POLICY BRIEF

Will I be Rich If I Come from an Impoverished Family?

Improving Intergenerational Mobility in Asia and the Pacific

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The MPFD Policy Briefs aim at generating a forward-looking discussion among policymakers, researchers and other stakeholders to help forge political will and build a regional consensus on needed policy actions and pressing reforms. Policy Briefs are issued without formal editing. This policy brief on *Will I be rich if I come from an impoverished family? Improving intergenerational mobility in Asia and the Pacific* is prepared by Zhenqian Huang, Associate Population Affairs Officer, United Nations Department of Economic and Social Affairs, and Sweta C. Saxena, Chief, Macroeconomic Policy and Analysis Section. Authors acknowledge helpful comments from Hyejin Cho, Hamza Ali Malik, Alice Presotto and Vatcharin Sirimaneetham. The graphic layout was created by Pannipa Jangvithaya.

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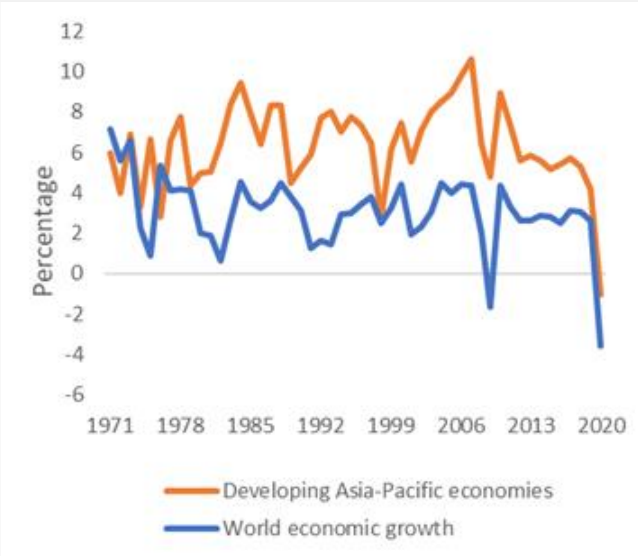
DESPITE STRONG ECONOMIC GROWTH OVER THE PAST FEW DECADES…

The Asia-Pacific region has led the global economic growth in the past four decades. Since at least the late 1970s, economic growth of the developing countries in the region has continued to outpace that of the rest of the world, even during the COVID-19 pandemic in 2020 (figure 1).

… NOT EVERYONE IN ASIA AND THE PACIFIC HAS BENEFITED EQUALLY, AS THE NUMBER OF VULNERABLE POOR REMAINS HIGH…

However, such high economic growth has not adequately translated in improving people's well-being. Even as 1.2 billion people were lifted out of extreme poverty (using the $1.9 per person per day benchmark) between 1990 and 2017, they remained vulnerable to falling back to extreme poverty in case of economic and non-economic shocks. Using higher income criteria of just $3.2 per day ($5.5 per day) meant that 1.2 billion (2.2 billion) people were still living below the poverty line in 2017. These people were hit disproportionately hard when the COVID-19 pandemic broke out. ESCAP (2021) estimates that an additional 89 million people could have been pushed back into extreme poverty. If higher income criteria, such as $3.2 or $5.5 per day, are considered, the total number of poor would more than double.

FIGURE 1: ASIA-PACIFIC REGION HAS LED THE GLOBAL ECONOMIC GROWTH



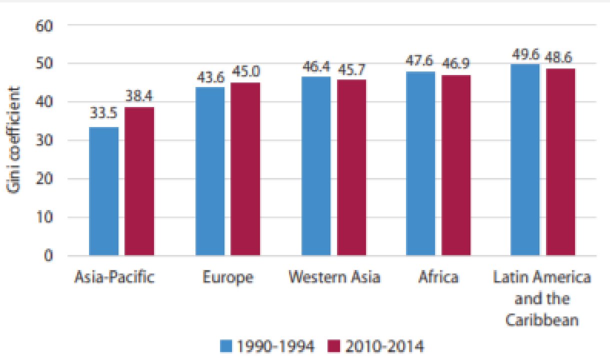
Source: ESCAP and UN DESA's World Economic Forecasting Model.

… AND INEQUALITY REMAINS PERSISTENT AND IS RISING

Even when economic growth remained high between early 1990s and early 2010s, the benefits of "a bigger pie" were not shared equally; inequality increased in Asia-Pacific during this period, when it was generally decreasing in other parts of the world (figure 2a). More recent estimates show that some 85 per cent of the region's population live in a country with higher income inequality compared with the level in 2000 (figure 2b). At the same time, income share of the top 10 per cent of people was close to 50 per cent while the bottom 10 per cent account for only 0.2 per cent (figure 2c).

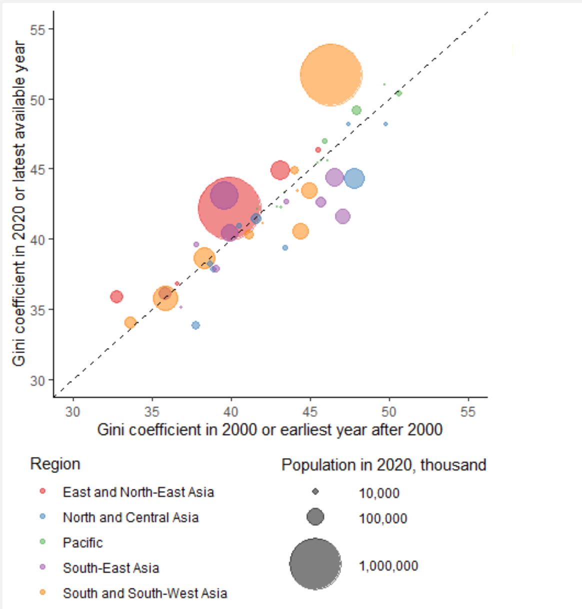
FIGURE 2: ASIA AND THE PACIFIC REGION HAS EXPERIENCED PERSISTENT AND RISING INEQUALITY

(a) Income inequality by region, changes between early 1990s and early 2010s



Source: ESCAP (2018a).

