CAF DEVELOPMENT BANK OF LATIN AMERICA

2022 RED Report on Economic Development

Inherited inequalities

The role of skills, employment, and wealth in the opportunities of new generations

Executive summary

Title:
Inherited inequalities: The role of skills, employment, and wealth
in the opportunities of new generations
Executive summary

Legal deposit: DC2022001406
ISBN: 978-980-422-285-6

Editor: CAF
publicaciones@caf.com

The ideas and statements contained in this publication
are the sole responsibility of the authors
and do not represent the official position of CAF.

Graphic design: Estudio Bilder / Buenos Aires

This and other publications
are available at scioteca.caf.com

Inherited inequalities: intergenerational mobility in Latin America and the Caribbean

Latin America and the Caribbean is one of the most unequal regions in the world. Not only is this inequality high, but it is even excessive for the level of development of the region, indicating a kind of Latin American exceptionalism. Moreover, inequality in the region is not new, with its origins dating back to colonial times. Despite the many advances achieved in different economic and social development indicators in recent decades, average inequality levels in the region have not changed substantially or sustainably. Beyond country-specific nuances, they continue to be a characteristic feature of Latin American and Caribbean societies.

The Report on Economic Development 2022 (RED 2022) states that the high inequality in the region has very deep roots, driving its persistence over time. As a result of this inertia, who the most and least wealthy or advantaged individuals and families are has persisted steadily over time. RED 2022 documents and explains the evolution of intergenerational mobility in the region, assessing the multiple dimensions that determine the levels of wellbeing of parents and children. The report takes a long-term perspective and covers cohorts born throughout the 20th century and early 21st century. The analysis of educational, occupational, income, health, and wealth mobility produces novel findings. Moreover, the report reveals new evidence that intergenerational ties in the region may go beyond the two consecutive generations of parents and children, extending further back in time.

In terms of explanations for the phenomenon of intergenerational persistence, RED 2022 postulates three central channels, all closely related to the inequality of opportunities prevailing in the region. These channels contemplate the unequal conditions faced by people from different socioeconomic family backgrounds, which largely define their opportunities for human capital formation, access to quality jobs, and asset accumulation throughout their lives.

Social mobility is an important issue for Latin American and Caribbean countries. This is true not only because of its effect on equity but also due to its impact on other key components of economic development, such as growth and political-institutional stability. The lack of social mobility tends to alter incentives for effort and distort the formation and allocation of human talent, thereby affecting productivity levels and growth. In addition, the high intergenerational persistence resulting from inequality of opportunities can corrode people's trust in each other and in institutions. Not only does this undermine the possibilities of providing public goods, but it also weakens the tolerance and mutual respect that constitute the bedrock of life in a democracy.

Latin America and the Caribbean, a highly unequal region

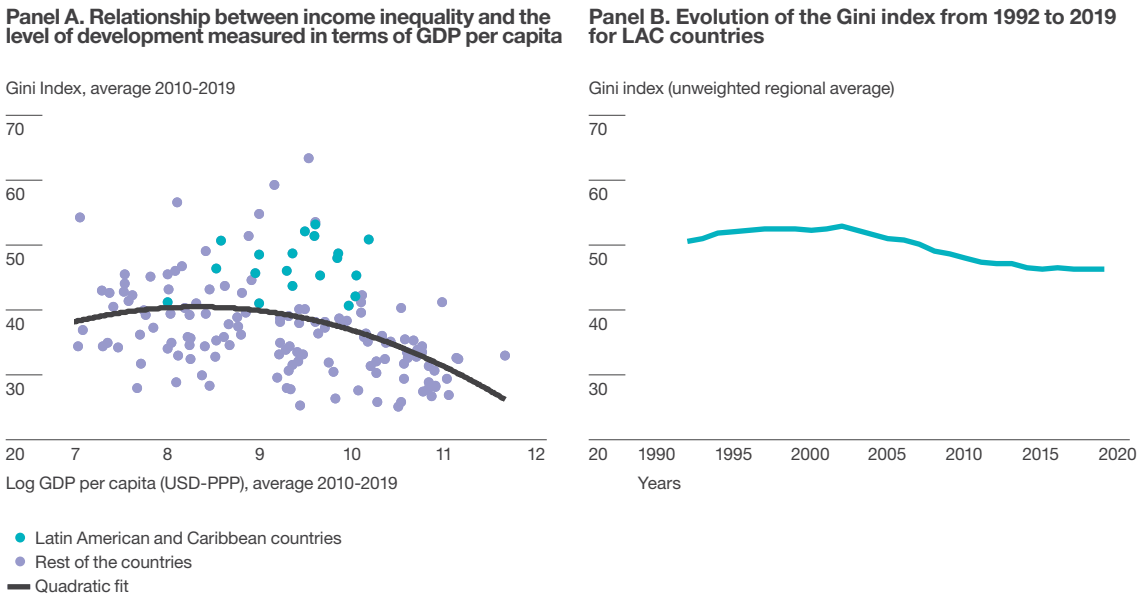
Inequality levels in Latin America and the Caribbean are among the highest in the world. The Gini index, which measures the concentration of income distribution, reflects this reality.[1] Panel A of Graph 1 shows

1. All the bibliographic and data sources mentioned in this executive summary can be consulted in the main document.

that this indicator of economic inequality reaches very high values in Latin American and Caribbean countries (over the period 2010-2019), which are even higher than what can be predicted based on GDP per capita levels. This situation is not new. Since comparable cross-country metrics have been available, the region's countries have consistently ranked among the most unequal in the world. Panel B of Graph 1 shows the evolution of the regional average of the Gini index. The sharp increase in inequality in the 1990s was followed by a marked decline in inequality in the vast majority of the region's countries during the first decade of the 21st century. The declines in some of these countries were very sharp, not only in relation to the recent history of Latin America and the Caribbean, but also in relation to other regions in the world. However, the 2010s were accompanied by a significant slowdown in the fall of inequality. Moreover, levels stagnated from 2014 onwards.

The crisis associated with the COVID-19 pandemic further exacerbated this scenario. Moreover, inequality in Latin American and Caribbean countries is not only restricted to income levels but also manifests itself systematically in other dimensions of wellbeing such as wealth, education, land ownership and job opportunities.

