

PURPOSE OF THIS WORK

This booklet provides evidence on the levels of intergenerational economic mobility in Uruguay, understood as the relation (or dependence) between the income of fathers/mothers and their children.

Here are the main concepts of the booklet Intergenerational income mobility in Uruguay. A look at administrative records, from the "The Future in Focus" series promoted by the United Nations Development Programme (UNDP) in Uruguay.



PNUD Uruguay
Paraguay 1470 - Piso 5 - CP 11100
Montevideo, Uruguay
Tel. (598) 2909 38 06
www.uy.undp.org



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INTERGENERATIONAL
INCOME MOBILITY IN URUGUAY.
A VIEW BASED ON
ADMINISTRATIVE RECORDS

MOTIVATIONS

There are three reasons that motivate the study of mobility:

- it provides a long-term perspective on distributive analysis and provides new elements for understanding the origins of inequality;
- low mobility could have a direct impact on individual well-being and potential negative spillover effects on the economy (efficiency, economic growth and quality of institutions);
- the link with normative aspects, in particular with the equality of opportunities approach. For this normative approach, a low level of intergenerational mobility would be an undesirable outcome and there would be grounds for public policies to correct these ethically unjustifiable inequalities.

MEASURING MOBILITY

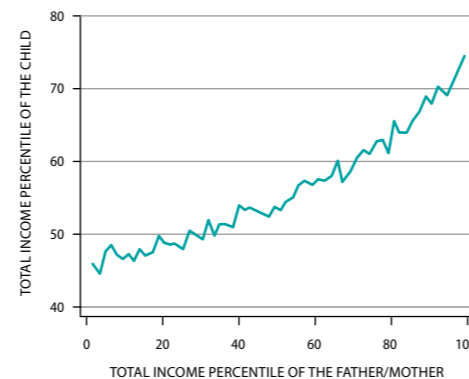
There are few researches on intergenerational mobility, in particular for developing countries, mainly due to information requirements, which involve the availability of income data for two generations of adult age. Recent researches are based on the use of administrative records, which has enabled to overcome some of the limitations of survey-based works, due to the quality of information on individual income and the number of observations. A novel database was built for the present research, based on administrative records from BPS (Social Welfare Bank) and DGI (General Office of Taxes), of formal income between 2009 and 2016. Estimates are focused on families with members with a more stable link to the formal sector of the economy, and they display a very good mobility approximation in the intermediate and upper sections of income distribution.

MAIN RESULTS

A significant association was found between the position of parents and children (in the 35-39 year stretch), of approximately 0.26. Persistence is slightly higher regarding total income and between children and parents of the same gender. This average implies that more than a quarter of the position of children is explained by the income of the parents. This dependency is reflected in Figure 1, which illustrates the expected percentile ranking of the child, given the expected percentile ranking of the parents.

This average level is explained by the greater mobility of families found in the middle and lower middle strata of income distribution. In this section, relatively small changes in absolute income may result in strong position movements (see Table 1).

Figure 1. Expected ranking of child



SOURCE: INDEPENDENT ELABORATION BASED ON ADMINISTRATIVE RECORDS OF BPS AND DGI.