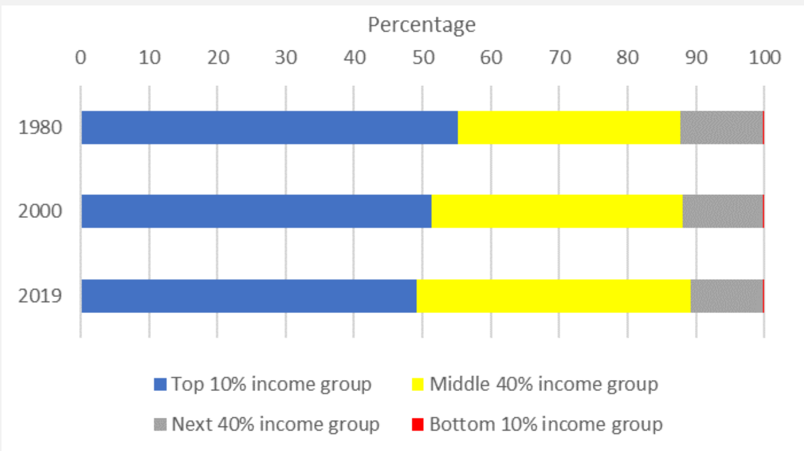
(b) Gini coefficient in Asia and the Pacific by subregion, early 2000s and late 2010s



Source: The Standardized World Income Inequality Database (accessed on 23 June 2021); World Population Prospect 2019 (accessed on 23 June 2021).

Note: The dotted line is a 45-degree one.

(c) Income share (pre-tax) by income groups in Asia



Source: World Inequality Database, available at https://wid.world/data/ (accessed on 7 June 2021).

INEQUALITY IS LEADING TO A REDUCTION IN INTERGENERATIONAL MOBILITY IN THE REGION

There is a rich literature evaluating whether income inequality is good or bad for economic growth at the aggregate level (box 1). At the individual level, it is easier for people to live with higher levels of inequality if they believe that society will provide them or their children a fair chance to climb the economic ladder, regardless of their race, birthplace, education attainment or income. This can happen if there is equality of opportunity. The idea of such intergenerational mobility can uplift people's aspirations, hopes and ambitions for the future. It also brings greater acceptance for policies that increase economic growth and prosperity in the long run, albeit with some trade-off in inequality in the short run.

BOX 1: IS INEQUALITY GOOD OR BAD FOR ECONOMIC GROWTH?

The relationship between income inequality and economic growth is nonlinear. For countries with low levels of inequality, especially the poor countries, some increases in inequality are integral to the effective functioning of a market economy and the incentives needed for investment and growth. Inequality can influence growth positively by providing incentives for innovation and entrepreneurship; by raising saving and investment since rich people save a higher fraction of their income; and by allowing a small proportion of the population to accumulate the minimum needed to start businesses and get a good education. For instance, when China started its reforms and opened up its economy, the then-Chinese leader, Deng Xiaoping, called to "let some people get rich first", so that "they could bring along others" and eventually achieve "common prosperity of the entire population".

However, increase in inequality, beyond a certain threshold, encourages rent-seeking and lowers economic growth, and deprives the poor of the ability to stay healthy, acquire education and accumulate skills. Furthermore, it generates political and economic instability that reduces investment and impedes social cohesion required to adjust to shocks and sustain economic growth.

Persistent inequality and the institutional, legal, and social environment that breeds it reinforce social exclusion and impair economic prospects. It is also believed that high inequality would call for more redistribution and, as per Okun (1975), redistribution would hurt growth as higher taxes and subsidies dampen incentives to work and invest. Moreover, some view persistence of high inequality as the cause of the global financial and economic crisis of 2008. For instance, Rajan (2010) points to the political and economic pressures that led high-income individuals to save, low-income individuals to sustain consumption through borrowing, and financial institutions and regulators to encourage the process.

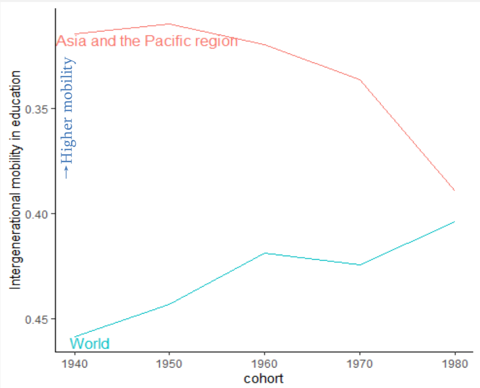
Studies find that the difference among countries that can sustain rapid economic growth for many years or even decades and those that see economic growth spurts fade quickly may be the level of inequality (Berg, Ostry, and Zettelmeyer, 2011; Berg and Ostry, 2011). Greater equality is associated with faster subsequent medium-term economic growth, both across and within countries. Moreover, redistributive policies do not appear to have any detrimental effect on economic performance (Ostry, Berg and Tsangarides, 2014).

However, inequality in income comes along with inequality in opportunities. For instance, poorer households struggle to keep their children in school because of the costs or the potential loss of immediate income.[1] Lower overall educational attainment, in turn, is linked to inequality in accessing other key opportunities, including adequate nutrition for children, clean water and basic sanitation, and clean fuels and electricity. Moreover, universal health coverage (UHC), a key target of Sustainable Development Goal 3, remains low in some countries;[2] and in at least 15 countries of the region, over half of the health expenditures comes from peoples' own pockets.[3] Inequality in access to health care often has long-term health implications, especially for women and children, with a negative impact on educational attainment and future labour force participation rates (ESCAP, 2018a).

In the absence of equality of opportunity, the possibility to climb up the economic ladder across generations diminishes. Using intergenerational mobility in education as a proxy for intergenerational mobility in income (figure 3), intergenerational mobility has dropped for the birth cohorts from 1940 to 1980 in Asia and the Pacific (box 2). This means that people at the lower end of the socio-economic ladder not only get a smaller size of the pie (i.e., benefits of economic growth) but also find it more difficult to move up the ladder. In particular, within the region, intergenerational mobility in Armenia, China, and Sri Lanka has deteriorated over the past decades and intergenerational mobility of their latest birth cohort is worse than that of the regional average[4] (figure 4a). Intergenerational mobility in India, Indonesia, Lao People's Democratic Republic, Timor-Leste and Turkey has been improving, even when the prospects are lower than the regional average (figure 4b). Intergenerational mobility in Bhutan, Nepal and Pakistan has stayed at low levels (figure 4c).