Graph 1
Income inequality



Note: Panel A shows the relationship between the logarithm of countries' GDP per capita and a measurement of income inequality (Gini index). GDP is measured as GDP per capita in dollars at purchasing power parity (USD-PPP), averaged over the period 2010-2019. To measure income inequality, the Gini index of income distribution is averaged for the same period (or for the years with available information within the aforementioned period). A quadratic fit estimated by ordinary least squares (OLS) is also presented. The group of Latin American and Caribbean countries includes data from Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Haiti, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Lucia, and Uruguay. The Gini index and GDP per capita were obtained from the World Bank's World Development Indicators (2022). Panel B shows the simple average of the Gini index values of per capita family income from 1992 to 2019, as measured by SEDLAC, in 15 of the 19 countries included in Panel A. (Guatemala, Haiti, Nicaragua and St. Lucia are the four countries not included in Panel B.)

Source: Authors based on data from World Bank (2022a) and SEDLAC (CEDLAS and the World Bank, 2021).

Inequality stems from various sources, some of which can be considered "acceptable" and others "unacceptable." Almost all members of modern societies condemn the unacceptable sources, connecting them to ideas of inequity and social injustice. Unacceptable sources include unequal opportunities and situations of discrimination, privilege, or corruption. As a result, certain groups face circumstances that limit their individual development throughout their lives or even before birth, while others systematically benefit from them. In contrast, inequality originating from acceptable sources is related to differences in wellbeing that arise, for example, from different levels of effort, which at the same time are less at odds with social equity. This type of inequality is not only more tolerated but is also considered desirable, since the reward for effort entails incentives to produce higher levels of individual and collective welfare.

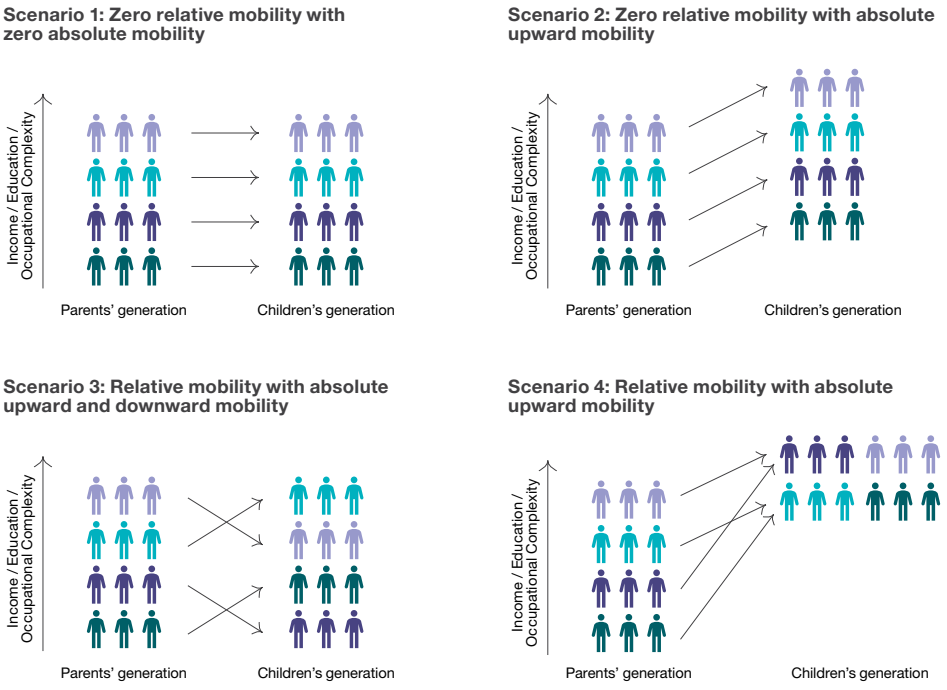
In Latin America and the Caribbean, certain empirical regularities reveal the strong prevalence of unacceptable sources of inequality today, just as decades and perhaps centuries ago. For example, certain population groups, like Afro-descendants and indigenous people, are systematically overrepresented in the lower tail of income distribution. Given the region's rich ethnic diversity, these groups comprise sizeable segments: only about one-third of the population (35%) self-identifies as white, while 35% say they are mestizo, 23% Afro-descendant, 5% indigenous, and 3% say they belong to another ethnic or racial group. Inequalities in the region also have a spatial dimension. Certain areas within countries have suffered for decades from deprivations of all kinds, relegating the majority of their populations to situations of poverty. For women and LGTQIB+ groups in the region, gender has also been an important determinant of material progress. In addition, the systematic disadvantages suffered by those born into less affluent families imply low possibilities for social progression. This is where the concept of inequality is acutely and worryingly linked to the notion of intergenerational immobility caused by the lack of equal opportunities in the region.

Definitions and key measures for the assessment of intergenerational mobility in the region

Intergenerational mobility can be approached from different perspectives and characterized by different measures. RED 2022 presents a variety of these measures to present an assessment that answers questions such as: how persistent is the level of wellbeing of individuals in one generation compared to that of their parents? Do people enjoy improved wellbeing compared to their parents? How does intergenerational mobility fare across the income distribution, particularly for those at the extremes (i.e., the most advantaged and the most disadvantaged in society)? Two central concepts lie behind these questions: absolute upward and relative intergenerational mobility. Absolute mobility refers to the comparison of the welfare attained by children with respect to their parents. Upward movements indicate that children can achieve higher levels of wellbeing than their parents.[2] In contrast, relative intergenerational mobility includes measures of the degree of independence of the child's social status with respect to that of their parents as well as other indexes that refer to changes in the position or ranking of parents and children within a social order defined by a welfare metric within their corresponding generation. Figure 1 illustrates different examples that describe the two notions of mobility that are central to this report. While the vertical axis represents different dimensions of individual wellbeing (income, education, level of complexity of occupations), the horizontal axis represents the time elapsed between two adjacent or consecutive generations.

2. Of course, absolute mobility can also be downward, which can occur both in the context of deep crises as well as for certain groups during phases of economic growth.

Figure 1
Alternative scenarios of absolute and relative mobility



Source: Authors.

The proportion of children who achieve a higher level of education than their parents is an example of a measure absolute mobility in educational attainment. Another alternative, also for the case of education, is to estimate the probability that children complete a certain minimum educational level based on their parents' educational attainment. For example, a measure of absolute upward mobility is the proportion of children who complete high school and whose parents did not achieve that level of education. For relative mobility, the most commonly used measures are those that summarize the statistical association between the wellbeing levels of parents and children. These indicators are, for example, the intergenerational persistence coefficient, the correlation coefficient, and the rank-rank coefficient. While the first two of these measures are alternative ways of quantifying the statistical association between the levels of welfare metrics of parents and children, the rank-rank coefficient summarizes the statistical association between the position within a distribution (e.g., in terms of percentile) that the parents occupied and that of their children within their respective generation. The higher these coefficients are the greater the persistence of welfare between generations, i.e., the more immobile a society is.

