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BETTER POLICIES FOR BETTER LIVES

A Broken Social Elevator?

How to Promote Social Mobility

How does GERMANY compare?

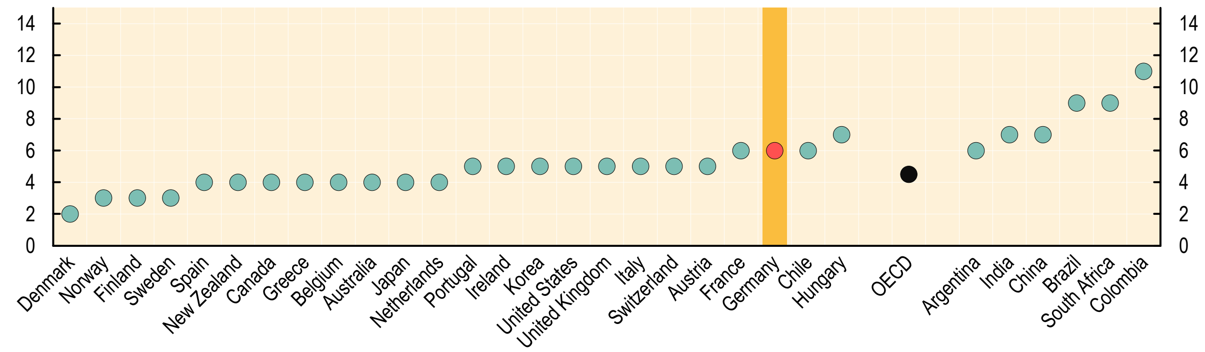
In many countries, people at the bottom of the income ladder have little chances of moving upward, and those at the top remain at the top – the social elevator is broken. This has harmful economic, social and political consequences. Lack of upward mobility implies that many talents are missed out, which undermines potential economic growth. It also reduces life satisfaction, well-being, and social cohesion. Social mobility is low at the bottom: "sticky floors" prevent people from moving up. It is even lower at the top: ceilings are "sticky". Moreover, there is a substantial risk for middle-income households to slide into low income and poverty over their life course.

Social mobility in Germany

In Germany, there is a widespread perception that parents' fortunes and advantages play a major factor in people's lives: 50% of people feel that parents' education is important to get ahead in life, more than in most countries (37% of people agreed with the same statement in the OECD on average). People are also pessimistic about their chances of improving their own financial situation: only a minority (15%) expected their financial situation to improve in 2015. According to a recent OECD survey, in 2018, 58% of German parents list the risk that their children will not achieve the level of status and comfort that they have as one of the top-three greatest long-term risks.

And indeed, people's economic status in Germany is strongly related to their parents' status: taking into account the mobility from one generation to the next, as well as the level of inequality in Germany, it could take 6 generations for children born into a family at the bottom of the income distribution to reach the mean income, compared to about 5 in the OECD on average (Figure 1).

Figure 1. In Germany, it could take 6 generations for the descendants of a low-income family to reach the average income (Expected number of generations)



Note: These estimates are based on earnings persistence (elasticities) between fathers and sons. 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. StatLink http://dx.doi.org/10.1787/888933761910

Dimensions of social mobility - sticky floors and sticky ceilings

Social mobility is multi-faceted. Its *inter-generational* dimension compares people's status with that of their parents in terms of earnings, occupation, health or education. Its *lifecycle* dimension assesses individuals' chances to change their income positions over the life course.

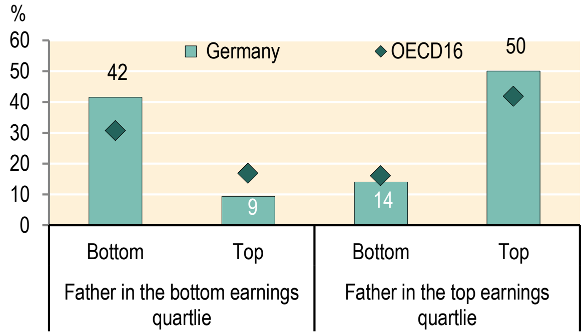
Social mobility across generations is not evenly distributed

- ***Earnings:*** In Germany, 42% of sons with low-earning fathers end up having low earnings themselves – substantially more than in the OECD on average (31%); only 9% of them make it to the top earnings group – half the value of the OECD average (Figure 2). At the opposite end, 50% of the children whose fathers have high earnings grow up to have high earnings themselves.

