INCLUSIVE GROWTH OECD COPE Centre for Opportunity and Equality

A broken social elevator? How to promote social mobility

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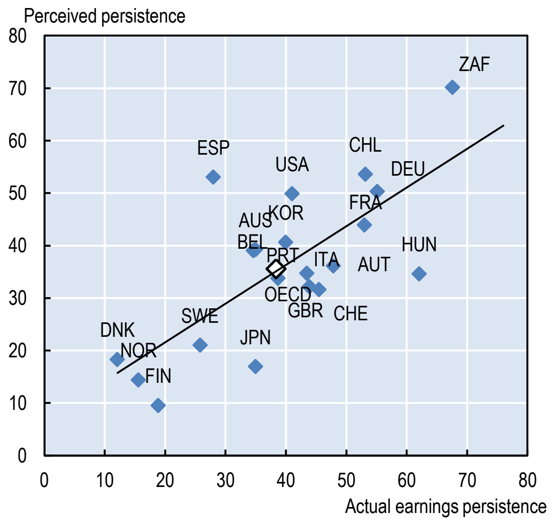
People have become more pessimistic about the prospects of *social mobility* over the last two decades. A growing share feel that parents' fortunes and advantages are a major determinant of life outcomes. People are also increasingly concerned about their ability to improve their financial situation over the life course. Meanwhile, the perceived risk of "sliding down the social ladder" is growing in nearly all OECD countries.

These perceptions somewhat square with actual mobility measures. For instance, people tend to perceive greater persistence in social and economic outcomes across generations in countries where the economic success of sons and daughters depends more closely on the earnings of their parents (Figure 1).

Figure 1. Perceived and actual social mobility are closely related



Note: Perceived persistence = share of people who believe that it is important to have well-educated parents to get ahead in life. Earnings persistence = elasticity of earnings between fathers and sons. The higher the elasticity, the lower is intergenerational mobility. Perception data are for 2009; earnings persistence data are for sons' earnings in the early 2010s, with regard to fathers earnings.
Source: "A Broken Social Elevator?", Chapter 1, Figure 1.3.

What exactly is social mobility?

Social mobility is multi-faceted. Gains or losses in economic or social status between parents and their children are referred to as ***intergenerational mobility***. They may consider income or earnings, but also educational attainment, occupation or health. By contrast, ***intra-generational mobility*** refers to the extent to which people's social or economic situation changes *over their life course*.

Both inter- and intra-generational social mobility can be assessed in absolute or in relative terms. ***Absolute social mobility*** considers by how much the *level* of a socio-economic outcome has improved or deteriorated. ***Relative social mobility*** considers people's position on the social ladder, again either comparing their rank with that of their parents or at different points during their lives. As countries reach high levels of development, progress in absolute terms necessarily slows down along some key dimensions, such as education or health. Therefore, the issue of relative mobility gains more importance in the public debate, especially in more advanced economies.

Why social mobility matters

When persons from low-income families have little chance of moving up, while those from well-off families are almost guaranteed to retain their privileged positions, the "social elevator" is broken. This can have harmful economic, social and political consequences:

- ***Low social mobility can erode the foundations of economic growth***: Lack of upward mobility for those at the bottom implies that many talents remain under-developed and that potentially profitable investment opportunities go unexploited. A lack of downward mobility for those at the top promises persistent rents for a few at the expense of the many, at high efficiency costs.
- ***Mobility prospects are an important determinant of life satisfaction and well-being:*** Persons who gain in socio-economic status compared to their parents tend to fare better along a wide range of social and well-being dimensions (e.g. civic participation, personal relationships, subjective well-being) than those stuck at the bottom. Inversely, higher risks of downward mobility tend to reduce life satisfaction by increasing perceived financial insecurity.
- ***Mobility prospects also matter for social cohesion and democratic participation:*** Research suggests that perceived equality of opportunities can reduce the likelihood of social conflict. Perspectives of upward mobility weaken economic discontent, while more stagnant societies more easily give rise to feelings of social exclusion. Low chances of upward mobility may reduce democratic participation, and people facing the risk of downward mobility or status loss are less likely to feel that their voice counts. This is associated with lower levels of trust in government.