Quantifying absolute and relative mobility implies several challenges, some of them methodological and others related to the availability of the information needed for measurement (e.g., databases must link at least two generations). These challenges highlight the importance of understanding the scope, possibilities and limitations of the different sources of information available to measure intergenerational mobility well, particularly in a developing region like Latin America and the Caribbean. Chapter 2 in RED 2022 makes a singular effort to organize the available measurements for the region and provide new estimates on intergenerational mobility in terms of different dimensions of wellbeing, such as education, health, income, occupations, and wealth. In some cases, the estimates are produced using existing data (such as the countries' population and housing censuses). In others, they are calculated using data specially generated in the context of RED 2022, like the 2021 CAF Survey (ECAF). This survey—conducted between December 2021 and February 2022—covered 10,000 households in ten big cities in ten countries in the region.[3]

The challenges of measuring intergenerational mobility multiply when considering the various aspects of wellbeing that this report sets out to analyze. Education is one of the least challenging for the quantification of intergenerational persistence or mobility. Given the strong connection of educational mobility with many other facets of people's wellbeing and the availability of indicators in other regions that facilitate international comparison, it is a central axis in different analyses presented in the report.

An assessment of the intergenerational mobility in Latin America and the Caribbean

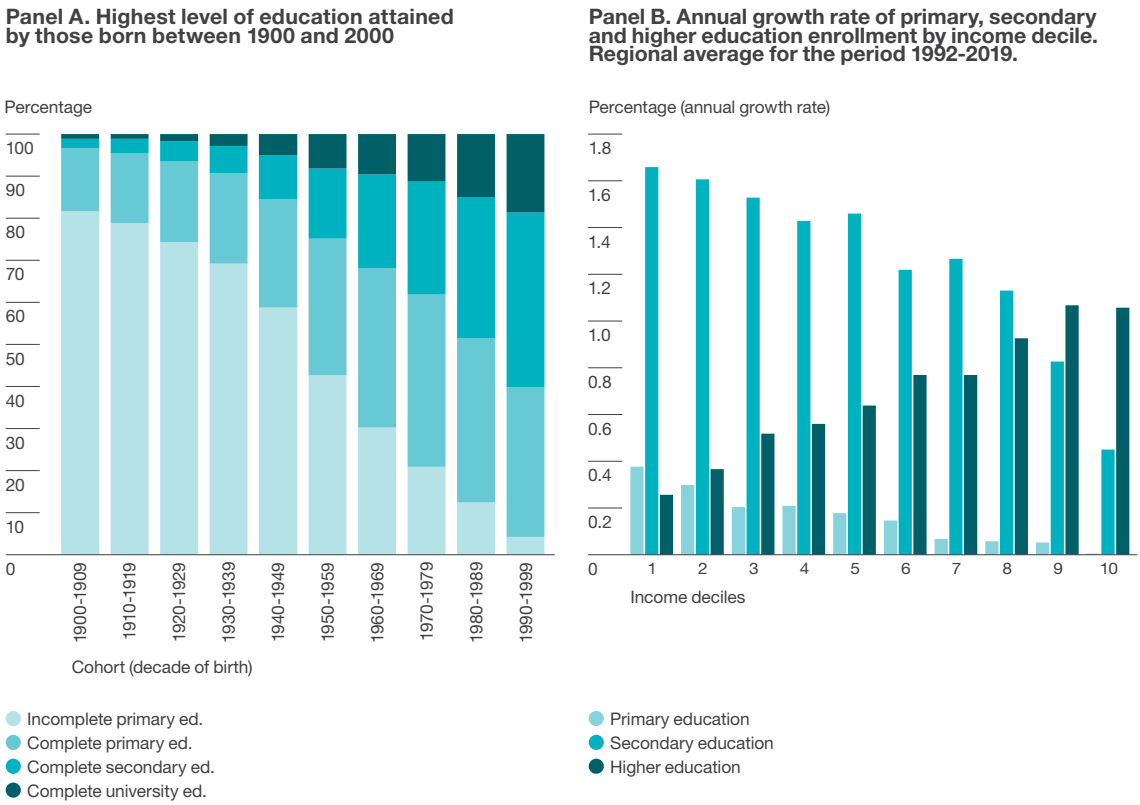
Educational mobility in the region

An examination of educational mobility in Latin America and the Caribbean cannot overlook the tremendous progress made in educational system coverage during the 20th century, especially in the final decades (Panel A of Graph 2). The growth in the number of students attending educational institutions certainly boosted the levels of absolute upward mobility. However, this educational expansion had particular traits, which weakened its impact on relative mobility. Notably, much of the educational expansion that benefited children and young people from disadvantaged families occurred at the lower educational levels (mainly primary and, to a lesser extent, secondary), while at the higher educational levels, particularly university, it was more concentrated among young people from middle and high socioeconomic-level families. These differences by socioeconomic level are manifested in the higher annual growth rates of enrollment in higher education for the highest deciles of income distribution (Panel B of Graph 2).

3. The 2021 CAF Survey was carried out in ten Latin American cities: Asuncion, Bogota, Buenos Aires, Mexico City, La Paz, Lima, Montevideo, Panama City, Quito, and São Paulo.

Thus, the region's success in achieving almost universal coverage in primary education contrasts with limited progress at other levels. The increase in primary school enrollment was sustained throughout the 20th century but accelerated from the 1940s onwards. While nearly 80% of people born in the first decades of the 20th century did not complete primary education, this percentage dropped to only 5% among those born at the end of the century. In contrast, the percentage of people born in the 1990s who failed to complete secondary education reached 50%, leaving the goal of universality at this level still a long way off. Although the increase in higher education coverage, especially university education, was considerable in some countries, the average growth of enrollment at this level has been moderate (with annual rates of 0.7%). As such, the percentage of the population with this level of education is still low in most Latin American and Caribbean countries.

