Stream 2: Inequality and Social Mobility

Session 1: Introduction: conceptual and methodological issues

Session 2: Indicators for measuring inequality and social mobility

Session 3: Main drivers of inequalities and barriers to social mobility in the Western Balkans

Session 4: Small Group Work - Identification of different social, political, financial, policy related, and institutional mechanisms contributing to specific inequality and mobility issues.

Session 5: Small Group Work - Systematic integration of key barriers and opportunities for improvement of equity and social mobility in Western Balkan countries.

Session 6: Work on Plenary Presentation - Formulation of recommendations for improvement of equity and social mobility in Western Balkan countries.
SESSION 1

Objectives:
- To understand the topics of inequality and social mobility
- To distinguish between different types of inequalities
- To understand why inequality and social mobility matter
- To understand the relationship between inequality and social mobility

Speakers:
- Nermin Oruc, CREDI
- Slobodan Cvejić, Faculty of Philosophy, Belgrade / SECONS
- Christiane Westphal, European Commission, DG EMPL

Outputs:
- Statements of principles about inequality of social mobility in the Western Balkans
- The EU policy framework for defining, monitoring, and addressing inequality: Convergence/divergence between EU countries and impacts on the Western Balkans in

Introductory remarks on the above topics

Class and education mobility, and their impact on reproduction of inequality
SESSION 2

Objectives:
- To present a review of inequality and social mobility indicators and their availability in the Western Balkans
- To present advantages and disadvantages of various indicators
- To present recent figures on inequality of social mobility in the Western Balkans

Outputs: Understanding of current situation on inequality of social mobility in the Western Balkans

Speakers:
- Nermin Oruc, CREDI
- Slobodan Cvejić, Faculty of Philosophy, Belgrade / SECONS
- Amela Kurta, CREDI

Introductory remarks on the above topics
SESSION 3

Objectives:

- To describe the main drivers of inequality of educational opportunities
- To understand the effect of education on inequality of social mobility
- To understand the effect of labour market and its institutions on inequality of social mobility

Speakers:

- Nermin Oruc, CREDI
  - Introductory remarks on the above topics
- Jeton Mehmeti, GAP Institute
  - Gender inequalities at the labour market
- Cristina Mereuta, European Training Foundation
  - Education and labour market policies and skill gaps: The role of education in changing economies and societies and how this leads to changes in educational systems; The right to education and lifelong learning within the EU agenda

Outputs: Understanding of the main drivers of inequality of social mobility in the Western Balkans
SESSION 4: SMALL GROUP WORK

Objective: To identify different social, political, financial, policy related, and institutional mechanisms contributing to specific inequality and mobility issues, based on discussions from previous sessions.

Outputs:

- Main drivers?
- Actions needed?
- Key stakeholders?
SESSION 5: SMALL GROUP WORK

Objective: Systematic integration of key barriers and opportunities for improvement of equity and social mobility in Western Balkan countries

Guest speaker: Elira Jorgoni, ESA Consulting

Topics: Profiles of excluded + barriers; strategies in place to make functional the social elevator in Western Balkan countries

Outputs:
- Key stakeholders?
- Actions needed?
- Main challenges and obstacles?
- Main challenges and obstacles?
- Main challenges and obstacles?
- Outputs?
- Outputs?
- Outputs?
- Outputs?
Preparing for the Plenary presentation:

1. Statement of principles – Based on discussions from Session 1
2. Current situation – Based on discussions from Sessions 2 and 3
3. Priorities for the short- and medium-term – Based on Small Group work from Sessions 4 and 5
4. Challenges and obstacles to overcome – Based on Small Group work from Sessions 4 and 5
5. Actions needed and changes to be achieved – Based on Small Group work from Sessions 4 and 5
6. Key Stakeholders and Partners – Based on Small Group work from Sessions 4 and 5

SESSION 6
To understand the topics of inequality and social mobility
To understand why inequality and social mobility matter
To distinguish between different types of inequalities
To understand the relationship between inequality and social mobility
Inequality, in economics, significant disparity in the distribution of income between individuals, groups, populations, social classes, or countries. Income inequality is a major determinant of social stratification and social class. It affects and is affected by many other forms of inequality, such as inequalities of wealth, political power, and social status. Income is a major determinant of quality of life, affecting the health and well-being of individuals and families, and varies by social factors such as sex, age, race or ethnicity. Inequality, such as inequalities of wealth, political power, and social status, income is a major determinant of quality of life, affecting the health and well-being of individuals and families, and varies by social factors such as sex, age, race or ethnicity.
TYPES OF INEQUALITY

- Inequality of outcomes vs. inequalities of opportunities
- Vertical vs. Horizontal Inequality
- Economic, Educational, Health, Political, Environmental, ...
- Consumption, Wage, Income, Assets, Wealth Inequality
- Inequality of outcomes vs. inequalities of opportunities
WHY INEQUALITY OCCURS?