- *Educational attainment:* Over half (53%) of children whose parents have a tertiary degree complete a tertiary education themselves in Germany. Only about one-in-ten (11%) children with low-educated parents do so.
- *Type of occupation:* Nearly every second child of a manager also becomes a manager, compared to only one-in-four children born to a manual worker. Both these figures are close to the OECD average.

Figure 2. In Germany, floors and ceilings are sticky in terms of earnings

Percentage of sons reaching the bottom or the top of the earnings ladder by father's position



Source: *A Broken Social Elevator?* Chapter 1

Overall, intergenerational mobility in Germany is rather low compared to other countries, particularly in terms of earnings and educational mobility (Figure 3). The same holds for a range of other European countries, including France and the United Kingdom. Social mobility is higher in most Nordic countries.

Key features of the German education system certainly play an important role. Enrolment rates in institutional childcare remain relatively low for the youngest in spite of the positive recent trend: only about one-third of below-three year-olds participated in childcare in 2014 (compared to 50% or more in Denmark, the Netherlands or France). Also full-day schooling remains rare and nearly always voluntary: only about one-third of primary school pupils attended schools that offered afternoon schooling in 2014. These factors, along with the early "tracking" of students at secondary level, reduce opportunities for children from disadvantaged backgrounds to catch up with peers from more privileged families.

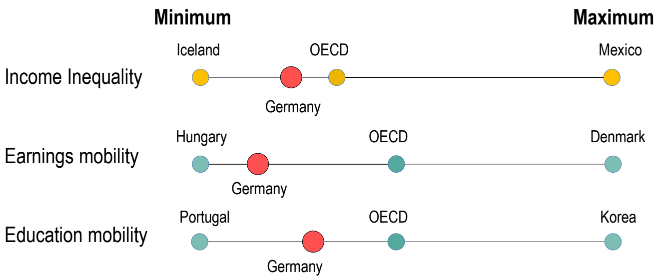
Income mobility over the life course: high persistence at the bottom and at the top

Income mobility over the lifetime is also limited in Germany, particularly at the bottom and at the top.

- Those in the bottom income quintile (the 20% of individuals with the lowest incomes) have little chance of moving up over a four-year period, with 58% remaining stuck there.
- The persistence is even stronger at the top – 74% of persons in the top 20% of the income distribution remain there over a four-year period. This "sticky ceiling" has become even stickier since the 1990s.

Lack of mobility at the bottom in Germany can partly be explained by long-term unemployment, which remains relatively high in spite of favourable labour market developments. Among those in work, a greater share than in the OECD on average are working part-time, on temporary contracts or at low wages. Taking up work may alone hence not be enough to make a large step on the income ladder. The German tax system moreover dis-incentivises (full-time) employment of both partners in married couples, and the gender earnings gap in Germany remains wide.

Figure 3. Inequality and mobility along different dimensions



Source: *A Broken Social Elevator?*, Chapter 1

What can be done to foster social mobility?

There is nothing inevitable about socio-economic advantage being passed from one generation to another. Large differences in mobility across countries suggest that there is room for policies to make societies more mobile and protect households from adverse consequences of income shocks. Policies that strengthen key dimensions of welfare are needed, as well as individual empowerment and capacity-building to alleviate the burden of unfavourable starting conditions in life. For Germany, some of the key policy priorities should include:

Objective #1
Further invest in full-day early childhood education and care, and extend afternoon compulsory schooling; postpone "tracking" of secondary school students

Objective #2
Reduce the high labour tax wedge for low- and medium-income earners and increase financial incentives for second earners to take up full-time employment

Objective #3
Reform inheritance taxation, e.g. by reducing tax exemptions, to reduce the high concentration of household wealth and to promote intergenerational mobility

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