Graph 2
Education expansion in Latin America and the Caribbean

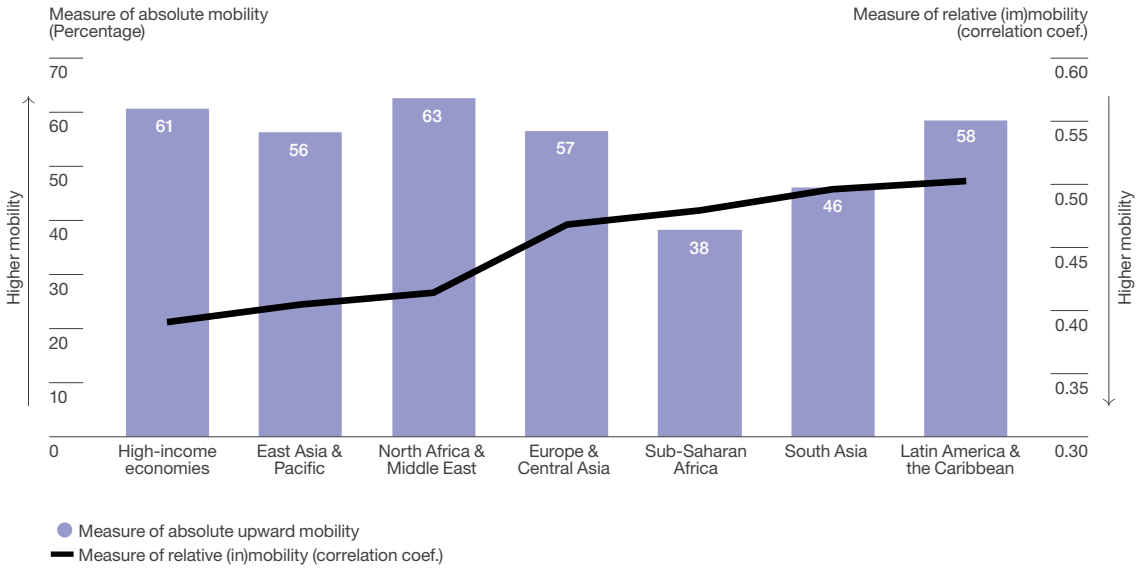


Note: Panel A shows the distribution of the population in 22 Latin American and Caribbean countries according to the highest level of education attained by cohorts born between 1900 and 2000 (population-weighted average). For the list of countries included and other details of the information used in this panel, see the Appendix to Chapter 2 of RED 2022. Panel B presents average values of the annualized growth rate of schooling at the three levels of education for the period 1992 to 2019, based on household survey data processed by SEDLAC. The schooling rate is defined as the proportion of individuals who are enrolled in the level that corresponds to their age. Included countries are: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Honduras, Mexico, Panama, Paraguay, Peru, and Uruguay.

Source: Authors based on data from IPUMS (2020) and SEDLAC (CEDLAS and the World Bank, 2021).

Graph 3 compares the performance of Latin America and the Caribbean with that of other regions in the world according to a measure of absolute mobility and a measure of relative mobility for people who are now from 33 to 42 years of age (those born in the 1980s). The absolute upward mobility metric reflects the percentage of people who managed to surpass the educational level of their parents (or equal it in case their parents had reached the highest educational level). The region's high absolute mobility values are second only to high-income economies and North Africa and Middle East. This contrasts with the region's situation based on the relative mobility measure, the value of which places it among the worst in the world.

Graph 3
Measures of absolute upward mobility and relative (im)mobility in education for the cohort born between 1980 and 1989



Note: Mobility measures correspond to simple regional averages. Data for Latin America and the Caribbean pertain to 16 countries. The absolute upward mobility measure shows the percentage of children reaching a higher level of education than their parents or a similar level if their parents attained the highest level of education (tertiary). The relative (im)mobility measure shown in the graph is the Pearson correlation coefficient between children's and parents' years of education. Higher values of this coefficient reflect greater intergenerational persistence in the years of education of parents and children. The regions are ranked according to the relative mobility metric.

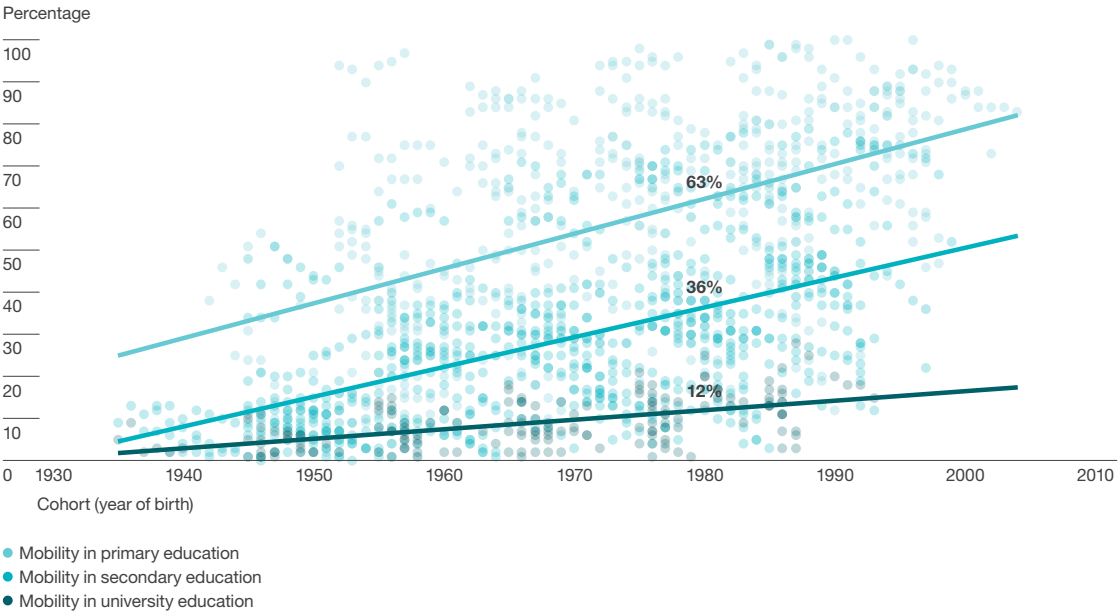
Source: Authors based on data from GDIM (2018).

This contrast between the seemingly good news in terms of absolute mobility and not-so-good news in terms of relative mobility is also observed over time. Latin America and the Caribbean is one of the regions that showed the greatest increases in absolute mobility for cohorts born between 1940 and 1980, as it doubled the percentage of children who surpassed their parents' level of education during that period. Conversely, the region had the highest levels of relative immobility in the world for those born in the 1940s, and remains in this situation for the youngest cohorts, despite the educational expansion that the region later experienced. Thus, relative educational mobility has declined very little in recent decades.

