

OPPORTUNITY, MOBILITY AND INEQUALITY

RESEARCH ON ECONOMIC INEQUALITY

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OPPORTUNITY, MOBILITY AND INEQUALITY

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INTRODUCTION

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Research on Economic Inequality: Opportunity, Mobility and Inequality comprises seven papers each of which present original research using novel data and empirical methods to uncover new findings about intergenerational mobility, inequality and welfare. The chapters in this volume reflect the contribution of newly published rich datasets that deepen our understanding of these issues, as much as novel innovations about how we conceive and measure these economic entities.

We open the volume with empirical evidence from Chile, which uses for the first time novel administrative panel data to measure intergenerational mobility in a developing country. The authors generate a panel data set using a national educational test with surveys of students in the eighth grade and analyses their intergenerational income mobility in their late twenties. The significant addition to the literature stems from the article's use of administrative data from Chile's Ministry of Labour of wage data tracked by the Department of Unemployment Insurance to obtain their cohort members' salaries between 2007 and 2018. The administrative surveys are the national mandatory SIMCE test, and the national voluntary college selection test provided by the Ministry of Education and DEMRE (Department for the Educational Testing, Measurement, and Records of the University of Chile). Using social class and role model proxies, they show that college educational outcomes are related to early years' social and educational environments. The authors use panel regression methods to reveal that remarkably 8th grade students placed in the lowest income quartile have a probability of 9% of rising to the top income decile in their late twenties. These students are, however, not immune from difficulties in future economic mobility due to having low college enrollment and graduation rates.

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The following contribution uses the Spanish example on human capital acquisition to propose theoretical innovations for inequality measurement that allow for Utilitarian, Prioritarian and Sufficientarian Imperatives. These imperatives demand equalization towards targets that are, unlike standard inequality measures, not necessarily a centrality parameter or distribution dependent. The author proposes Inequality Modulated Success Indices and their use is illustrated using data from the Spanish PISA Results (for the years 2009 and 2015) and for the regions of The Basque Country, Catalonia and the rest of Spain with respect to two family parenting types, Dual Parenting (representing two parents present in the household) and Single Parenting (indicating a single parent in the household), and changes in the disparity of the educational outcomes of 14-year-olds in Spain is examined. Equal opportunity sensitive measures of parental quality and student achievement are obtained by combining aggregate measures of parental quality and student achievement with measures of the extent of inequality of opportunity (IOP). The results reveal that while there has been a general improvement in the overall parenting quality confronting students and in student grade achievements, this is also coupled with diminished equality of opportunity, characterized by increased differences in circumstance conditioned achievement distributions. This is observed markedly so for single parented students. In turn, when heavy weights are applied to the equality of opportunity component, the ordering is reversed. Students in Basque and Catalan regions appear to be particularly advantaged relative to students in the rest of Spain.

The next chapter is an investigation into quantifying IOP amongst the young employees (between 10 and 25 years of age) in Cameroon, using an estimated Human Opportunity Index (HOI) in Cameroon. The authors define IOP as the differences in outcomes due to circumstances that are beyond individual controls. For this purpose, they estimate a HOI in order to quantify inequalities in opportunities among employees aged 10 to 25 years using the data from the Fourth Cameroon Household Survey (FCHS4) carried out in 2014 for the 14 Cameroonian geographical areas. Their results based on an estimated Dissimilarity index, finds that regions including North-West, East and the urban regions have relatively high levels of IOP. In contrast, a more homogeneous subgroup with a lower IOP is found in rural, North and East regions. The authors further use the Shapley-Shorrocks decomposition method to reveal that social and professional circumstances, levels of primary education and religious obedience of the household head, explain up to 51% to 79% of the overall IOP. Further analyses using Blinder-Oaxaca decomposition also reveal that 80% of the gap in their estimated Dissimilarity Index is explained by disparities in circumstances rather than by individual efforts. They conclude that effective decentralization is needed for a more inclusive employment policy that is sensitive to local labour market features.

The following chapter examines the effects of collective bargaining agreements on employees' welfare in Spanish firms. The chapter is a pioneering study on wage inequality in Spain at the company level. The authors use data from the 2018 Structure of Earnings Survey to examine the trade-off between wage inequality

and mean wage levels within firms using standard regression methods. They find that while firm-level collective bargaining agreements contribute to increased intra-firm wage inequality, they also significantly enhance intra-firm average wage levels, with positive effects being consistently observed across firm types and employee skill levels. The impact of these agreements varies by firm size and the skill level of the workforce: high-skilled firms experience the most pronounced benefits in wage increases, indicating a direct correlation between workforce skill intensity and the effectiveness of collective bargaining mechanisms. Notably, they observe that the increase in mean wages tends to offset adverse effects that are associated with wage disparities, which in turn lead to improved workers' welfare within firms. The authors' results emphasize the importance of firm-level negotiations to generate equitable and prosperous labour market outcomes.