FIGURE 3: INTERGENERATIONAL MOBILITY IN ASIA AND THE PACIFIC SLOWS

Relative intergenerational mobility in education for 1940-1980 cohorts



Source: World Bank (2018a), Global Database on Intergenerational Mobility (accessed on 28 May 2021).

Note: The vertical axis shows intergenerational persistence, but in reverse order. Hence, if a line goes up, it means improved intergenerational mobility; if it goes down, it means worsened intergenerational mobility.
The median value is taken to estimate intergenerational persistence/mobility for the Asia-Pacific region and the world.

1 Some countries in the region have net attendance in secondary education below 35 per cent, such as Afghanistan, the Solomon Islands and Vanuatu (ESCAP, 2018a).

2 According to the latest data from the World Health Organization, the UHC index of essential service coverage is below 50 in Afghanistan, Bangladesh, Kiribati, Micronesia (Federated States of), Nepal, Pakistan, Papua New Guinea, the Solomon Islands, and Vanuatu. Source: World Health Organization, the Global Health Observatory, available at www.who.int/data/gho/data/indicators/indicator-details/GHO/uhc-index-of-service-coverage (accessed on 25 September 2021).

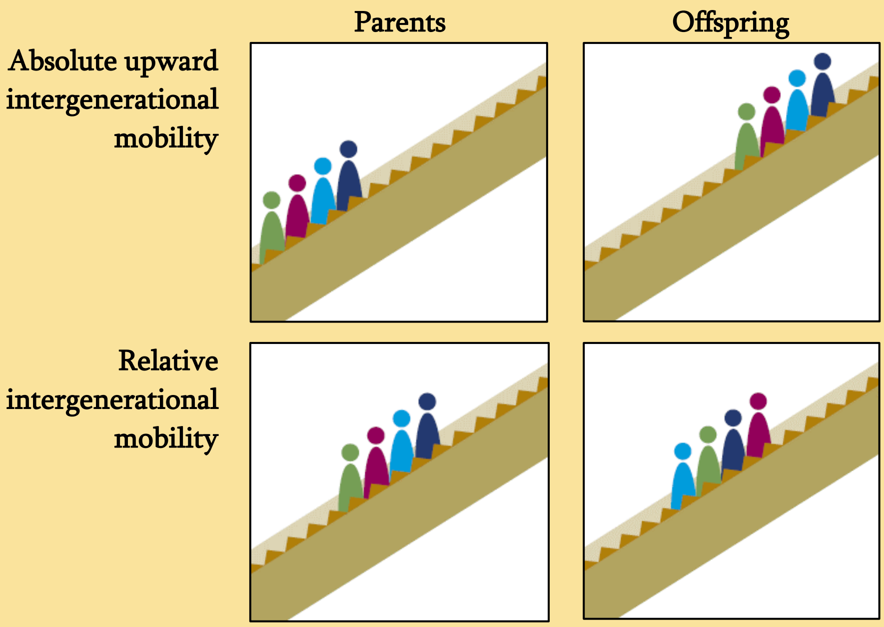
3 As of 2018. Source: World Bank Open Data, available at https://data.worldbank.org/indicator/SH.XPD.OOPC.CH.ZS (accessed on 25 September 2021). The 15 countries are: Afghanistan, Armenia, Azerbaijan, Bangladesh, India, Kyrgyzstan, Cambodia, Sri Lanka, Myanmar, Nepal, Pakistan, the Philippines, Tajikistan, Turkmenistan, and Uzbekistan.

4 The regional average intergenerational mobility is measured by median.

BOX 2: WHAT IS INTERGENERATIONAL MOBILITY (IGM)?

Socioeconomic mobility can be interpreted in several ways in the economic and sociological literature, including as mobility within and between generations and as mobility in incomes, educational attainment, and occupation. World Bank (2018a & 2018b) estimates IGM in income and in education in both absolute and relative terms by ten-year cohorts, covering individuals born between 1940 and 1989. Specifically, *absolute IGM* measures how well *all* children do compared with their parents. It can be measured by looking at the share of children attaining higher living standards as adults than their parents did. In contrast, *relative IGM* measures the extent to which a person's living standard is independent from that of his or her parents. It is commonly analysed by using (linear) parent–child regression relationships, or correlations, of various socio-economic status measures. The two concepts are related but not the same. For instance, if all individuals in a generation climb two rungs of socio-economic status measures relative to their parents without passing or being passed by anyone else in that generation, then there is absolute IGM, but no relative IGM (first row in figure a). If all individuals in the current generation are on rungs that are different from those occupied by their parents, while the current generation as a whole occupies the same rungs of the ladder as the previous generation, then there is relative IGM, but no absolute IGM (second row in figure a).

Figure a. Intergenerational mobility



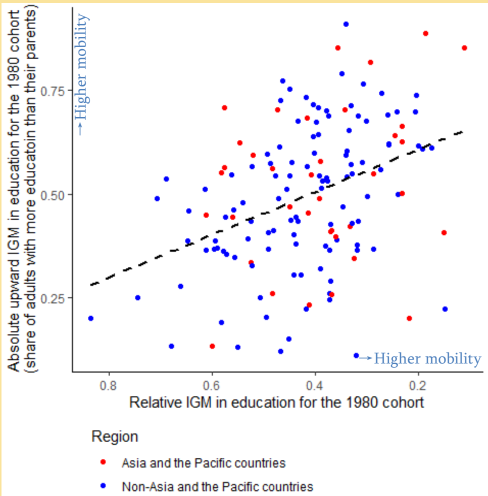
Source: World Bank (2018b).

BOX 2: *(continued)*

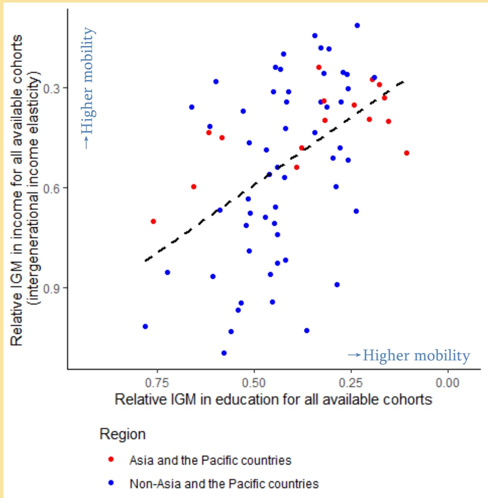
The World Bank chooses relative IGM in education as a proxy for IGM, partly due to its positive correlation with other IGM indicators and boarder welfare measurement (such as reduction in stunting and poverty) (figure b), and partly due to data availability and quality issues. In particular, relative IGM in education is measured by using an individual's years of schooling dependent on their parents' years of schooling. This policy brief uses the World Bank's Global Database on Intergenerational Mobility and, specifically, the indicator of relative IGM in education to discuss IGM in the Asia-Pacific region.