Absolute mobility in the region presents important nuances when considering the highest level of education attained by children, which helps to reconcile what is observed in relative mobility. Figure 4 breaks down absolute mobility by considering: i) the probability that children whose parents did not complete primary education will complete it (absolute mobility in primary education); ii) the probability that children whose parents did not complete secondary education will complete it (absolute mobility in secondary education); and iii) the probability that children whose parents did not complete university education will complete it (absolute mobility in university education).

On average for the region, these three indicators differ in levels and trends. While the proportion of children who managed to finish primary school when their parents did not complete it was around 63% for those born in the 1980s and continued to grow, the proportion of children who managed to finish secondary school even though their parents did not complete it was 36%. The differences between these indicators have not closed in the younger cohorts. On the other hand, the proportion of children who manage to complete university studies but whose parents did not complete them is even lower: for those born in the 1980s, it was around 12% and has barely grown since then. These results show that the high levels of upward mobility in the region observed in Figure 3 are strongly driven by the expansion in primary education. However, the meager progress at the higher levels limits upward mobility.

Graph 4
Absolute upward mobility in primary, secondary and university education for cohorts born between 1930 and 2010



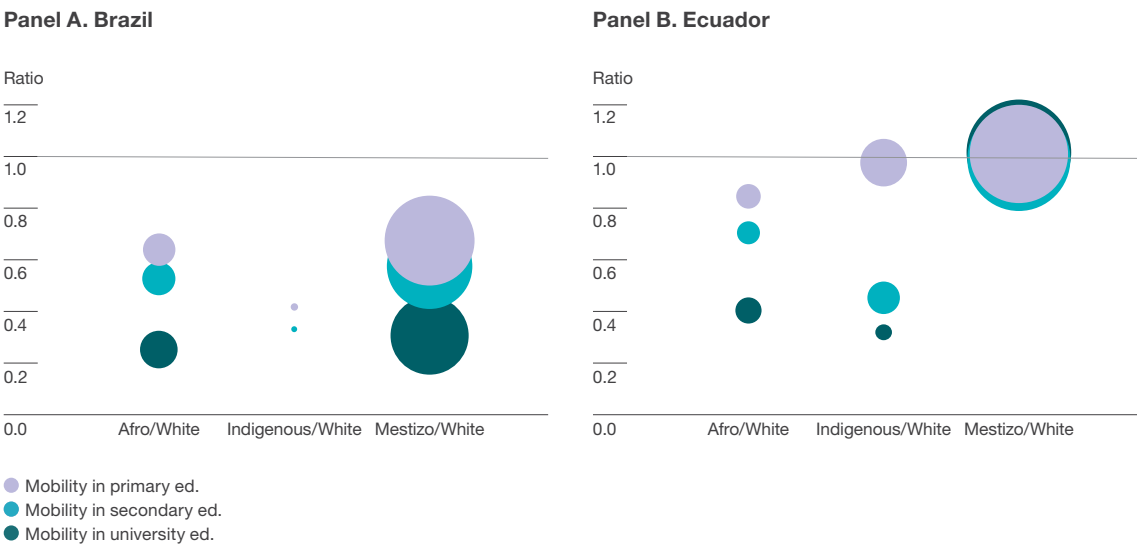
Note: Each point represents, for each country and year of birth of the child, upward educational mobility at the primary, secondary and university levels, measured as the proportion of individuals who completed each of these levels and whose parents had not completed the respective educational level. For the calculation of mobility at the university level, the sample is restricted to the main cities in each country. The solid lines represent the average for Latin America and the Caribbean for each indicator, calculated with a linear adjustment. Twenty-two Latin American and Caribbean countries are covered. For more details on the computation of these absolute mobility indicators, see the Appendix to Chapter 2 of RED 2022.

Source: Authors based on IPUMS (2020).

This average evolution of absolute mobility metrics at the three educational levels shown in Graph 4 did not occur evenly between countries or between different population groups within the same country. From 1930 to 2000, a gap in upward educational mobility emerged in favor of women, especially in secondary and university education. This result is consistent with the notable educational progress of women that has been observed in the region for more than four decades.

The report also presents groundbreaking evidence regarding the significant obstacles faced by certain ethnic groups (such as Afro-descendants and indigenous people) in achieving greater upward mobility. These results are reflected in Graph 5, which illustrates the ratio between the absolute upward mobility measures for three ethnic groups (Afro-Americans, indigenous and mestizos) and those of the white population in two countries in the region (Brazil and Ecuador). Values below 1 reflect the lower mobility of each ethnic group relative to whites. A very noticeable aspect of these results is the widening of the upward mobility gaps as one progresses in educational levels, which implies a lag that worsens over the lifetime of the people who belong to these ethnic groups. In the case of Brazil, the lags for Afro-descendants and mestizos are of similar magnitude. Moreover, the possibilities of mobility in university education amplifies them. In the case of Ecuador—where Afro-descendants also have an educational mobility that is considerably lower than that of whites, especially at the higher levels—indigenous people have an educational mobility at the secondary and university levels that is even lower than that of Afro-descendants.

Graph 5
Absolute upward educational mobility gaps of ethnic groups with respect to the white population in Brazil and Ecuador