The following chapter analyses the role of friends and family in decisions made by individuals to work in the public or in the private sector, using a novel database in Spain. The authors conduct a unique survey about individual socioeconomic characteristics, parental background and participants' social networks from two prominent Spanish universities and compare the effect of peers with that of the impact of parents on the individuals' preferences. Their findings reveal that for the private sector, the influence (measured as the marginal effect) of friends is larger than the influence of parents. In contrast, the opposite is found to hold for influence in determining to work in the public sector. The chapter also identifies that the effect of the horizontal channel can, however, overcome the vertical channel and that parents and friends have a larger influence on women than on men.

The next chapter provides compelling empirical evidence also from Spain on the role of IOP in shaping the dynamics of health inequality. Using a survey module conducted by the Centro de Investigaciones Sociológicas (CIS) in 2017, the authors distinguish between fair and unfair circumstances in determining health outcomes: those which are due to family background (unfair), and those related to efforts and lifestyles, and in addition, demographic variables in explaining adult health inequality. In addition, their findings highlight the importance of education in mitigating the impact of certain circumstances and serving as a transmission channel for others. Their results suggest that individuals' efforts and lifestyles alone are insufficient to counterbalance unfair circumstances beyond their control. Therefore, improving circumstances and early-life factors, or reducing their impact on health through the implementation of compensatory policies, is essential for reducing health inequality and promoting equal opportunities for inclusive development.

The volume concludes with a thorough investigation into the relationship between inequality and growth, using dynamic panel regression methods and novel Russian Federation data. The author has some robust and clear conclusions. The analysis reveals that growth is inequality increasing. In addition, using regional data, the author finds evidence of the Kuznets' inverted U curve which is in contrast with regional results from recent other countries in the world. The result however is only apparent upon accounting for potential endogeneity.

On a closer look at the case of Moscow, it reveals a pattern that sets it apart from the rest of the Russian Federation: while it starts with very high levels of inequality it eventually experiences a drastic drop.

CHAPTER 1

INTERGENERATIONAL MOBILITY IN CHILE: A YEAR-TO-YEAR ANALYSIS OF A NATIONAL COHORT OF STUDENTS

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ABSTRACT

What are the factors that affect social mobility? How are early adulthood educational and labour trajectories correlated with intergenerational mobility? This chapter presents three contributions to the intergenerational mobility literature. First, this chapter develops one of the first attempts to measure intergenerational mobility using administrative panel data sets in a developing country. A panel data set was created using a national educational test and surveys and follows students, starting in 8th grade, and analyzes their intergenerational income mobility in their late twenties. Second, this chapter uses social class and role model proxies and shows that college educational outcomes are related to initial social and educational environments. Third, a detailed analysis of academic and labour market trajectories is used, indicating that students with irregular educational and labour market trajectories show lower intergenerational income mobility. The results of this research open a new approach for analyzing life decisions and expect to provide

further guidance for public policies that intend to promote social mobility among low-income individuals.

Keywords: Intergenerational mobility; education; income; economics of education; social mobility; low income; role models

I. INTRODUCTION

The question of intergenerational mobility has risen in importance in the public debate over the several past decades. Intergenerational mobility can be defined as the extent to which an individual's background influences his or her adult income (Becker & Tomes, 1979). In an unequal democratic country, intergenerational mobility is a critical counterweight that allows market economies and democratic systems to coexist (Corak, 2013). Therefore, factors that increase intergenerational mobility have gained public policy importance in a world with rising inequality. However, the research on intergenerational mobility is constrained in different developing countries that lack panel data sets (Krishna & Nolan, 2019), and by the constraints of merging tax data with other information sources in developed countries.

The empirical research on intergenerational mobility has evolved into two significant branches, helped by the availability of detailed administrative information (Iversen et al., 2019; Palomino et al., 2018). The first branch of the literature focuses on how to measure intergenerational mobility, what data to use, and how to expand the measurements in different countries.¹

The second branch of the literature is focused on understanding the factors that promote intergenerational mobility and how these components affect different individuals. This branch of the literature centers on the dynamics that affect intergenerational mobility, the factors that promote it, the roadblocks that prevent it, and the policies that affect it. Current research has shown that intergenerational mobility is affected by different elements or channels that include family environment (ethnicity, family characteristics, neighbourhood), education (early education, school education, college education), and health (prenatal health, birth characteristics, nutrition, lifetime health) (Chetty et al., 2014; Heckman, 2006; Streib, 2011; Torche, 2011, 2015). The educational literature has shown that role models and life shocks affect educational attainment (Altmejd et al., 2020; Torche, 2010) and therefore, these variables should be incorporated into the analysis to evaluate their impact on intergenerational mobility.