Figure b. Relative IGM in education is correlated with other IGM indicators and broader welfare indicators

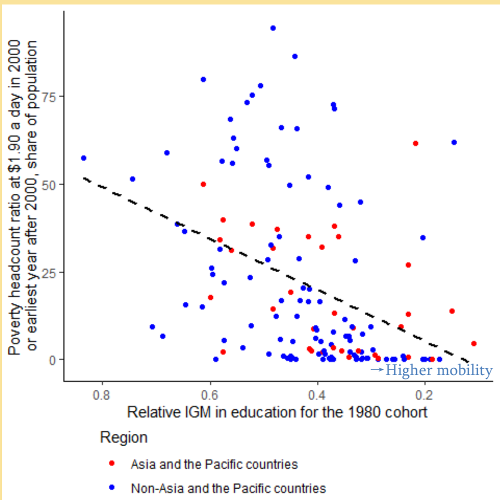
(i) Relative IGM in education and absolute IGM in education



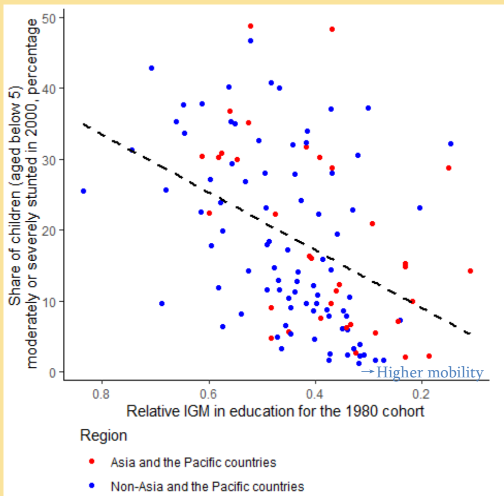
(ii) Relative IGM in education and IGM in income



(iii) Relative IGM in education and poverty headcount



(iv) Absolute mobility and prevalence of stunting



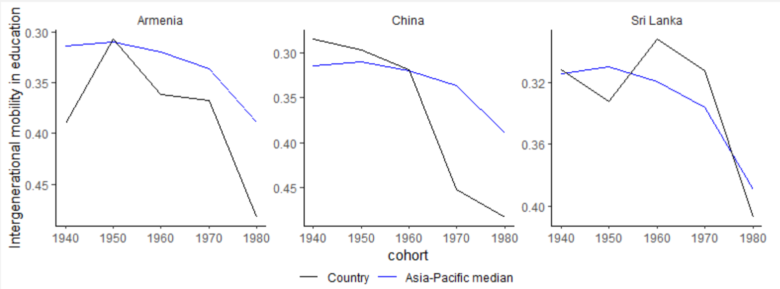
Source: World Bank (2018a), Global Database on Intergenerational Mobility (accessed on 28 May 2021); World Bank Data (accessed on 11 July 2021).

Note: Panel (i)-(iv) - The x axis gives the estimated "intergenerational persistence in education" from high to low values. The higher the value, the lower the mobility. The dotted lines are fitted ones; Panel (ii) – The y axes also give the estimated "intergenerational persistence in income", from high to low values.

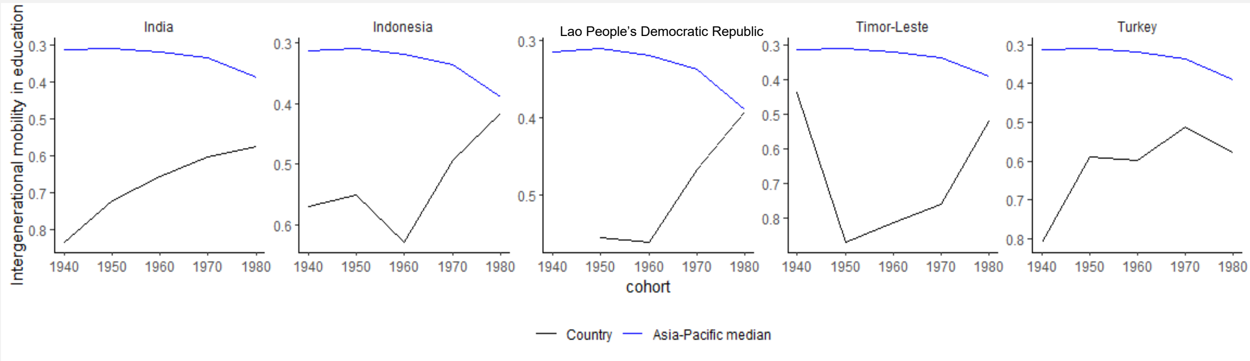
Source: ESCAP, based on World Bank (2018b; 2018c).

FIGURE 4: INTERGENERATIONAL MOBILITY IN SELECTED ASIA AND PACIFIC COUNTRIES

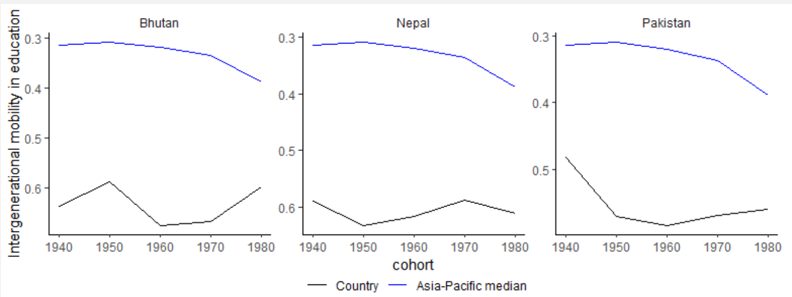
(a) Countries whose intergenerational mobility is worsening and that of the latest birth cohort is lower than the regional median



(b) Countries whose intergenerational mobility is lower than the regional median but the trend is improving



(c) Countries whose intergenerational mobility is lower than the regional median and the situation is not improving



Source: World Bank (2018a), Global Database on Intergenerational Mobility (accessed on 28 May 2021).