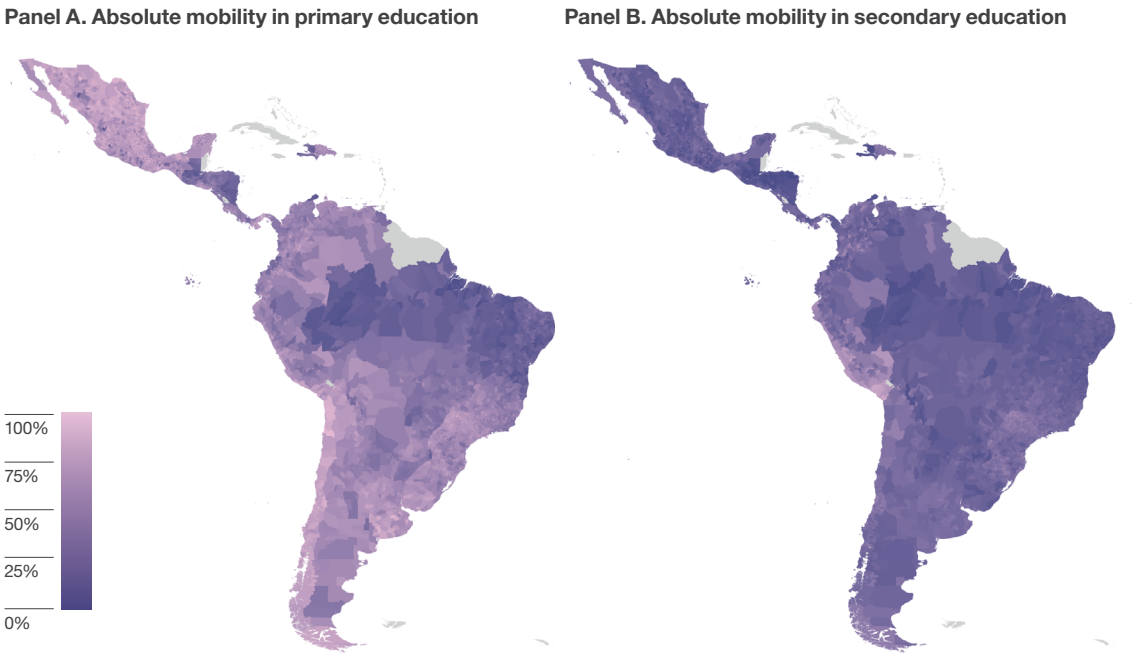


Notes: The center of each bubble represents the ratio of each ethnic group's absolute educational mobility measure relative to the white group. The size of the bubble reflects each group's share of the total cohort population. Panels A and B show data for the cohorts of those born in the 1960s-1990s in Brazil and in the 1980s-1990s in Ecuador. For more details on the computation of absolute mobility indicators, see the Appendix to Chapter 2 of RED 2022.

Source: Authors based on IPUMS (2020).

Geographic location is also a critical aspect that defines the possibilities for upward mobility in the region. Residents in rural areas and smaller cities (in terms of population size) have lower levels of upward mobility than the rest of the population. The report looks more closely at the differences in the probabilities of experiencing upward mobility in small geographic areas within countries (generally municipalities or departments). Within all countries, there is considerable heterogeneity in the levels of mobility, suggesting that local factors largely condition individual opportunities for educational advancement (Graph 6). Additionally, the report shows that the regional dispersion of absolute mobility in primary education within countries has narrowed considerably, in line with the universalization of coverage at this level of education. This convergence is not observed, however, in absolute mobility at the secondary level. This phenomenon would indicate a growing degree of asymmetry in opportunities across regions despite the (moderate) expansion in secondary education coverage experienced by the countries of the region.

Graph 6
Absolute upward educational mobility in small geographic areas of Latin America and the Caribbean

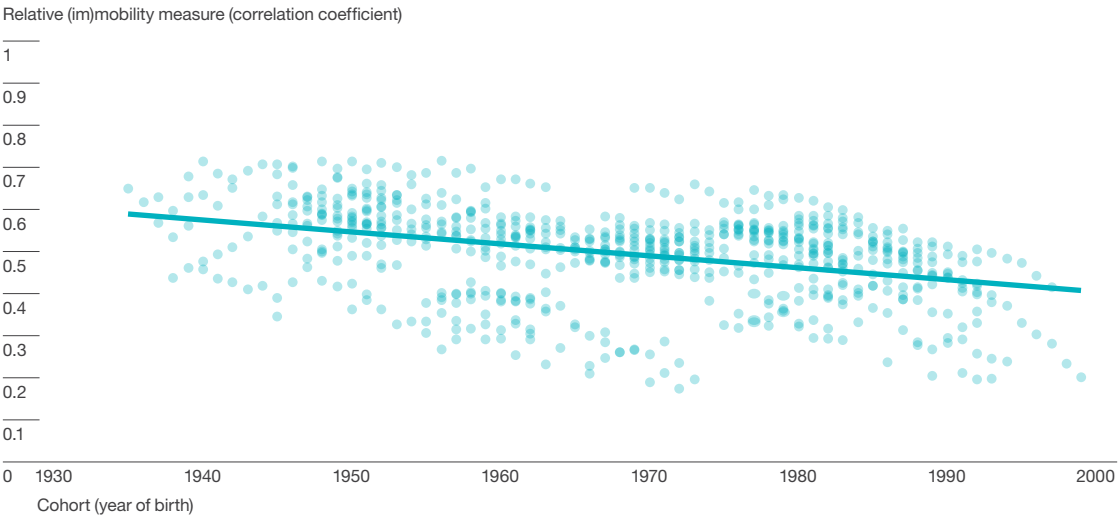


Note: Panels A and B present the measures of absolute upward educational mobility in primary and secondary education, respectively, calculated at the subnational government level (typically municipal or similar) for the 1980-1989 cohort. Jamaica, Puerto Rico, and Trinidad and Tobago are not included because their respective censuses do not have harmonized information for small geographic areas. In panel A, data for the Dominican Republic correspond to the 1990-1999 cohort because data for the 1980 cohort are not available.

Source: Authors based on IPUMS (2020).

As mentioned above, progress in the region in terms of relative mobility has been very limited. Moreover, the levels of intergenerational persistence in the years of education attained by parents and children have remained very high (Graph 7). Contrary to the findings for absolute mobility measures, relative mobility measures show that there are no gaps between men and women nor between larger and smaller cities. Thus, although women experienced greater upward mobility than men, it was not enough to reduce intergenerational persistence in the years of education attained in this group. Nor are the results conclusive that large urban centers stand out as having higher levels of relative mobility than smaller cities.

Graph 7
Intergenerational persistence in years of education in Latin America and the Caribbean for cohorts born between 1930 and 2000

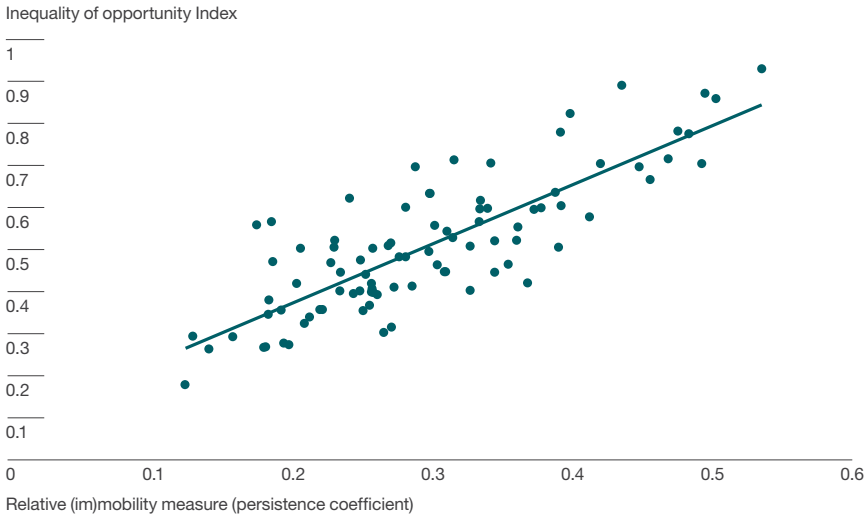


Note: Each dot represents the value of the relative mobility measure (correlation coefficient) for each country and year of birth of the child. Higher values of this coefficient reflect greater intergenerational persistence in the years of education of parents and children. The solid line represents the average for Latin America and the Caribbean, calculated with a linear adjustment. Twenty-two countries in the region are covered. For more details on the computation of this indicator, see the Appendix to Chapter 2 of RED 2022.

