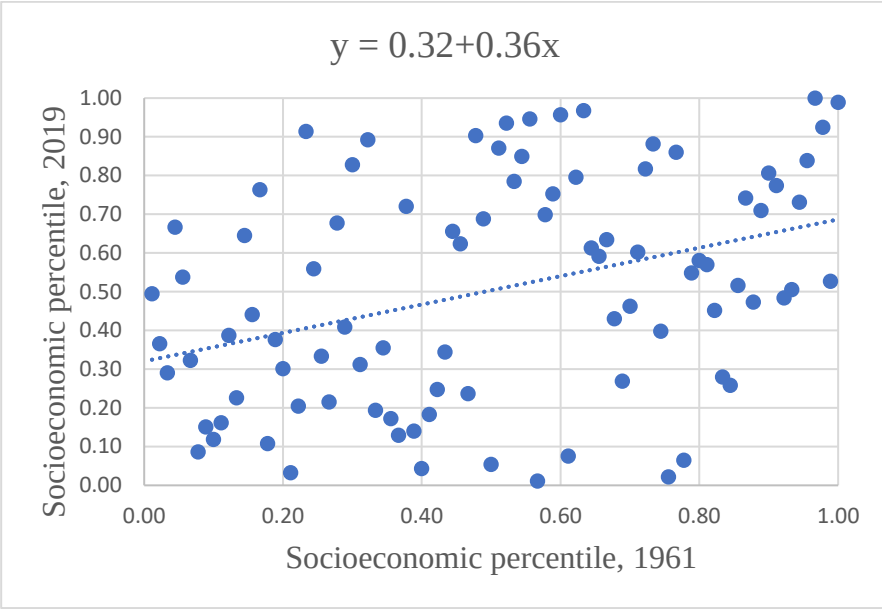

Figure 2