Note: The vertical axis shows intergenerational persistence, but in reverse order. Hence, if a line goes up, it means improved intergenerational mobility; if it goes down, it means worsened intergenerational mobility.
The median value is taken to estimate regional intergenerational persistence/mobility.

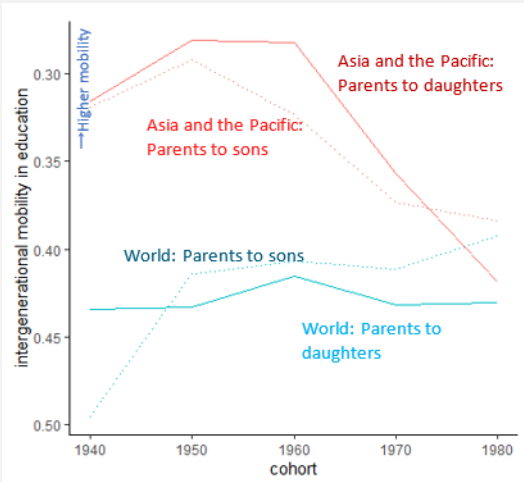
In addition, intergenerational mobility is skewed in favour of men than women. At the global level, for sons and daughters whose parents have similar positions (e.g., race, birthplace, education attainment or income), sons have higher socioeconomic attainment than daughters since the 1950 birth cohort. This suggests that sons have received more resources from their parents than daughters. Moreover, intergenerational mobility has improved for sons in the past decades, but almost remained unchanged for daughters.

Interestingly, these trends are different for the Asia-Pacific region. Both sons and daughters have experienced a worsening of intergenerational mobility over decades. While intergenerational mobility for daughters was better than that for sons for the 1940-1970 cohorts, the situation changed for the 1980 cohort as intergenerational mobility for daughters dropped faster than that for sons (figure 5a). This is largely due to a drop in intergenerational mobility for daughters in North and Central Asia, Pacific and South and South-West Asia (figure 5b).

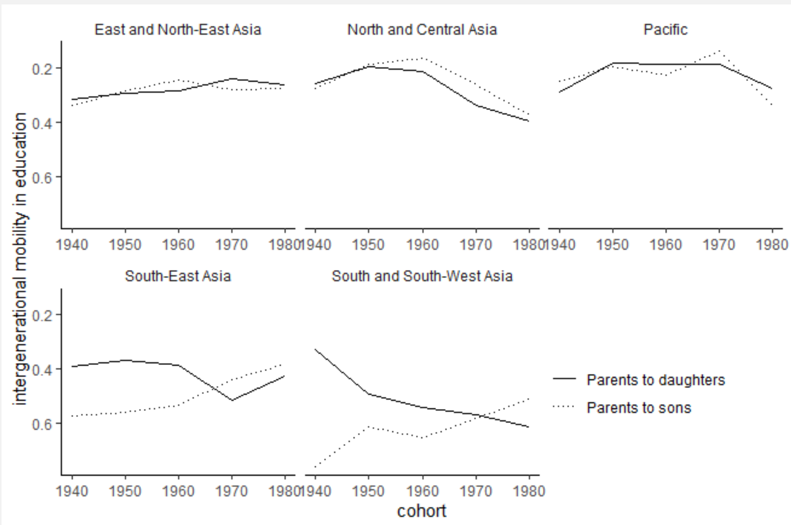
FIGURE 5: INTERGENERATIONAL MOBILITY IS SKEWED TOWARDS MEN

Intergenerational mobility by gender

(a) in the world and the Asia-Pacific region



(b) in the subregions of Asia and the Pacific



Source: World Bank (2018a), Global Database on Intergenerational Mobility (accessed on 28 May 2021).

Note: The vertical axis shows intergenerational persistence, but in reverse order. Hence, if a line goes up, it means improved intergenerational mobility; if it goes down, it means worsened intergenerational mobility.
The median value is taken to estimate intergenerational persistence/mobility for the world, the Asia-Pacific region and its subregions.

WHY DOES ASIA AND THE PACIFIC LACK INTERGENERATIONAL MOBILITY?

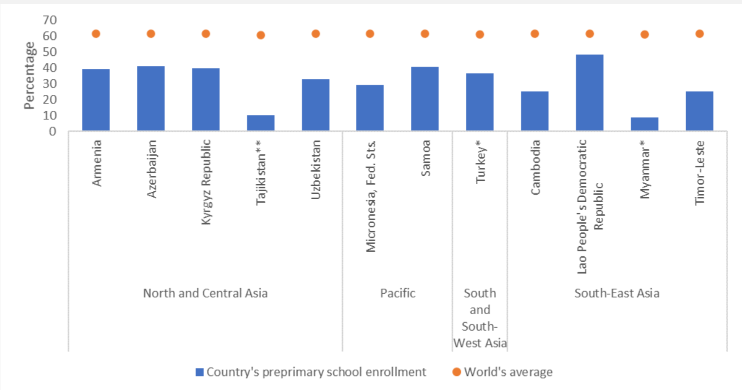
The confluence of poor educational opportunities, low workers' skills, limited employment prospects and even misaligned short-term political priorities can limit people's upward mobility. The main factors that explain poor intergenerational mobility in Asia and the Pacific are discussed below.

Studies find that learning at an early age is crucial for future learning and for closing skill gaps between socioeconomic groups (e.g., Cunha and Heckman, 2007; Heckman, 2007), along with other early interventions, such as childcare and improved maternal and child health. However, many developing countries in the region have less than half of their children enrolled in pre-primary schooling (figure 6). The public expenditure on early childhood education and care also appears limited.[5]

Provision of public education can also increase intergenerational mobility. *Public* expenditures on education as a share of GDP are positively correlated with intergenerational mobility across countries (figure 7), while the share of *private* expenditures appears negatively correlated. This is understandable, as public expenditures may enhance mobility by crowding out private expenditures, reducing the importance of private resources for skill investments (ILO, 2018a). In Asia and the Pacific, although access to education has largely improved, 137 million children remained out of school in 2019, including 22 million of primary school age, 28 million of lower secondary school age and 87 million of upper secondary school age.[6] The majority of these children were in South and West Asia sub-region. Moreover, for many countries in the region, the challenge is not only making education accessible to all children and youth, but also ensuring quality education for all. According to the 2015 OECD Programme for International Student Assessment (PISA), four out of ten students in the region[7] did not have the minimum level of proficiency in mathematics and reading. The low level of achieving proficiency in mathematics and reading, and the high number of out-of-school children in a considerable number of school systems in the region suggest that these systems are not preparing students well for the basic knowledge skills that are required to move up the economic ladder (ESCAP, 2016).