"Sticky floors" and "sticky ceilings" – How parents pass on privilege and disadvantage to their children

In many countries, people's socio-economic outcomes strongly relate to those of their parents: intergenerational social mobility is low. It could take on average four to five generations for the offspring of a family in the bottom decile (i.e. the bottom 10%) of the income distribution to reach the average income (Figure 2). In the Nordic countries, it could only take two generations, while in some emerging economies, this process could take around ten generations.

The degree of intergenerational social mobility moreover varies across groups, putting the already underprivileged at a disadvantage:

"Sticky floors": low upward mobility at the bottom: Children from disadvantaged families have weak chances of moving up. Nearly one-third of children with a father in the bottom *earnings* quartile also have earnings in the bottom quartile. For the other two-thirds, upward earnings mobility is typically limited to the neighbouring earnings bracket: 40% stay in the bottom half.

Low mobility from the bottom extends beyond earnings to a number of other important dimensions:

- *Educational attainment* is highly persistent across generations: among people with low-educated parents (those without an upper-secondary qualification), 42% do not finish high school, compared to only 7% among people whose parents have a tertiary degree. At the same time, only 12% of people with low-educated parents complete tertiary education. Educational mobility is even lower in southern European countries and most emerging economies. And while upward mobility of persons with low-educated parents rose for the cohorts born between 1955 and 1975, this trend stalled for the cohorts born after 1975.
- A similar pattern holds for the *type of occupation*: less than one-quarter of the children of manual workers (e.g. plumbers, mechanics or maintenance agents) later become managerial or professional workers.
- Also *health outcomes* tend to be transmitted from one generation to the next in most OECD countries: having grown up in a family with little or no wealth and having ill parents are two main predictors of poor health.

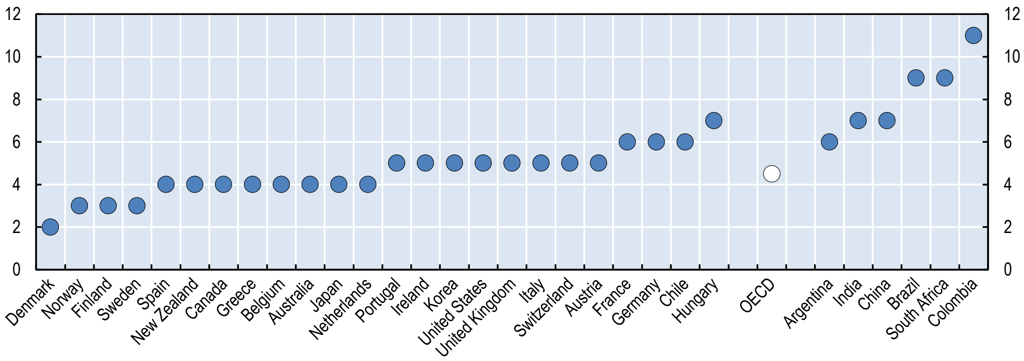
"Sticky ceilings": low downward mobility at the top: Children born into more privileged families are much less likely to move down the ladder, as privileged parents tend to be very effective at ensuring that their children get a head start in life:

- *Earnings* persistence is very high at the top of the distribution: sons of fathers in the top earnings quartile have a 40% chance of remaining in the top quartile, while only 16% of them end up in the bottom quartile in the OECD on average.
- Also *educational outcomes* are much better for children from more privileged families: people whose parents have completed tertiary education nearly always obtain at least a high school degree, and 63% obtain a tertiary degree. They are on average also more proficient in literacy and numeracy (as measured in the OECD Survey on Adult Skills, PIAAC) than children with less-educated parents, and notably those whose parents have not completed high school.
- And again, there is also strong persistence in the chosen *type of occupation*: half of children whose parents are managerial or professional workers become managers themselves.

Privilege and disadvantage also persist over the life course

Mobility over individuals' lives (i.e. intra-generational social mobility), is characterised by high persistence in both tails of the income distribution. Almost 60% of people in the bottom quintile (i.e. the bottom 20%) are in the same quintile four years later. Persistence is even stronger at the top, with nearly 70% of persons remaining in the top quintile over a four-year period. Extending the period – which in principle allows for more mobility – does not change the picture: close to 40% of people in the bottom and nearly 60% in the top remain in their respective quintiles over nine years.

