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Research Report

Economic mobility across generations: Old versus new EU member states

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Briefing Paper 14/2019

Economic Mobility across Generations: Old versus New EU Member States

Summary

A country where an individual's chances of success depend little on the socio-economic success of his or her parents is said to be a country with high relative intergenerational mobility. A government's motivation for seeking to improve mobility is arguably two-fold. There is a fairness argument and an economic efficiency argument. When mobility is low, it means that individuals are not operating on a level playing field. The odds of someone born to parents from the bottom of their generation will be stacked against him or her. This is not only unfair but also leads to a waste of human capital, as talented individuals may not be given the opportunity to reach their full potential. Reducing this inefficiency will raise the stock of human capital and thereby stimulate economic growth. Since the waste of human capital tends to be concentrated toward the bottom of the distribution, the growth brought about by mobility-promoting policy interventions tends to be of an inclusive nature, in line with the spirit of Sustainable Development Goal (SDG) 10 on reducing inequality.

For large parts of the world's population, individual education is still too closely tied to the education of one's parents, and there is a clear divide between the high-income and developing world. The patterns observed globally are also observed within Europe. Intergenerational mobility (or equality of opportunity) is visibly lower in the new member states (i.e. Eastern Europe), where national incomes are lower.

Raising investment in the human capital of poor children towards levels that are more comparable to the investment received by children from richer families will curb the importance of parental background in determining an individual's human capital. Countries at any stage of development can raise intergenerational mobility by investing more to equalise opportunities. The evidence strongly suggests that public interventions are more likely to increase mobility when:

a) public investments are sufficiently large,

b) are targeted to benefit disadvantaged families/neighbourhoods,

c) focus on early childhood, and

d) when there is a low degree of political power captured by the rich.

A global perspective

Using data from the United States (US), Chetty et al. (2014) estimate relative intergenerational mobility down to the commuting-zone level, and find considerable geographical differences. In some parts of the US, mobility (or equality of opportunity) is at par with some of the most mobile countries in Europe, while in other parts of the US, children face a steep uphill struggle to escape poverty when born into it. They also find that areas with relatively high rates of mobility tend to be areas that are less residentially segregated (i.e. households from different socio-economic backgrounds and different ethnic backgrounds reside in the same neighbourhood), have less inequality, higher-quality public school systems, stronger social networks, and stronger family structures.

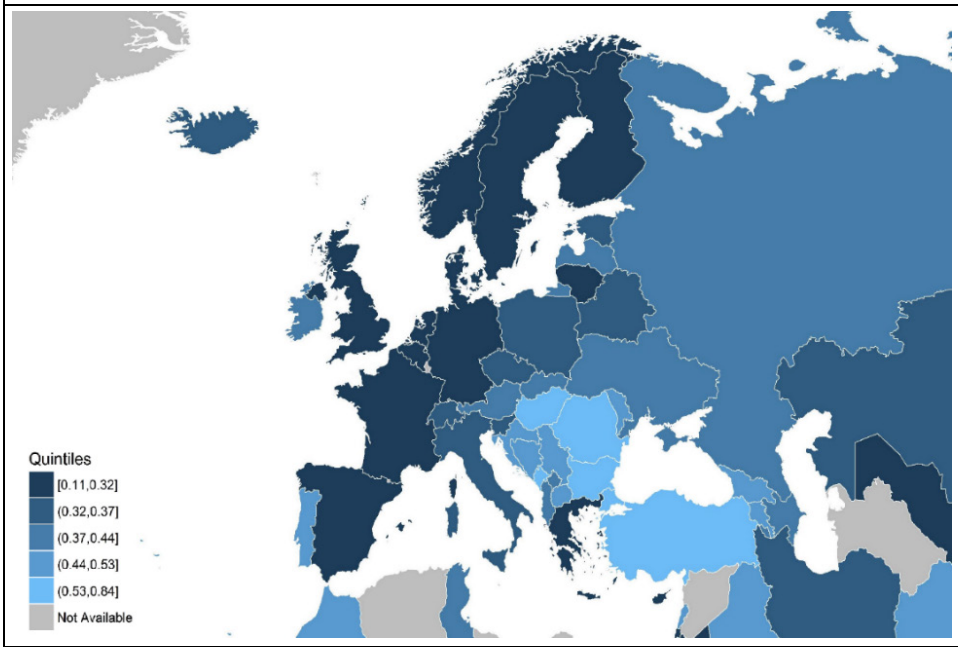
The new Global Database on Intergenerational Mobility (GDIM), which was compiled for the recent World Bank report *Fair Progress? Economic Mobility across Generations around the World*, provides estimates of intergenerational mobility for 148 economies, representing around 96 per cent of the world's population born in the 1980s. For 111 countries with 87 per cent of the world's population, estimates of mobility span five decades: from those born in the 1940s to those born in the 1980s. The 1980s cohort represents the youngest generation of adults to have completed their education at the time of data collection. The focus is primarily on mobility in education, since human capital is a key aspect of economic well-being, and educational mobility has a strong association with income mobility. And, crucially, intergenerational data on education is more widely available than that on income. Relative intergenerational persistence is measured by correlating individual years of schooling on the years of schooling of his/her most educated parent. Higher levels of persistence therefore indicate lower levels of (intergenerational) mobility.