FIGURE 6: MANY COUNTRIES IN ASIA AND THE PACIFIC HAVE LOW PREPRIMARY SCHOOL ENROLLMENT

Preprimary school enrollment in selected countries, 2019



Source: World Bank Open Data (accessed on 24 July 2021).

Note: * Data refer to 2018 for the country and the world's average; ** data refer to 2017 for the country and the world's average.

5 There is no extensive data of public expenditure on preprimary education. But the limited data show that Turkey spent 0.1 per cent of GDP on early childhood education and care in 2015 (Source: OECD Family Database, accessed on 26 July 2021); China's budgetary spending on preprimary education was also about 0.1 per cent of GDP in 2008 (World Bank, 2012). In comparison, the OECD average was 0.7 and 0.4 per cent of GDP in 2015 and 2008, respectively.

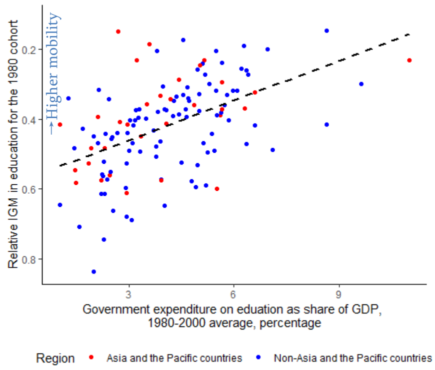
6 Data source: UNESCO Institute for Statistics (UIS) database, http://data.uis.unesco.org (accessed on 25 July 2021).

7 Covered 16 countries in the region.

In addition to education and skills, lack of decent work opportunities also contributes to low intergenerational mobility. Employment opportunities, income security, social protection and safety net, among others, can help those with a weaker position in the labour market to maintain their consumption and living standards especially in times of difficulties, and provide them with resources to foster human capital investments in children. The majority of the labour force in the region works in the informal sector in many countries (figure 8a), without any social protection. For instance, over half of the population (56 per cent) in the region lacked any social protection benefits in 2020. In addition, unequal treatment and persistent discrimination against certain groups in the labour market present obstacles to improving mobility. For instance, wages for female are often lower than those for men for the same job (figure 8b). The perception that women cannot do the same jobs as men is prevalent in many countries, as is the low acceptability of women working outside their home (ILO, 2018b).

FIGURE 7: PROVISION OF PUBLIC EDUCATION CAN INCREASE INTERGENERATIONAL MOBILITY

Relative intergenerational mobility in education and public expenditure on education

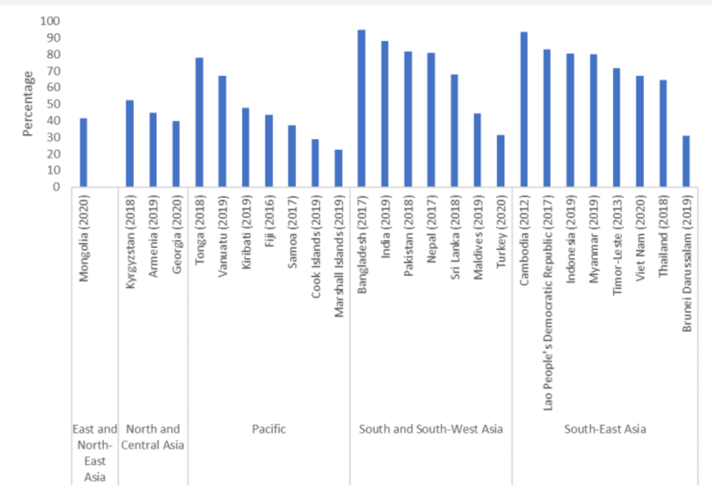


Source: World Bank (2018a), Global Database on Intergenerational Mobility (accessed on 28 May 2021); World Bank Open Data (accessed on 24 July 2021).

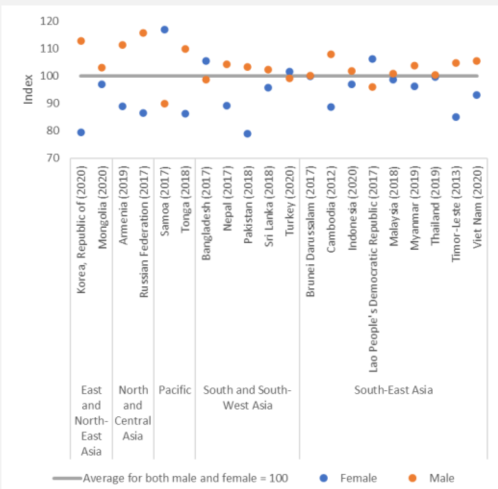
Note: The dotted line is a fitted one.

FIGURE 8: ASIA AND THE PACIFIC FACE THE CHALLENGE OF LACK OF DECENT WORK

(a) Proportion of informal employment in total employment



(b) Average hourly earnings of employees by sex, index, average for both male and female = 100



Source: ILOSTAT (accessed on 25 July 2021).

Misaligned short-term political priorities also get in the way to improve intergenerational mobility. Political governments in many developing countries lack incentives to support policies that can take decades to reap the benefits. For example, in the absence of a pandemic, it is uncommon to fund public health programmes by raising taxes or diverting money from expenditures on infrastructure that yield short-term economic benefits (Kim, 2018). Moreover, persistence of inequality and lack of intergenerational mobility lead to power concentration among the rich, which then influence policies in their favour. They also use their influence to capture some of the benefits from welfare programmes to maintain their privilege. Empirical research confirms that if political power is restricted to income potential (or more powerful elites), higher *ex-ante* inequality is associated with lower social mobility (Ichino, Karabarbounis, and Moretti, 2010).