The traditional methodology used to estimate intergenerational income mobility compares the long-term incomes of parents and their children. This methodology evaluates parents and children at a particular point in time. However, while some of the factors or channels that affect intergenerational mobility are fixed during life (genetics), others change over time (health or education) and depend on a plethora of factors and decisions. These current approaches to measuring

the factors that affect intergenerational mobility do not consider the outcomes of adult children in terms of trajectory, where initial decisions affect subsequent ones. For example, educational investments build upon each other, and initial investments during early education or high school will increase the likelihood of achieving a college education (Chetty et al., 2011).

Therefore, analysis that does not differentiate between the timing of decisions could be distorting estimates of the factors that affect social mobility, as sometimes it is not possible to see which decisions were made first. Moreover, some connections are lost as it is not possible to analyze the interaction of choices at different moments in time. Furthermore, it could be possible that family characteristics and educational or work decisions at one particular moment in time may have a sizable effect, while the impact of the same choices later in life may be less decisive or impactful. Following the adult children over a period of years via a yearly panel data set could be useful in documenting critical decisions that affect their intergenerational mobility and could shed some light on the importance of decision dynamics and family characteristics at different moments in their lifetime.

This chapter is one of the first papers to use administrative data to measure intergenerational mobility in a developing country. Moreover, it contributes to the literature by using year-to-year control variables, taking advantage of vast and detailed administrative information, including survey data on the educational system in Chile. Using administrative data, this chapter creates a panel data set by following an entire cohort of students, starting in 8th grade, through high school, higher education and their participation in the labour market in Chile. The panel includes data from two national mandatory educational tests, a voluntary test, and wages of students in adulthood. This data also includes information on the educational trajectories for all students and the early labour market outcomes for over 72% of the sample. It also provides detailed information on other potential factors, including educational performance.

The results show that students in the lowest income quartile in 8th grade have a 9% probability of rising to the top income decile. However, these students could face many difficulties in economic mobility as they have low college enrollment and graduation rates. This chapter analyzes the correlation between educational outcomes and intergenerational mobility, using academic tests, and proxies of social class and role models as controls. These results find that social class and school environments are correlated with higher ranking positions and indicate that previous research, which does not consider school environments and social class, could be overestimating the importance of academic outcomes on intergenerational mobility. In addition, the use of educational and labour market trajectories shows that different educational trajectories, which could seem similar looking only at educational outcomes, are correlated with different intergenerational income mobility results. Individuals with irregular educational and work trajectories – gap years in education or unemployment periods – present lower intergenerational mobility.

II. BACKGROUND LITERATURE

The literature on intergenerational mobility has been re-invigorated during recent decades, as it has become a topic of public debate and policy, introducing new causal techniques and administrative data sets. One branch of the literature has focused on measuring intergenerational mobility; while a second branch focuses on analyzing its causes, estimating the effect of education, neighbourhoods, nutrition, health, and labour markets on it during different parts of the lifecycle.²

When measuring intergenerational mobility, transition matrices are one of the most basic tools. This methodology separates the adult children and parents into groups and analyzes if and how adult children move from their parents' group to another. Transition matrices are useful as they are not affected by changes in the variance of the outcome variable, allowing for the comparison of results without having to standardize the data.³ Using administrative data sets, another approach was developed by [Dahl and DeLeire \(2008\)](#) and later [Chetty et al. \(2014\)](#). [Chetty et al. \(2014\)](#), using tax records in the United States, ranks parents according to their income and ranks children according to theirs. Then a rank-rank regression is performed, where the rank-rank coefficient is the outcome of interest and is not affected by changes in the variance or level of income.⁴

A. Education

When analyzing intergenerational mobility, education is one of the variables that has been proven, on both theoretical and empirical grounds, to promote it. Both causal and correlational empirical studies have concluded that education has a strong effect on intergenerational mobility ([Chetty et al., 2011](#); [Pekkarinen et al., 2009](#); [Torche, 2011](#)). There is an extensive array of literature that analyses educational investments, measuring the effect that they have on social mobility in developed and developing countries. As human capital investments are endogenous to family characteristics, different scholars have used various strategies to identify the causal effect of education on intergenerational mobility ([Björklund & Jäntti, 2009](#)). Various aspects of parental education transmit advantages to children (higher income, time allocation to family, and maternal education redistributes income to children). At the pre-school level, [Chetty et al. \(2011\)](#) analyze the effect of Project Star, a randomized policy in the USA, finding that better educational environments (smaller class sizes, experienced teachers, and classmates with higher test scores) are associated with positive labour market outcomes and college attendance.

National policy interventions have been a useful way to measure the effect of primary and secondary education on intergenerational mobility, as they can be evaluated as natural experiments. For example, increases in mandatory education or enrollment capacity have improved educational and intergenerational mobility, proving this causal relationship ([Maurin & McNally, 2008](#); [Oreopoulos et al., 2006](#); [Perkins, 1965](#)). Moreover, formal education may not be the only factor that increases labour market outcomes, but also the acquisition of soft skills such as self-efficacy and self-esteem ([Krishna, 2013](#)).