Intergenerational Mobility

Patrizio Piraino

SALDRU Southern Africa Labour and Development Research Unit
UNIVERSITY OF CAPE TOWN
IYUNIVESITHI YASEKAPA • UNIVERSITEIT VAN KAAPSTAD

Main questions

- Do all individuals have the same opportunity to achieve economic success irrespective of their parental background?

- Do poor children become poor adults? Do rich children become rich adults?

- What advantages do high income parents pass on to their children? What is that low income parents can do?

- What role for policymakers?
  - Should they intervene?
  - How?

Existing Research

- Try to find synthetic measures of the extent of persistence in economic status across generations
- Rank countries according to their level of "overall" mobility.
- Study relationship between Inequality and Intergenerational Mobility
- Investigate labour market and education processes through which status is attained
- Analyse drivers of intergenerational economic mobility

Summary measure

Linear Regression Approach

$$y_c = \alpha + \beta y_p + u_c$$

where y is lifetime income

β is **intergenerational elasticity**: measure the change in expected income for the child associated to changes in parent's income

Summary statistic - "overall" measure -

$\beta = 0 \Rightarrow$ complete mobility: child earnings are independent of those of their parents.

$\beta = 1 \Rightarrow$ complete immobility: child earnings are fully determined by the parent.

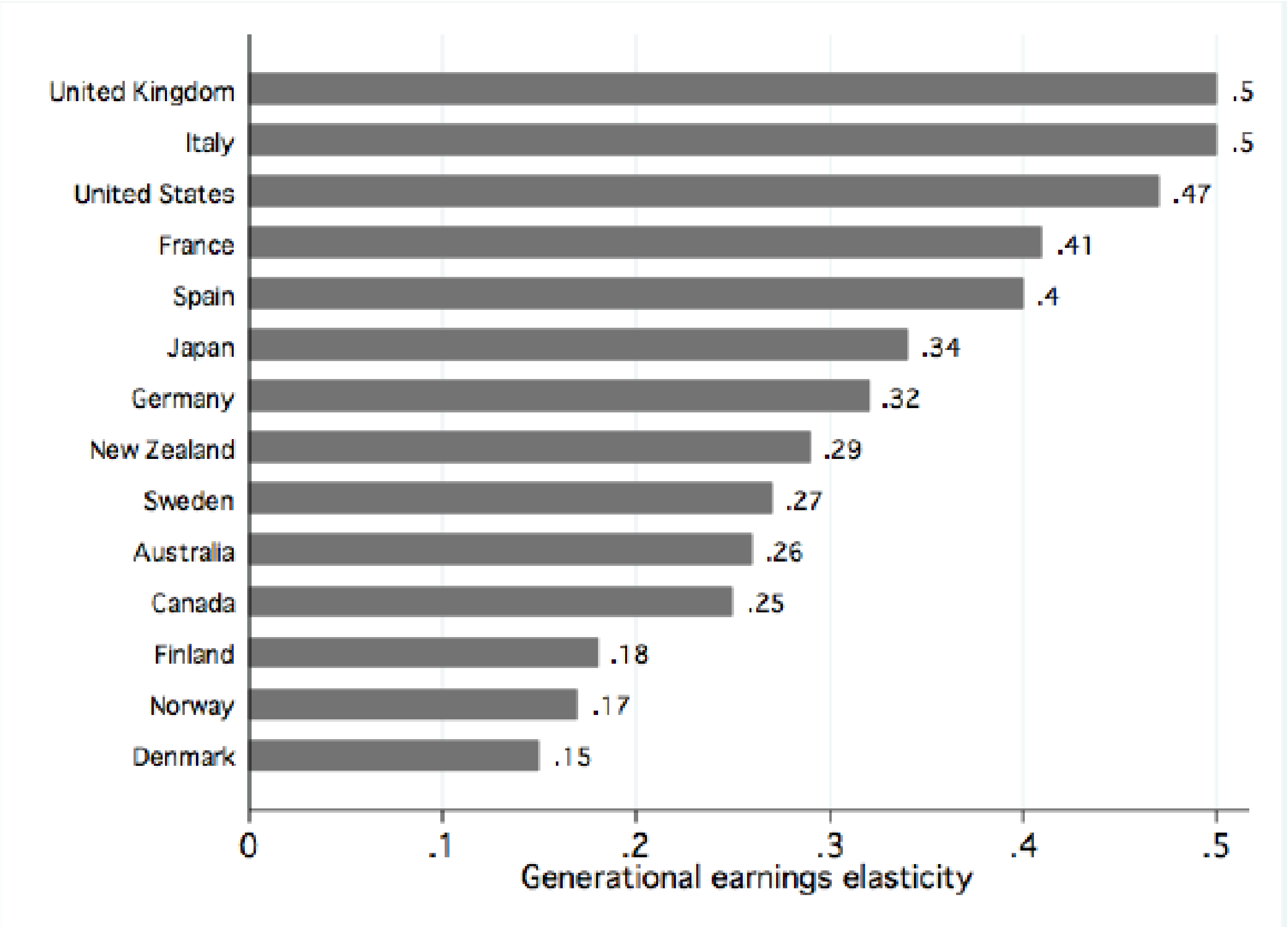
Measurement Issues

The intergenerational elasticity also translates parental incomes ratio into the economic advantage that children from those groups are *expected* to enjoy when adult

Example (Corak, 2004): in the USA, children in top income quintile had twelve times as much money as those at the bottom quintile.