LACK OF INTERGENERATIONAL MOBILITY MATTERS FOR LONG-TERM SUSTAINABLE DEVELOPMENT

Low intergenerational mobility has adverse economic, social and political consequences that hinders the achievement of sustainable development. In terms of economic consequences, lack of intergenerational mobility hurts economic growth. In such a society, labor and capital markets reward those born with privileges inherited from parents, or discriminate on the basis of race, gender, or other social markers. This leads to less efficient allocation of resources. Individuals with higher innate abilities – rather than individuals with wealthier or more educated parents – cannot obtain more education or productive jobs. In addition, misallocation of financial capital reinforces the underdevelopment of human capital of the vulnerable. Credit constraints make the vulnerable unable to invest optimally to develop the skill potential of their children. Consequently, lower economic growth generates fewer resources. Those who benefit less from economic growth are more likely to be stuck in the lower economic rung, trapped in a vulnerable status (Reeves, 2013; World Bank, 2018b).

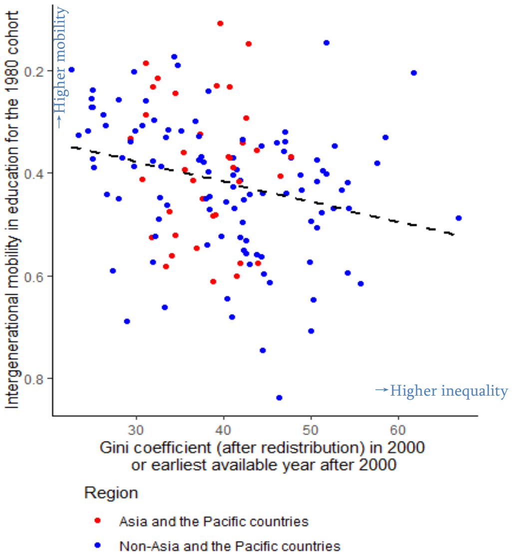
Moreover, low intergenerational mobility is associated with high inequality. This relationship is also known as the ***Great Gatsby Curve*** (GGC)[8] (figure 9). On the one hand, greater inequality tends to limit intergenerational mobility, and on the other hand, lack of intergenerational mobility tends to aggravate inequality over time. World Bank's (2018b) research finds that if endowments (such as monetary bequests and nonmonetary traits) can be inherited from parents and if parents attach a value to investing in their children, the result is likely to be persistence of income levels across generations and thus greater inequality.

Furthermore, lack of intergenerational mobility erodes perceptions of a population about fairness and trust in their society, which in turn affects the social contract that supports economic growth and social stability. Behavioural research shows that people may be willing to accept greater inequality of outcomes if it is perceived to be associated with merit (Cappelen and others, 2013), but are highly averse to inequality that is perceived as unfair (Fleiß, 2015). Expectations of intergenerational mobility also matter. Individuals tend to tolerate higher inequality today if they believe that the society they live in will provide them and their children with a fair chance to improve their living standards tomorrow. On the contrary, low perceived intergenerational mobility and low aspirations can push individuals to opt out of socioeconomic processes (Esteban and Ray, 1994). Consequently, tolerance for inequality could decline, which could adversely affect social and political stability (figure 10).

8 The name of GCC was introduced by an American economist Alan Frueger and has been prominently cited by public policy makers and academics. It shows that greater income inequality in one generation amplifies the consequences of having rich or poor parents for the economic status of the next generation.

FIGURE 9: LOW INTERGENERATIONAL MOBILITY IS LINKED WITH HIGH INEQUALITY

Great Gatsby Curve (GGC)

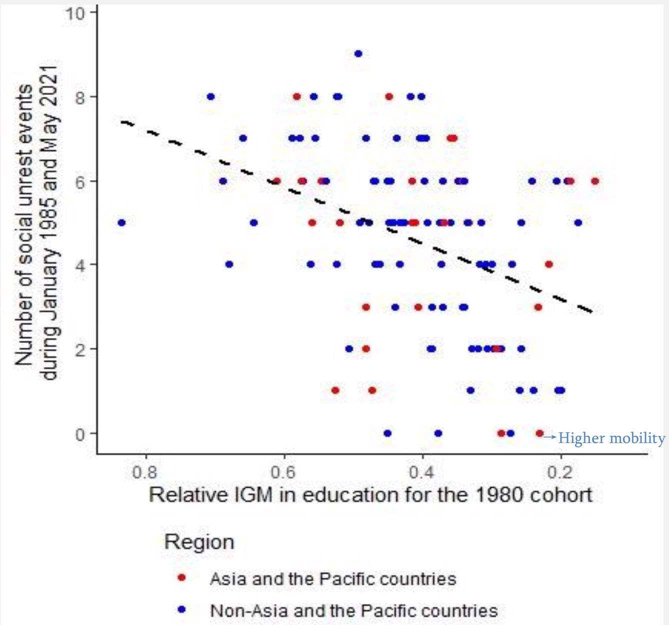


Source: World Bank (2018a), Global Database on Intergenerational Mobility (accessed on 28 May 2021); the Standardized World Income Inequality Database (accessed on 23 June 2021).

Note: The dotted line is a fitted one and is the GGC.

FIGURE 10: LOW INTERGENERATIONAL MOBILITY COULD LEAD TO HIGHER SOCIAL INSTABILITY

Intergenerational mobility for the 1980 birth cohort
and the number of social unrest events during 1985 and 2021



Source: World Bank (2018a), Global Database on Intergenerational Mobility (accessed on 28 May 2021); IMF, Reported Social Unrest Index (RSUI) (last update: June 2021).

Note: The dotted line is a fitted one.

HOW TO LEVEL THE PLAYING FIELD TO ENHANCE THE REGION'S INCLUSIVENESS FOR SUSTAINABLE DEVELOPMENT?

For a stable and inclusive future and to ensure that no one is left behind, the region urgently needs to break the current cycle of declining intergenerational mobility and rising inequality. The situation calls for governments, businesses and individuals to form a "new social contract". Such a contract needs to ensure universal provision of basic services (including social assistance and social protection) and needed investment, promotes labour market flexibility[9] while maintaining protection for all types of labour contracts, and adopts redistributive policies and progressive taxation to improve social cohesion between generations.

