



Educated parents tend to cultivate human capital – defined as “productive wealth embodied in behaviour, skills and knowledge” – in their children, both through nature and nurture. ST FILE PHOTO

ASK: NUS ECONOMISTS

Rags to rags, riches to riches

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■ *Q: How does today's income inequality obstruct tomorrow's social mobility?*

IN A world with perfect social mobility, a child born into a poor family is as likely to end up with a six-figure income as a child born into a rich family. In a world with perfect social immobility, a child born into a poor family is doomed to a life of drudgery, while a child born into a rich family will live on easy street.

We can measure social mobility by looking at the degree to which parents' earnings predict their children's earnings. Social mobility is high if your outcomes are independent of your parents' socioeconomic status, and low if your future is determined by the circumstances of your birth.

Economists such as Professor Miles Corak of the University of Ottawa have shown that countries with greater income equality tend to have higher social mobility – a relationship that has been dubbed the Great Gatsby curve.

In egalitarian states such as Denmark, Norway and Finland, less than 20 per cent of a parent's economic advantages or disadvantages are transferred to the child.

Meanwhile, in unequal countries such as South Africa, Brazil and Chile, more than 50 per cent of a parent's economic characteristics persist to the next generation.

Singapore, the United States and the United Kingdom lie some-

where in the middle of the pack. Relative to the US and the UK, Singapore is more unequal but also more socially mobile.

A study by Singapore's Ministry of Finance suggests that 14.3 per cent of Singaporeans in their late 20s and early 30s who were born in the bottom income quintile make it to the top quintile; the comparative figures are 7.5 per cent in the US and 9 per cent in the UK.

How does income inequality obstruct social mobility?

Let us be clear that inequality due to differing levels of enterprise and effort is inevitable and justifiable. However, much of inequality stems from circumstances and hence is unjustifiable; in far too many countries, the family you are born into dictates your educational and economic prospects.

The more unequal the society, the more skewed the distribution of opportunities. Since parents transmit human and social capital to their children, justifiable inequality in one generation morphs into arguably unjustifiable inequality in the next generation.

Human capital is defined as “productive wealth embodied in behaviour, skills and knowledge”.

Educated parents tend to cultivate human capital in their offspring, both through nature and nurture.

Consider trends in the US. In the early 1970s, parents in the top income quintile spent US\$2,700 more a year on their children's en-

richment – for example, books, computers and music lessons – than parents in the bottom income quintile. That gap had almost tripled to US\$7,500 (S\$10,000) by the mid 2000s.

Psychologists have shown that children from low-income families hear 30 million fewer words than children from high-income families by the age of four.

The good news is that this gap is largely due to parenting styles and home learning environments, which can be addressed. Family investment, be it in units of money or time, moulds a child's aptitudes, beliefs and behaviour.

Social capital can be thought of as the benefits stemming from social networks, and the norms of reciprocity prevalent in these networks. Studies in the US and the UK suggest that approximately half of all jobs are found through personal connections – family, friends or acquaintances.

Happily, social networks need not necessarily entrench intergenerational inequality. According to Harvard and Berkeley economists, children growing up in American communities with “high levels of religiosity, civic engagement and voter involvement” are more likely to break out of the poverty cycle.

Parental advantages in the transmission of human capital and social capital are more apparent in unequal societies. In the US – one of the most unequal countries in the Organisation for Economic Cooperation and Develop-

ment – 13-year-olds with high test scores from the bottom quartile of family income are as likely to graduate from university as their peers with low test scores from the top quartile of family income.

The value of a university degree has risen over the decades; among 25- to 32-year-olds, the university premium has increased from US\$7,500 in 1965 to US\$17,500 in 2013. As the gap widens between the haves and the have-nots, the pernicious cycle of inequality perpetuated across generations might lead to a fractured society and a permanent underclass.

In an equal society, meritocracy rewards ingenuity and grit. In an unequal society, meritocracy, which is increasingly heritable, cements privilege from one generation to the next.

Rising income inequality – described by the World Economic Forum as one of the defining challenges of our time – parallels perceptions of declining upward social mobility. We need to think about how the playing field can be levelled so that everyone, regardless of the lottery of birth, has a fairer shot at success.

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