The global study finds that for large parts of the world's population, individual education is still closely tied to the education of one's parents, and that there is a clear divide between the high-income and developing world. Sub-Saharan Africa and South Asia stand out as regions with some of the lowest levels of mobility. Indeed, 13 of the 15 least mobile countries are either in Africa or South Asia. Some of the highest levels of mobility are found in Western Europe, Canada, Australia and Japan. Similarly, within the US, lack of mobility (or high inequality of opportunity) tends to be concentrated in the poorer areas, which hampers the prospects for convergence with richer areas. These findings help to underline the importance of SDG 4 on access to equitable and quality education as well as SDG 10 on narrowing inequality within the internationally agreed development agenda for 2030.

Convergence: Old vs. new EU members

Is there a similar high- and low-income divide within Europe? If so, is this divide narrowing or growing? Are the old and new member states of the European Union converging or diverging? An answer to the first question can be found in Figure 1, a map that shows how estimates of inter-generational persistence in education, measured by the correlation coefficient between child and parent years of schooling, vary within Europe. Darker colours indicate higher levels of relative intergenerational mobility (i.e. lower levels of intergenerational persistence). The patterns observed globally are thus also observed within Europe. Intergenerational mobility (or equality of opportunity) is visibly lower in the new member states (i.e. Eastern Europe), where national

Figure 1: Relative mobility in education across Europe



Source: Narayan, van der Weide et al. (2018)

incomes are lower. The lowest rates of mobility are concentrated in the South-East of Europe, including non-EU Turkey.

In order to answer the second question, whether the old and new member states of the European Union are converging or growing apart, we look at average intergenerational persistence over multiple generations born between the 1950s and 1980s. We do this separately for the average old and average new member state (left panel of Figure 2). Average mobility for the high-income world globally is included as a reference point. The averages are unweighted by population, which means that they represent mobility for the average nation and not for the average individual in each group. Figure 2 (left panel) suggests that the divide between the old and new member states in terms of intergenerational mobility is a somewhat recent phenomenon. For individuals born in the 1950s and 1960s, there was no mobility gap to speak of, but it has been growing ever since. Achieving convergence in national incomes will be difficult without closing this gap in socioeconomic mobility across European countries.

Absolute mobility

Without exception, parents would like to see their children have a higher standard of living, and with it a better life, than they had themselves. When children are asked, they too tend to consider their parents a natural benchmark to compare their economic progress against (Chetty et al., 2017). A simple measure that captures this notion of progress is the percentage of children who managed to surpass their parents, which we refer to as absolute mobility. Chetty et al. (2017) find that the United States did exceptionally well by this measure for the generations born in the 1940s and 50s, when over 90 per cent of children managed to do better than their parents in terms of income. Absolute mobility in the United States has since fallen to around 50 per cent for the current generation, which means that half of this generation are worse off than their parents.