Figure 2. It could take on average four to five generations for the offspring of a low-income family to reach the average income



Note: These estimates intended to be illustrative and are based on earnings persistence (elasticities) between fathers and sons and the current level of household incomes of the bottom decile and the mean, assuming constant elasticities. Low-income family is defined as the first income decile, i.e. the bottom 10% of the population.
Source: "A Broken Social Elevator?", Chapter 1, Figure 1.5.

Persistence in income positions has increased in most OECD countries since the late 1990s, and the relationship with educational attainment intensified. The low-educated now face a higher risk than previously of staying persistently in the bottom income quintile, while the highly educated are less likely to drop out of the top.

Long-term unemployment is one main explanation for the strong low-income persistence. Also people working for low wages and many of those living in large households tend to remain at the bottom of the income distribution. Persons who succeed at moving out of poverty often do so only temporarily to live on incomes little above the poverty line. More permanent departures from the bottom of the income distribution often result from people finding a (better-paid) job. In particular, the transition from a temporary to a permanent contract can help persons leave the bottom of the income distribution.

Changes in family composition – for instance through childbirth or divorce – can cause a person to slip into the bottom quintile of the earnings distribution.

Greater opportunities and higher risks in the middle

Households in the middle of the income distribution (i.e. the 2nd, 3rd or 4th quintile) experience higher income mobility. This however means not only greater opportunities for upward mobility, but also a higher risk of sliding down in the income distribution, sometimes to the very bottom: one-out-of-seven middle-income households falls into the bottom quintile of the income distribution over a four-year period.

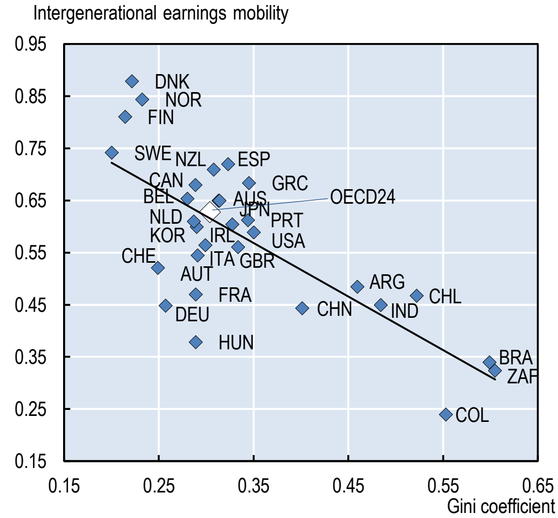
There are signs, moreover, of an increasing vulnerability of persons with incomes in the lower-middle group, much more so than around the middle and above. The risk of further sliding down in the income distribution on average slightly *increased* over the past two decades for working-age persons in the 2nd quintile (i.e. those part of the "bottom 40%" but not the "bottom 20%"). Meanwhile, those with incomes around the middle and above (3rd and 4th quintiles) are slightly *less vulnerable* today than during the late 1990s to fall to the bottom.

At the same time, the chances of moving up from the middle towards the top quintile of the income distribution have generally declined.

What does low social mobility imply for inequality?

The low degree of social mobility makes the high levels of income inequality in many OECD countries socially less acceptable. Intergenerational earnings mobility is usually *lower* in countries where income inequality is high. This negative relationship is referred to as the "Great Gatsby Curve" (Figure 3, Corak, 2006; OECD, 2008). To the top-left end of this curve, one finds the Nordic countries, which combine high earnings mobility with low inequality; to the bottom-right end, Chile, some other Latin American countries and some emerging economies have low mobility and very high inequality levels. The picture is more nuanced, however, for some European countries: Austria, France, Germany and Hungary display both lower-than-average inequality and lower earnings mobility. No country combines high inequality with high mobility.