- Physical Attributes
- Personal Preferences
- Social Process
- Public Policy
- Physical attributes
WHY INEQUALITY MATTERS? (1)

Index of:
- Life expectancy
- Math & Literacy
- Infant mortality
- Homicides
- Imprisonment
- Teenage births
- Trust
- Obesity
- Mental illness – incl. drug & alcohol addiction
- Social mobility
- Index of health and social problems


No relationship between each of the above and GDP
WHY INEQUALITY MATTERS? (2)


Educational Scores are Higher in More Equal Rich Countries
WHY INEQUALITY MATTERS? (3)

More Children Drop Out of High School in More Unequal US States

The Relationship between Income Inequality and Social Mobility.

Around the world, high income inequality is associated with low social mobility.
High-income families spend about seven times more on their children than low-income families.

Bar chart: Expenditures on children by income quintile from 1972 to 2006.

Title: Inequality and Social Mobility
SESSION 2: INDICATORS

Objectives:

- To present a review of inequality and social mobility indicators and their availability in the Western Balkans.
- To present recent figures on inequality of social mobility in the Western Balkans.
- To present advantages and disadvantages of various indicators.
MOTIVATIONS

- Use of unusual indicators
- Cross-country comparisons of Gini calculated from different data sources
- (Ab)use of Gini coefficient. Too many number around, for each country...
Choice between income and consumption is largely driven by the greater likelihood of accuracy of information on consumption.

- Income - SILC
  - Per equivalent single adult
  - Household
- Consumption - HBS
  - Per capita
  - Household
Constructing a Consumption Measure

1. Construct a food consumption measure
   - Food expenditures should include not only purchased items but also consumption out of home production.

2. Add basic non-food items (from consumption module)
3. Add other non-food items (other modules)
4. Add housing expenditures
   - Including imputed rent: based on a survey question or predict rent paid based on regression models estimated on subset of renting households.
5. Add use-value of consumer durables
6. Health expenditures are usually excluded

One needs to understand what is included in the measure.
ADJUSTMENTS TO CONSUMPTION AGGREGATE

Spatial price variation
Cost of living adjustments
Demographic composition
Cost of living adjustments
Special price variation
Which unit of analysis?
Household or individual?
Economies of scale
Equivalence scales
CONSUMPTION (OR EXPENDITURES) VS INCOME

Income: gives actual economic power

Expenditures or consumption: give actual standard of living

Savings (as % of income) generally larger for higher income households

Inequality of expenditures => Inequality of income & expenditure

Income can be negative; C cannot be negative

Savings (as % of income) generally larger for higher income households

Expenditures or consumption: give actual standard of living

Income: gives actual economic power

Source: Milanovic
1. If all incomes are multiplied by a constant (Y1 = Y * C), inequality does not change.

2. Increase of all incomes by a constant (Y1 = Y + C), reduces inequality (follows from 1).

3. If number of recipients is multiplied (at each income level) by a constant, inequality reduces.

4. Progressive transfer (which does not change the rankings of individuals) reduces inequality does not change.

5. Symmetry or anonymity: if two people swap positions, inequality does not change.

6. Inequality measure lies in [0, 1] domain.
## Measures of Inequality: Desirable Properties and How Different Measures Satisfy Them

<table>
<thead>
<tr>
<th>Measure</th>
<th>Formula</th>
<th>Features</th>
<th>Intuitive Explanation</th>
<th>Income Scale Independence (if all incomes increase by the same %, measure does not change)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gini</strong></td>
<td>$\frac{1}{2m} \sum_{i=1}^{n} \left( \frac{y_i - \bar{y}}{\bar{y}} \right)^2$</td>
<td>Compares person’s income to: Other persons’ income</td>
<td>Gini of 0.30 means that the expected difference in income between 2 randomly selected persons is 60% of overall mean income.</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Theil</strong></td>
<td>$\frac{1}{mn} \sum_{i=1}^{n} \log \left( \frac{y_i}{\bar{y}} \right)$</td>
<td>Compares relative incomes of all individuals (either population weighted or income weighted)</td>
<td>Shows percentage difference between incomes of two randomly selected individuals.</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Mean log deviation</strong></td>
<td>$\frac{1}{2mn} \sum_{i=1}^{n} \left</td>
<td>\log \left( \frac{y_i}{\bar{y}} \right) \right</td>
<td>$</td>
<td>Mean-normalized measure. Shows percentage difference between incomes of two randomly selected individuals.</td>
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<tr>
<td><strong>Relative mean deviation</strong></td>
<td>$\frac{1}{2mn} \sum_{i=1}^{n} \left</td>
<td>\log \left( \frac{y_i}{\bar{y}} \right) \right</td>
<td>$</td>
<td>Mean-normalized measure. Shows percentage of total income that should be transferred so that all incomes are the same.</td>
</tr>
<tr>
<td><strong>Source:</strong></td>
<td>Milanovic</td>
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<th>Mean Log Deviation</th>
<th>Theil</th>
<th>Gini</th>
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<tbody>
<tr>
<td>Measures Satisfy Them?</td>
<td>Yes (both)</td>
<td>Yes (both)</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Size independence</td>
<td>Yes (both)</td>
<td>Not bounded from above.</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Progressiveness in transfers</td>
<td>Yes (both)</td>
<td>Yes (both)</td>
<td>No</td>
<td>No</td>
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<tr>
<td>Sensitivity to transfers</td>
<td>Yes</td>
<td>Yes (both)</td>
<td>Yes</td>
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*Note:* The measures of inequality listed include Gini, Theil, and Mean Log Deviation.

