

ERSA Research Brief

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Intergenerational earnings mobility and equality of opportunity in South Africa

Patrizio Piraino¹

A positive correlation between the income of parents and that of their adult offspring is found in almost every country for which data are available. This is true for several types of income (e.g. earnings, total market income, welfare receipts etc...) and for societies with differing political and economic institutions. The international literature has suggested that countries with a higher degree of cross-sectional inequality tend to have less economic mobility across generations (Corak, 2013). This relationship is sometimes known as the 'Great Gatsby Curve'. From this perspective, South Africa represents a very interesting case to study, being characterized by high and enduring levels of income inequality.

A finding of high intergenerational earnings persistence is often understood as an indication of unequal opportunities in the labor market. However, equal opportunity does not imply eliminating all sources of economic transmission from parents to children. Individuals' economic outcomes can be thought as a function of two types of individual characteristics (Roemer, 1998). The first class of attributes includes inherited circumstances over which the individual has no control; typical examples of such circumstances are gender, race, and parental socioeconomic status. The second class of traits can be referred to as efforts, and includes all factors within the individual's control. This distinction relates to the debate around different sources of inequality and the degree to which some are more objectionable than others.

In my paper "Intergenerational earnings mobility and equality of opportunity in South Africa" I provide estimates of intergenerational earnings mobility and inequality of opportunity in South Africa. Lack of suitable data constrained previous studies to focus almost exclusively on educational and/or occupational measures of social status (or to use samples that were particularly homogenous relative to the population of interest). The empirical analysis in the paper is based on a nationally representative sample of South Africans (the National Income Dynamics Study).

The results obtained indicate that earnings persistence in South Africa is high, with an estimated intergenerational elasticity of about 0.6. By definition, the elasticity indicates the percent difference in children's earnings observed for a 1 percent difference across the earnings of parents. Furthermore, it is found that a small number of circumstances explains a significant fraction of cross-sectional earnings inequality. Although the measures of inequality of opportunity and intergenerational persistence perform distinct descriptive functions, the empirical results provide a

¹ University of Cape Town, School of Economics. Private Bag, Rondebosch 7701, South Africa. Tel: +27 (0)21 650-2763; E-mail: patrizio.piraino@uct.ac.za

consistent picture of limited mobility and opportunity in South Africa. Overall, the magnitudes of the summary mobility and opportunity measures are within the range of values found in other emerging economies (e.g. Brazil, Chile, and China).

Perhaps unsurprisingly, race is shown to be a particularly relevant factor for analyses of economic mobility and opportunity in South Africa, twenty years after the end of Apartheid. Following a decomposition method developed in the literature (Hertz, 2008) the intergenerational elasticity can be used to highlight the role of both the between-group disparities as well the within-group intergenerational earnings resemblance. The decomposition shows that although white South Africans make up only 10% of the sample, they account for about 40% of the pooled intergenerational elasticity. This result reveals an interesting analogy with the findings from the United States reported in the literature, where the presence of a minority group (African Americans) who is persistently confined to the lower end of the income distribution generates a high proportion of the overall degree of intergenerational income persistence there. The result in my paper suggest that something similar may be occurring in South Africa, where the key difference is that the minority group (Whites) is positioned at the *top* of the long-run distribution of earnings. In other words, the high levels of economic persistence in South Africa can, to a fair extent, be accounted for by the continued positioning of the white minority at the top of the distribution.

Accumulating international evidence on intergenerational mobility and inequality of opportunity is important for a better understanding of the mechanisms underlying long-term persistence of inequality. Cross-national comparisons can point to a variety of institutional factors that are related to the reproduction of inequality across generations. From this perspective, South Africa represents an interesting case to add to the international evidence. It is a country characterized by high and persistent levels of cross-sectional inequality and it has a peculiar (and tragic) history of systematic racial discrimination against the majority of its population. The study can contribute to the debates around self-determination and the appropriate role of government in leveling the economic playing field, especially for the less studied developing world.