Figure 3. Earnings mobility across generations tends to be higher when income inequality is lower



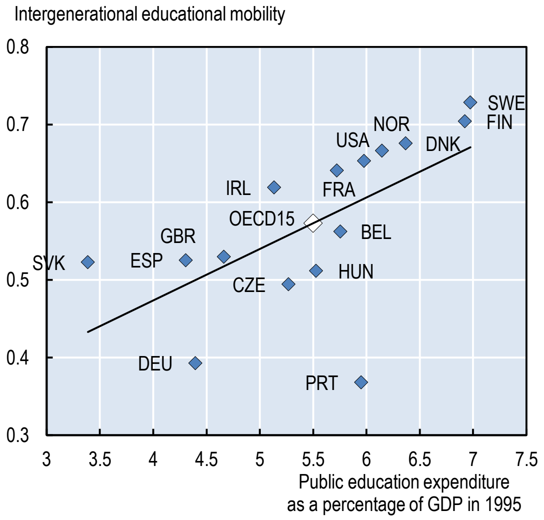
Note: Intergenerational earnings mobility is proxied by 1 minus the intergenerational earnings elasticity of fathers with respect to their sons. Gini coefficients are for the mid-1980s/early 1990s.
Source: "A Broken Social Elevator?", Chapter 1, Figure 1.13.

The negative correlation between inequality and intergenerational earnings mobility is explained to a large extent by how inequalities affect human capital accumulation. In more unequal societies, low-income parents may find it harder to make costly investments in their children's education and health, both in terms of level and quality. Meanwhile, high-income parents more often live in neighbourhoods with good schools, they can afford to pay high tuition fees, and they can rely on their professional networks to support their children's school-to-work transition. Therefore, children from well-off families are in a better position to reap the full returns to education. Such effects across generations are self-reinforcing: children from low-income families not only spend less time in education in countries where income inequalities are high, they also have lower proficiency levels *at any given level of education*. The quality gap in education is hence even larger than what would be predicted by the income gap alone (Cingano, 2014; OECD, 2015).

What can be done?

There is nothing inevitable about socio-economic privilege or disadvantage being passed on from one generation to another. Large differences in mobility outcomes across countries indicate that there is room for policies to make societies more mobile and protect households from adverse income shocks. For instance, countries, which in the past spent more on education or health tend to have higher educational or health mobility, respectively (Figure 4). What matters is however not only the overall level of public resources devoted to education or health, but also their effective use and targeting to disadvantaged groups. Policy responses should therefore not be confined to raising overall spending, but rather to targeting spending to effective programmes.

Figure 4. Educational mobility across generations tends to be greater when educational spending is higher



Note: Intergenerational educational mobility is measured as 1 minus the intergenerational educational persistence, defined as the regression coefficient between parental and children's years of schooling at age 30-55.
Source: "A Broken Social Elevator?", Chapter 1, Figure 1.14.

Designing policies to grant children equal opportunities:

- ✓ *Public investments to improve access and quality of early childhood education and care and to prevent early school leaving*
- ✓ *Adequate health support, notably for children from lower socio-economic backgrounds*
- ✓ *Family policies that permit balancing work and family responsibilities*
- ✓ *Progressive tax and benefit systems that limit income and wealth inequalities*

Mitigating the consequences of adverse personal shocks:

- ✓ *Adequately protect individuals against earnings and income losses following unemployment, divorce or childbirth*
- ✓ *Combine adequate income support with effective active labour market policies*
- ✓ *Support the school-to-work transition, in particular for disadvantaged young people*
- ✓ *Adapt social security systems to the new forms of employment*

Citation

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See also

From 15 June 2018, new OECD income inequality indicators are available via http://oe.cd/idd.

How do people perceive inequality and see their own position on the income ladder? In 2015 the OECD launched the ***Compare your Income*** web tool (www.compareyourincome.org), which allows users to compare their perceptions of income inequality to reality. Three years after its debut and more than 2 million users later, the web tool has been updated to include new questions on economic mobility across generations. Users are asked to compare their financial situation with that of their parents at the same age, and if they think children today will be better or worse off financially than their parents in the future. The web tool covers the OECD area as well as selected emerging economies, including Brazil, China, Costa Rica, India, and South Africa.

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