Source: Authors based on IPUMS (2020).

High values of intergenerational persistence estimates, such as those documented in RED 2022, are usually interpreted as a manifestation of the degree of inequality of opportunities faced by people from different family socioeconomic contexts. Figure 8 shows that there is a close relationship between indicators of intergenerational persistence in years of education and indicators that approximate inequality of educational opportunities. The latter measure the portion of inequality in years of education that is explained by circumstances beyond the control of the children. The report also shows that the indicators of inequality of educational opportunities in the region experienced only moderate improvements throughout the 20th and early 21st centuries, in line with the evolution of relative mobility measures.

Graph 8
Correlation between the coefficient of intergenerational persistence in years of education and the index of inequality of educational opportunities



Notes: Each dot represents the value of the coefficient of intergenerational persistence (horizontal axis) and the value of the inequality of opportunities index (vertical axis) for a specific country and birth cohort (decade). Cohorts born between the 1940s and 1990s in 19 countries in Latin America and the Caribbean are included. As part of the set of circumstances, the inequality of opportunity index includes indicators of family background (parents' education, occupation and type of employment, as well as housing characteristics), gender, ethnicity, location (region of residence or birth) and cultural capital (religion and language spoken at home). For more details on how the indicators are computed, see the Appendix to Chapter 2 of RED 2022.

Source: Authors based on IPUMS (2020).

The study of intergenerational mobility has focused mainly on the analysis of two adjacent generations, that is, parents and children. To a large extent, the appeal of this approach stems from the lack of data linking families across more generations. The evidence from multiple generations presented in the report based on data from ECAF 2021 shows that in Latin America and the Caribbean the persistence of family background in educational attainment may be higher than that inferred from studies that restrict the analysis to only two consecutive generations. This evidence contributes to an emerging set of studies in various countries that point to similar conclusions and highlight that intergenerational mobility in many of them is lower than previously estimated.

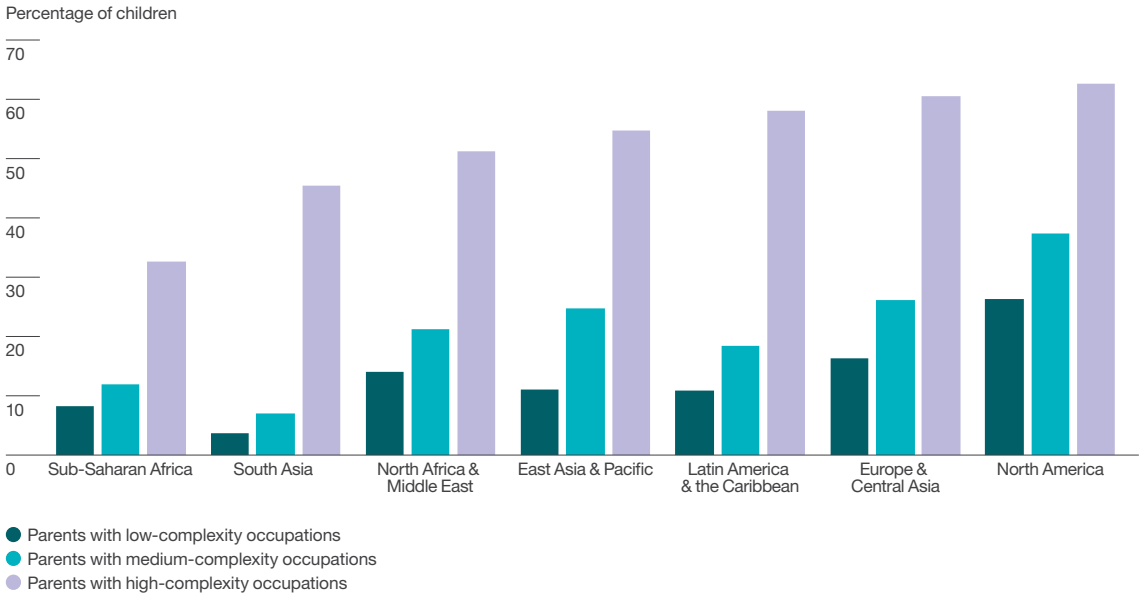
Occupational and income persistence

Latin America and the Caribbean also exhibits low intergenerational dynamism in terms of occupations and income. For example, the evidence collected in RED 2022 indicates that the region has a high percentage of people who share the same occupational category as their father and the figure is only below that observed in South Asia. Other measures of occupational persistence, such as the intergenerational dependency in occupations index, also register high levels in Latin America and the Caribbean.

In terms of absolute upward mobility in occupations, the outlook is not encouraging either. To construct this type of metric, it is necessary to rank occupations on some scale that indicates which occupations are better, for example, in terms of wages or learning-by-doing possibilities. One way to do this is to use the levels of complexity of the skills required to perform the specific tasks of a particular job. Graph 9 shows the percentage of children who have high complexity occupations considering the complexity of their parents' occupations. For example, in regions such as North America, the portion of children with highly complex occupations whose parents also had that type of occupation is slightly more than double that of those whose parents were in the low category (63% versus 26%), whereas in Latin America and the Caribbean, this ratio is more than five times higher (58% versus 11%).