**Desirable Properties and How Different Measures Satisfy Them:*

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**Measures of Inequality:**

- **Gini**
- **Theil**
- **Mean Log Deviation**

**Source:** Milanovic
The area is the same, but the shape of the distribution is not.

**Equal Gini?**

Lorenz curves for 44 countries with their incomes (in $PPP) and populations.
INEQUALITY IN THE WESTERN BALKANS (1)
INEQUALITY IN THE WESTERN BALKANS (2)

Gini Coefficient in Montenegro (World Bank)

Gini Coefficient in Serbia (World Bank)

Gini Coefficient in North Macedonia (World Bank)
INEQUALITY IN THE WESTERN BALKANS (3)
Intergenerational Social Mobility Indicators

OECD INDICATORS:

- Percieved and actual mobility of earnings
- Share of managers and manual workers if parents are managers
- Share of persons in bottom and top quartile with a father in the top quartile of earnings
- Share of persons in bottom and top quartile with a father in the bottom quartile of earnings
- Share of managers and manual workers if parents are manual workers
- Share of managers and manual workers if parents are manual workers
- Income in society
- Expected number of generations it would take the offspring from a family at the bottom 10% to reach the mean
- Share of people who believe how important is having well-educated parents to get ahead
- Share of individuals expecting improvement of the financial situation of their household for the next 12 months
- Percieved and actual mobility of earnings over one generation
INTERGENERATIONAL SOCIAL MOBILITY INDICATORS (1)

- Percentage of 25-64 years old whose social class is higher or lower than their parents,
- Score in mathematics by socio-economic status of parents,
- Enrolment rates for 3-5 year-olds in pre-primary education or primary education or primary school,
- Participation rates for 0-2 year-olds in formal childcare and pre-school services,
- Share of individuals in the middle income quintile moving to the bottom quintile after four years,
- Share of individuals in the middle income quintile moving to the bottom quintile after four years,
- Share of individuals in the lowest income quintile staying in the same group after four years,
- Share of individuals moving up, moving down or staying in the same income quintile,

OECD INDICATORS (cont'd):

EDUCATION, OCCUPATION, HEALTH and EARNING across generations,
OTHER SOCIAL MOBILITY INDICATORS

OECD INDICATORS:

- Persistence in the top income quintile (over 4, 6 or 9 years),
- Persistence in the bottom and top income quintile, Longitudinal income trends at the bottom of distribution (in last 30 years),
- Share of people remaining in the top quintile (over 4, 6 and 9 years),
- Share of people remaining in the upper quintile over four years,
- Percentage of people of working-age population remaining in the bottom income quintile (over 4, 6 and 9 years),
- Upward and downward movement for individuals in the middle income quintile over 4 years,
- Position income mobility by initial income quintile (over 4 years and over 9 years),
- Share of income quintile changes over a nine-year span,
- Share of income quintile changes over a four-year span,
Children born into low-income families are likely to remain at the low end of the income distribution as adults.
A student at one of America's most-selective universities is fourteen times more likely to be from a high-income family than from a low-income family.
Income mobility across generations

Families often approach the mean income in their society.

Number of generations it would take for those born in low income.
Limited number of longitudinal data
Limited number of survey data that allow linking parental background to children's information
WHY WE NEED TO MEASURE INEQUALITY AND SOCIAL MOBILITY?

Measuring changes in inequality and social mobility helps determine the effectiveness of policies aimed at affecting inequality and generates the data necessary to use inequality as an explanatory variable in policy analysis.

Later, description of microsimulation models and a monitoring tool