Table 1. Transition matrix

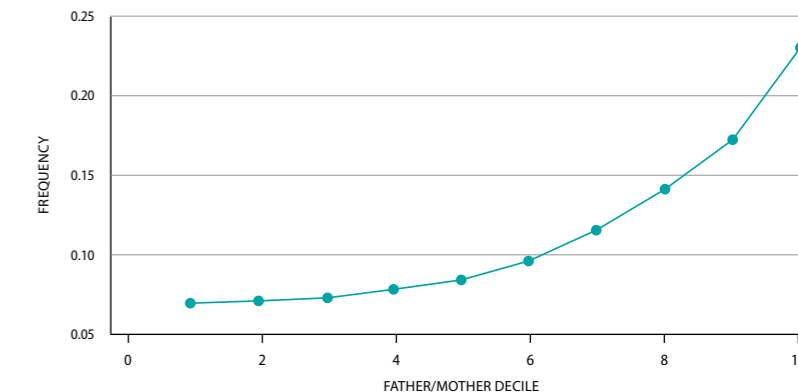
Sons and daughters decile	Father/Mother decile											
	1	2	3	4	5	6	7	8	9	10	Top 5	Top 1
1	14.0	11.8	10.0	8.8	8.3	8.0	7.0	6.2	5.1	5.0	4.6	3.7
2	12.2	11.9	11.1	9.8	9.1	8.1	8.5	7.2	6.3	6.1	5.5	4.5
3	11.6	11.9	11.2	11.1	9.9	9.1	8.7	8.0	7.4	6.0	5.4	5.6
4	11.3	11.1	11.7	11.2	10.7	10.0	8.9	8.5	7.4	6.6	5.8	4.6
5	10.3	10.8	11.7	11.4	11.4	10.2	9.9	9.6	8.4	7.6	7.3	5.8
6	9.9	10.3	10.4	11.4	11.1	11.1	10.3	9.9	9.8	8.5	8.8	8.0
7	8.6	9.4	10.4	10.9	11.1	11.5	11.7	11.3	11.1	9.6	9.0	8.4
8	8.7	9.0	9.1	9.7	10.8	11.4	11.6	12.1	12.3	11.6	11.8	11.5
9	7.6	7.9	8.2	8.8	10.2	11.0	12.1	13.4	14.1	14.7	14.4	15.3
10	5.8	6.0	6.2	7.0	7.5	9.5	11.3	13.9	18.1	24.3	27.2	32.5
Top 5	2.4	2.7	2.6	3.1	3.4	4.2	5.3	7.0	9.4	14.8	17.0	22.2
Top 1	0.4	0.4	0.4	0.5	0.4	0.7	0.8	1.2	1.6	3.9	4.8	7.1

SOURCE: INDEPENDENT ELABORATION BASED ON ADMINISTRATIVE RECORDS OF BPS AND DGI.

Mobility is lower at the tails of income distribution. The chance to access the high-income segment is lower for children with parents placed outside that stratum (Figure 2). Among those with parents placed in the upper tail there is a high inertia to stay in these positions. In addition, the movements in the upper tail would result in stronger gains in terms of income and individual well-being.

At the other tail of the distribution, mobility is lower among children with parents placed in the lowest income decile, although the persistence is lower than that found in the upper tail of the distribution. Finally, chil-

Figure 2. Upward mobility: percentage of children reaching decile 10



SOURCE: INDEPENDENT ELABORATION BASED ON ADMINISTRATIVE RECORDS OF BPS AND DGI.

children who have parents with a less stable link to the formal market have a greater chance of repeating this pattern, and their participation in the formal market is more intermittent.

CHALLENGES

The findings of this Booklet suggest that the future chances of children are conditioned by the income of their parents and that the intensity of this relation is strongly dependent on the place they occupy in the income distribution. These results may imply the existence of mobility traps and, at the same time, signify the presence of inequality of opportunities. The implications of this in terms of added welfare will depend on which are the channels that explain mobility, which in turn will determine public policy recommendations. Although it is not its main objective, this Booklet contributes with some elements to this discussion.

Persistence in low-income strata may respond to deprivations faced by children in their early childhood, presence of access restrictions to basic assets, market failures and sociocultural mechanisms. The greater inertia in high-income families could be explained by specific channels linked to capital income and asset concentration. In addition, it may involve the concentration of political and economic power. A greater depth regarding the economic relevance of the mechanisms that explain mobility is a key input for the design of public policies.

The results of this Booklet resize the relevance of the inequality problems in the context of Uruguay and provide new basis for invigorate the discussion on redistributive policies. The proposals from Atkinson's latest book (*Inequality: What can be done?*, 2016) collected in this Booklet provide a starting point for moving forward in this direction.