- ### Increase investments in basic services to level the playing field

Governments should play a proactive role in ensuring equal opportunities for individuals to have similar starting points and keep skill gaps small. Indeed, parents do invest in their children. However, those investments that the children receive largely depend on their parents' income and wealth levels, which could reinforce intergenerational immobility. Sometimes social norms could hold parents back from investing in their children; for instance, daughters tend to receive much less parental investment than sons, in terms of both health and education (Kim, 2018). Therefore, human capital must be nurtured by the state, especially during times of crises. Moreover, governments should muster political will to invest in basic services, as this would lead to high economic returns whilst mitigating costs of inaction in terms of sustained and inclusive economic growth.

This includes investment in public goods and services from the early stage of people's lives and throughout their lifecycles. Various fiscal policy measures provide effective tools in this regard. ESCAP (2019) estimates the Asia-Pacific region needs to invest an annual additional amount of $3.5 billion to end hunger and undernutrition, $158 billion to achieve universal access to healthcare services, $138 billion to provide quality education, and $317 billion to establish a social protection floor[10] by 2030 with women and girls having equal access to these social services. The COVID-19 pandemic has increased existing inequalities and would require higher investment levels, lest synergies between the Goals are exploited. For instance, hundreds of millions of students in the region could not be reached by digital remote learning programs during the COVID-19 school closures (UNICEF, 2020). Many of them could permanently drop out. Here, building the information and communication technology (ICT) infrastructure and making it universally accessible could level the playing field for all students. Meanwhile, investment needs to provide and improve basic services require increasing fiscal space. This can be achieved by raising investment efficiency and better mobilizing financial resources through improving tax administration and expanding the tax base (ESCAP, 2018b; 2019).

- ### Enhance financial inclusion to ease credit constraints

Credit constraints and underdeveloped capital markets in developing economies are also a barrier in upward mobility of the poor. Difficulties faced by the poor in financing the needed human capital investment contributes to increases in persistence in earning differentials across generations.

In this context, broadening access to financial services and lowering transaction costs by using new digital technologies could reduce inequality and promote intergenerational mobility, particularly for those who are at the lower end of the income distribution. Meanwhile, policymakers should ensure that women and men have equal

9 Labour market flexibility refers to an economy's ability to carry out the reallocation of workers to jobs needed for productivity growth at micro level. At the macro level, such flexibility refers to the ability of an economy to maintain a low unemployment rate in the face of macroeconomic shocks (Blanchard, Jaumotte and Loungani, 2013).

10 A social protection floor consists of: (a) allowances for all children and all orphans, (b) maternity benefits for all women with newborns, (c) benefits for all persons with severe disabilities, (d) universal old-age pensions, and (e) universal unemployment benefits.

rights to inherit and own assets in countries where women lack such rights, which can improve economic mobility of women, and possibly that of their children (World Bank, 2018).

• Implement active labour market policies to narrow the wage and occupational gaps

While good-quality public services, including provision of education and training, are key to give individuals the best possible start in the labour market, appropriate labour market policies can also make a substantial difference in shaping earnings and occupational mobility within and across generations. This is because labour market conditions affect people's productivity, income levels, how they are treated at work, and can lower the scarring effects during crises. In addition, they influence parents' (and sometimes even children themselves) decisions on how they invest in their children's human capital. (World Bank, 2018b).

In particular, labour market policies should grant young people a good start to their employment, address occupational barriers for disadvantaged groups, and reduce the impact of labour market shocks and help people get back to work. Such policies could include: easing labour market access of vulnerable categories and youth (including giving incentives to employers to hire young people, such as wage subsidies, or tax credits, and offering vocational training for young entrants to the job market), increasing protection of workers who are discriminated against, improving competition among employers, introducing minimum wage, and providing social protection for the working age population. To encourage women to join the labour market, labour and social policies such as parental leave, flexible working arrangements, provision of affordable and quality childcare would be helpful as well.

In addition, rapid advancement in technology leads to structural changes in labour markets, which makes lifelong learning essential. This requires policies to build or upgrade needed infrastructure (such as setting up of online learning platforms), provide equal training opportunities that meet the needs of the employers, help individuals and firms overcome any financial and non-financial constraints. Special policy attention should be paid to vulnerable groups, such as low-educated workers or small firms.

• Adopt redistributive policies and progressive taxation to reduce inequality

Transfers and subsidies are direct policy instruments to redistribute income across households and individuals, support the poorest segments of society, and promote intergenerational mobility. Simple regression analysis shows that regardless of a country's income level, adopting redistributive policies improves intergenerational mobility. However, transfer programmes are usually too small to make a real difference. For instance, they only amount to about 0.5 per cent of GDP at most in middle-income countries in the world (Bourguignon, 2018). These should continue to be improved in future.

In addition, countries in the region could consider increasing progressivity in taxation. Recent literature has documented the positive correlation between intergenerational mobility and tax progressivity, i.e. the greater the tax progressivity, the higher the intergenerational mobility (e.g. Holter, 2015[11]). Wealth taxes (such as property tax and inheritance tax) can also provide a relatively efficient way to redistribute wealth between individuals and smooth incomes over time. Although such potential solutions are well-known, in terms of their adoption they are still uncommon in the Asia-Pacific region. For instance, on average, property tax contributes less than 0.5 per cent of GDP in revenue. The major obstacles for broader leverage of wealth taxes include disclosure and valuation. This requires strengthened ability of tax authorities, facilitated by mature property and financial markets, to effectively identify the correct tax base and enforce compliance to ensure the overall efficiency and fairness of such taxes (ESCAP, 2018c).

11 In fact, Holter (2015) documented a negative correlation between intergenerational earnings persistence and tax progressivity. Earnings persistence is the elasticity of earnings between parents and their children. Therefore, the higher the elasticity, the lower is intergenerational mobility.

CONCLUSION

The world has looked up to the Asia-Pacific region for its economic success in the past decades. Rising inequality may have been tolerable due to high economic growth, as it reflected incentives for individuals and firms to save, invest, innovate and work hard, especially for the countries that were relatively poor. However, when countries move up the socioeconomic status, too much inequality and too little intergenerational mobility could harm long-term economic growth and lead to political and social instability. It is not yet too late to take actions to reverse such trends. Governments should take a proactive role in levelling the playing field in opportunities for individuals and families for now and in the future, and limit the scarring effects when crises occur. Such measures include universal provision of social assistance, social protection and other basic public services, provision and protection of decent work, and adoption of redistributive policies and progressive taxation, with a focus on the most vulnerable groups, such as women and the youth. It's time to form a "new social contract" between governments, businesses and individuals to build a ***fairer*** tomorrow.

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