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Upwardly mobile

Economic mobility is still largely the preserve of high-income countries. With the right policy interventions, developing countries can stimulate educational and economic mobility

By **Ambar Narayan**, Lead Economist, Poverty and Equity Global Practice, World Bank, and **Roy van der Weide**, Senior Economist, Development Research Group, World Bank

A common aspiration for people everywhere is to live in a society that offers a fair chance of success to all, where one's life prospects are not tied to the socio-economic status of one's parents.

To see how the world has fared by this yardstick of 'intergenerational fairness', our recent World Bank study analyses economic mobility across generations for individuals born between the 1940s and the 1980s in 148 economies that comprise 96 per cent of the world's population. Intergenerational relative mobility measures the relationship between an individual's position on the income or education ladder with his or her parents' position. The stronger this link, the less mobile (and intergenerationally fair) a society is.

The ability to move up the economic ladder, irrespective of the socio-economic background of one's parents, contributes to reducing poverty and inequality, and arguably helps boost economic growth by giving everyone a chance to deploy their talents.

When mobility is low, it means that individuals are not operating on a level playing field. 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.

The global study finds that for large parts of the world's population, individual socio-economic success is still too closely tied to the success of one's parents, and that there is

▲ Palestinian youths practise parkour in Gaza City. The poorest regions of the world have the least economic mobility and there is little prospect that this generation's economic status will be better than their parents' without fundamental changes to policy

a clear divide between the high-income and developing world. There is no sign that this gap is closing. In large parts of the world, particularly the developing world, economic mobility (or equality of opportunity) is stagnating. The social status of one's parents is as influential today as it was 50 years ago in determining a person's future.

The poorest regions of the world – sub-Saharan Africa and South Asia – are also the least mobile. Average relative mobility of these two regions and of Eastern Europe and Central Asia has not improved since the 1950s generation, in contrast with the gradual improvements seen for other developing regions and high-income economies. 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. Overall, 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 over time.

Investing in children

If the world does not alter the way it invests in its children, particularly those coming from less advantaged backgrounds, there is little reason to believe that this assessment will be different in 10 years' time. This prospect makes the Sustainable Development Goals (SDGs) an even bigger challenge: most notably the eradication of extreme poverty by 2030 (SDG 1), providing inclusive and equitable quality education (SDG 4), and reducing inequality within and between countries (SDG 10). Public policy therefore has a vital role to play in providing a level playing field, so that every child regardless of parental background can reach his or her full potential.

Which policies can improve intergenerational fairness in developing economies? Importantly, policies that promote economic growth are good for mobility, since growth increases the size of the economic pie and generates greater resources for public investments.

But higher growth may not necessarily lead to higher relative mobility, as the experiences of several emerging economies (including China and India) illustrate. Lower relative mobility is associated with higher inequality, as the two tend to reinforce each other. Breaking this vicious cycle requires the state to play a proactive role in promoting inclusion: reducing inequality of opportunities for individuals born into vastly different circumstances.

Policy interventions to narrow opportunity gaps need to start early in life by targeting maternal health and early childhood, since gaps that emerge then are difficult and costly to close over time. As children get older, the education system must focus on closing gaps in access and learning between the 'haves' and 'have-nots' (as reported in the *World Development Report 2018, Learning to Realize Education's Promise*). Mobility in education tends to be higher in countries that invest more public resources in education relative to the size of their economy and where this spending is more effective and targeted at disadvantaged children.

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The fiscal system has a key role in promoting mobility by reducing the gaps in starting points for individuals (direct redistribution) and mobilising resources to finance 'equalising' public investments. Doing so without imposing too high a cost on economic efficiency requires increasing progressivity and broadening the tax base through less distortionary means – such as property, wealth and inheritance taxes – and strengthening tax compliance.

Lower tax revenue and a smaller share of direct taxes in total revenue (or a less progressive tax structure) are associated with lower relative mobility. Redistributive transfers and tax credits to poor families can help enhance their human capital investments.

Economic mobility also depends on the functioning of markets that determine job creation and earnings. If economic opportunities do not keep pace with the expectations of citizens with rising education levels, societies may come under growing stress.

Weak labour markets are important reasons why income mobility is lower in many middle-income economies – including several in Latin America and the Middle East – than would be expected given their levels of educational mobility. Improving labour

▶ Students wearing 1970s-style school uniforms at the Naksan 'art village' in Seoul. Investing in education is the key to creating intergenerational mobility, as South Korea has demonstrated

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markets would require policies to enhance job creation and competition among employers, protect workers against discrimination, and ease the access of lagging groups including women and youth to labour markets.

Creating a fairer society

To the extent that governments in more-developed countries have more resources available than governments in less-developed countries, they have a greater chance to proactively increase intergenerational mobility as they get richer.

But this does not mean that developing countries cannot aspire to become a more mobile society, or that they must 'grow first' to high-income status before 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 gross domestic product) has a strongly positive effect on relative mobility in education irrespective 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 investments in human capital development.

Mobility-enhancing policies in developing countries can help reduce entrenched inequalities to create a fairer society over time where the gains from economic progress are shared more equitably.

Such policies can also increase the productivity of an economy by expanding its human capital stock and improve economic efficiency by matching resources and rewards more closely to ability rather than to inherited privilege.

Achieving higher intergenerational mobility as a society can thus help stimulate economic growth and accelerate poverty reduction in developing countries and reduce their income gaps with high-income countries. ●