β	0	0.2	0.4	0.6	0.8	1.0
Advantage	1.0	1.64	2.7	4.44	7.3	12.0

	t	t +1	t + 2	t + 3	t +4	t + 5
0.2	12	1.64	1.1	1.02	-	-
0.6	12	4.44	2.45	1.71	1.38	1.21



Source: Miles Corak (2013). *Journal of Economic Perspectives*, 27(3): 79-102. Figure 1.

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The case of South Africa

- High and persistent levels of income inequality

- Less intergenerational persistence in schooling compared to countries with similar levels of cross-sectional inequality (Hertz et al., 2007)

- Legacy of explicit policies aimed at protecting intergenerational economic privilege

Data requirements

- Many countries (including South Africa) do not have long enough panel data to accurately measure lifetime incomes of two generations

- Ideal dataset:
  - Protracted (nationally representative) longitudinal survey
  - Measures of permanent income for both generations

- Retrospective information in repeated cross-sections may be exploited.
  - Hard to find income or earnings. Education and/or occupation are more common.

- Two-sample procedure:
  - (i) one sample of children who have reported their parents' socio-economic characteristics
  - (ii) an earlier sample of the same population (pseudo-parents)
  - Use sample (ii) to impute the income of actual parents

NIDS

- Waves 1 to 4 of the National Income Dynamics Study

- Information from the adult questionnaire
  – individuals' wages and other incomes
  – parental background variables: parents' education and occupation

- Auxiliary sample taken from PSLSD (1993)

Group differences

β is a "summary" measure. It doesn't capture differences by groups

Table 3. *Decomposition of the intergenerational earnings elasticity by race*

	African	Coloured	Indian	White	
Group-share weighted elasticity	0.267	0.057	0.047	0.250	$\Sigma = 0.621$

- Although white South Africans made up only 10% of the sample, they accounted for about 40% of the intergenerational elasticity.

- Analogy with the findings from the U.S. (Hertz, 2008).
  - minority group (African Americans) persistently confined to the lower end of the distribution generates a high proportion of the overall income persistence in the U.S.
  - in South Africa the key difference is that the minority group (Whites) is positioned at the top of the distribution

Inequality and Mobility

- Low mobility is associated with higher inequality in the long run

- There are a number of reasons why one would expect inequality and mobility to be related:
  - Redistribution
  - Nature and diversity of employment opportunities
  - Social investments (e.g. education, health, etc…)
  - Welfare systems
  - Segregation
  - Behaviours

Redistribution

- Fiscal policy is the most common redistributive tools available to a government, and it can impact intergenerational mobility

- People who think that economic success largely depends on individual's own efforts tend to prefer a limited role for government in reducing inequality.

- On the other hand, those who think that income gaps arise mostly from inherited circumstances tend to support redistribution

- Effect of *perceived* mobility on preferences for redistribution (Alesina et al, 2018)

Labour market

- A labor market that rewards the advantages of a privileged background, rather than skills undermines intergenerational mobility

- This is not just *unfair*, it is also *inefficient*

- *Example 1*: Parental networks and connections
  - Many jobs are found through informal channels

- *Example 2:* Discrimination
  - There is widespread evidence that employers discriminate on observable attributes unrelated to productivity (e.g. gender, race)

Early childhood

- To equalize opportunities one must not wait until individuals are old enough to enter the labour market
  - skill formation is a cumulative process in which early inputs affect the productivity of later inputs (Heckman)

- There is evidence that early life interventions can improve mobility
  - maternal health
  - universal pre-school programs
  - access to immunization, sanitation
  - nutrition
  - <u>basic</u> education policies to improve the quality of learning
  - school attendance and completion

Neighborhoods and social environments

- Segregation
  - can play an important role in shaping aspirations and investments in human capital
  - but also in relation to location of jobs

- Social norms and aspirations
  - can enhance the impact of policies to improve mobility

Aspirations and Trust

- Low intergenerational mobility can negatively affect aspirations and human capital investment

- Insights from psychology – behavioral economics
  - Perceiving one's position in the economic ladder as unchangeable may lead to depression, "helplessness", "hopelessness", inaction

- A perceived "inevitability" of inequality may reduce demand for redistributive policies → vicious circle

- Low intergenerational mobility can erode social trust
  - effect on social stability (e.g. political violence, crime)

Concluding remarks

- Children born every day in South Africa face **very different** life prospects

- In economics, scholars have interpreted the idea of equality of life chances in diverse ways, ranging from non-discrimination to egalitarianism (Roemer and Trannoy, 2014).

- Principles of fairness (Roemer 1998; Fleurbaey 2008):
  - principle of *compensation*: inequality due to circumstances beyond individual control is unfair and should be eliminated
  - principle of *reward*: inequality due to individual choices is legitimate by the principle of personal responsibility