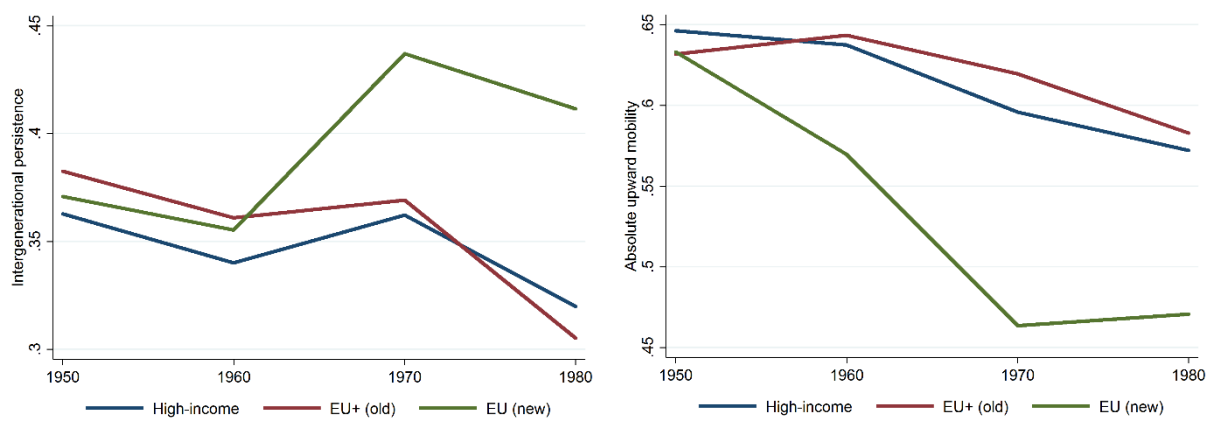
The geographical and low–high income divide observed for relative mobility is found also to exist for absolute mobility. On average, absolute mobility is significantly lower in developing (low- and middle-income) countries than in high-income countries. Similarly, it is lower in the new EU member states when compared to the old member states, while the average old member state tracks the average high-income country; see the right panel of Figure 2. The fact that absolute mobility continues to be markedly lower in lower income countries may come as a surprise, given that the scope for surpassing the education level of one's parents is higher in these countries (as parents in lower income countries tend to have lower levels of education). There are arguably opposing forces at work here: the higher scope for improving upon parents is likely accompanied by a lower local capacity to educate the next generation. The poorer the region, the more likely it is that individuals born to parents who do not have an education lack the means to get one, which creates something akin to an educational poverty trap.

Public policies

Closing the gap in socioeconomic mobility requires public policies that invest in levelling the playing field so that individuals from disadvantaged backgrounds also get the chance to fulfil their potential. The success of such public interventions will naturally depend on the magnitude of the public interventions, and on how governments allocate their investments. Raising investments in the human capital of poor children toward levels that are more comparable to the investments received by children from richer families will curb the importance of parental background in determining an individual's human capital.

To the extent that governments in more developed countries have more resources available than do governments in less developed countries, they have a greater chance of proactively increasing intergenerational mobility as they get richer. This, however, does not mean that developing countries cannot aspire to becoming a more mobile society, or that they must "grow first" to high-income status before

Figure 2: Relative and absolute mobility from the 1950s to the 1980s cohort



Source: Narayan, van der Weide et al. (2018)

investing in policies to raise mobility. In the global data, higher public spending on education relative to the size of the economy (as a share of GDP) has a strongly positive effect on relative mobility in education, net of the effect of the country's level of development (as measured by per capita income). This suggests that countries at any stage of development can raise intergenerational mobility by investing more to equalise opportunities. Historical experiences support this view: educational mobility in some developing countries – most notably in East Asia – started improving long before they reached high-income status because of rising investment in human development. Policymakers must also recognise that achieving higher mobility as a society is likely to be good for economic progress over time and help close the income gaps between developing and developed countries. Mobility-enhancing policies can raise the aggregate human capital stock, increase efficiency by matching resources and rewards more closely to ability rather than to inherited privilege, and thereby stimulate economic growth.

A growing empirical literature reviewed in Narayan, van der Weide et al. (2018) finds that public interventions are more likely to increase mobility when: (a) public investments are sufficiently large, (b) are targeted to benefit disadvantaged families/neighbourhoods, (c) focus on early childhood, and (d) when political power is not excessively captured by the rich. All this points to the need to bring deficits in intergenerational mobility into the public debate so that they are discussed and addressed accordingly through public policy. Levelling the playing field should not only be a mantra for a market with clear rules but also a reality that allows a more meritocratic allocation of the fruits of economic development.

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