Graph 9

Percentage of children who have a high complexity occupation based on the degree of complexity of their parents' occupation



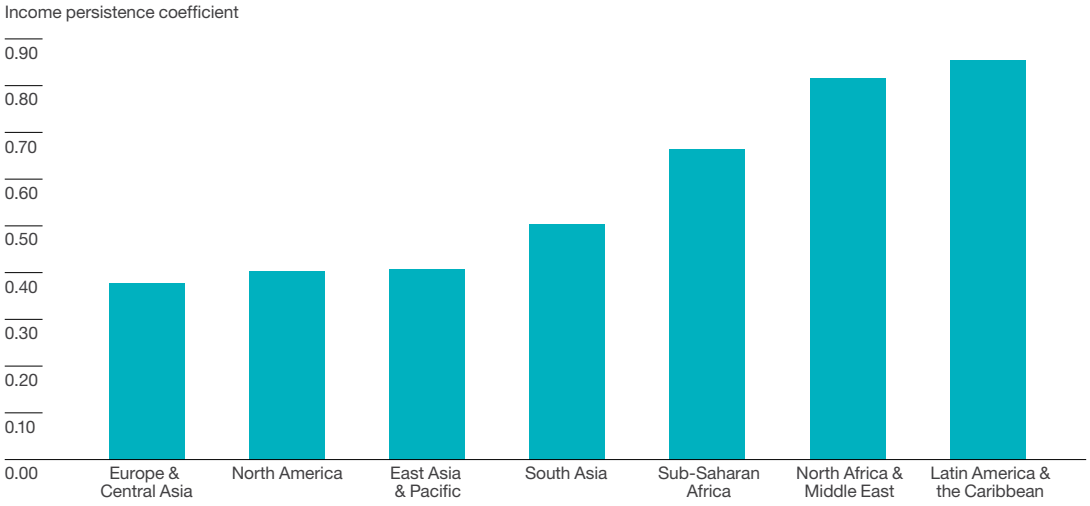
Note: High-complexity occupations include professionals, technicians, and higher administrative workers; medium-complexity occupations include clerical workers, sales workers, service workers, and skilled workers; and low-complexity occupations include semi-skilled workers, unskilled workers, farm workers, and farm owners or managers. The sample comprises individuals who were between 25 and 60 years old at the time of the survey (from 2017 to 2020) and were working. The Latin American and Caribbean countries included are: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Nicaragua, Peru, and Puerto Rico.

Source: Authors based on data from the seventh wave of the World Values Survey (Haerpfer et al., 2022).

In summary, although absolute upward educational mobility in the region shows some encouraging values, the opposite is observed in the case of relative educational mobility and occupational mobility. Thus, the higher educational levels attained by children with respect to their parents are not reflected in relative upward mobility in terms of educational levels or job market opportunities. This may suggest that educational progress has been insufficient and the region's economic structure is failing to absorb or reward these higher levels of education. This outcome is consistent with low intergenerational mobility in income, which positions

Latin America and the Caribbean as the region with the highest persistence in this dimension, according to the values shown in Graph 10. In this way, intergenerational income persistence in Latin America and the Caribbean is in line with the high inequality in income distribution that characterizes the region (Graph 1).

Graph 10
Intergenerational persistence in income by region



Note: The graph shows the intergenerational income elasticity coefficient (IGE). Regional values are simple averages across countries in each region. Information is presented for cohorts of children born in the 1960s or 1970s, depending on the availability of data for each country. The countries included in the average for Latin America and the Caribbean are: Bolivia, Brazil, Chile, Colombia, Ecuador, Guatemala, Panama, and Peru.

Source: Authors based on data from GDIM (2018).

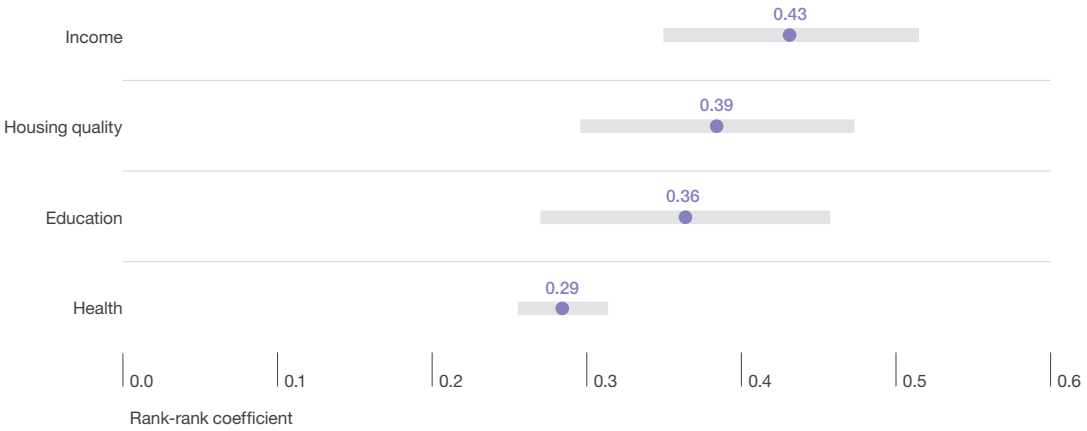
Intergenerational mobility in different dimensions of wellbeing: harmonized evidence from ECAF

The report presents results of intergenerational mobility for different dimensions of wellbeing for the same set of individuals using novel information provided by ECAF 2021. Based on these data, rank-rank coefficients are calculated for four indicators of parents and children's wellbeing (measured in rankings): education, health, position in the self-reported income distribution and self-reported housing quality, which could be interpreted as a proxy for household wealth (Graph 11). The findings in the main cities of Latin America and the Caribbean suggest that dependence on family origin in dimensions such as income and wealth is higher than in education and, particularly, health, which seems to be the dimension with the least intergenerational persistence.

These findings are in line with the progress made by the countries within the region in terms of educational and health coverage, which could have contributed to weakening the intergenerational link in the

transmission of inequalities in these two dimensions. On the contrary, the low relative mobility in income and wealth may reflect the limitations of the region's labor and financial markets to act as mechanisms to compensate for inequalities based on family origin.

Graph 11
Intergenerational persistence in four dimensions of wellbeing according to rank-rank coefficients



Notes: The reported coefficients come from ordinary least squares estimations, where the dependent variable is the ranking (percentile) that the child (interviewee) occupies in the distribution of the wellbeing variable considered and the independent variable is the ranking that the mother occupies in the distribution of the same wellbeing variable in her respective generation. The rankings are constructed based on the values adjusted for the mother's age (all wellbeing variables) and gender (health and education). The sample is restricted to interviewees for whom information in all four wellbeing dimensions is available for them and their mothers. A consolidated sample of the ten Latin American and Caribbean cities covered by ECAF 2021 was used and all regressions controlled for country fixed effects and the interviewee's gender as well as the child and mother's age (linear and quadratic).

Source: Authors based on data from ECAF 2021 (CAF, 2022).

Why does intergenerational mobility matter?

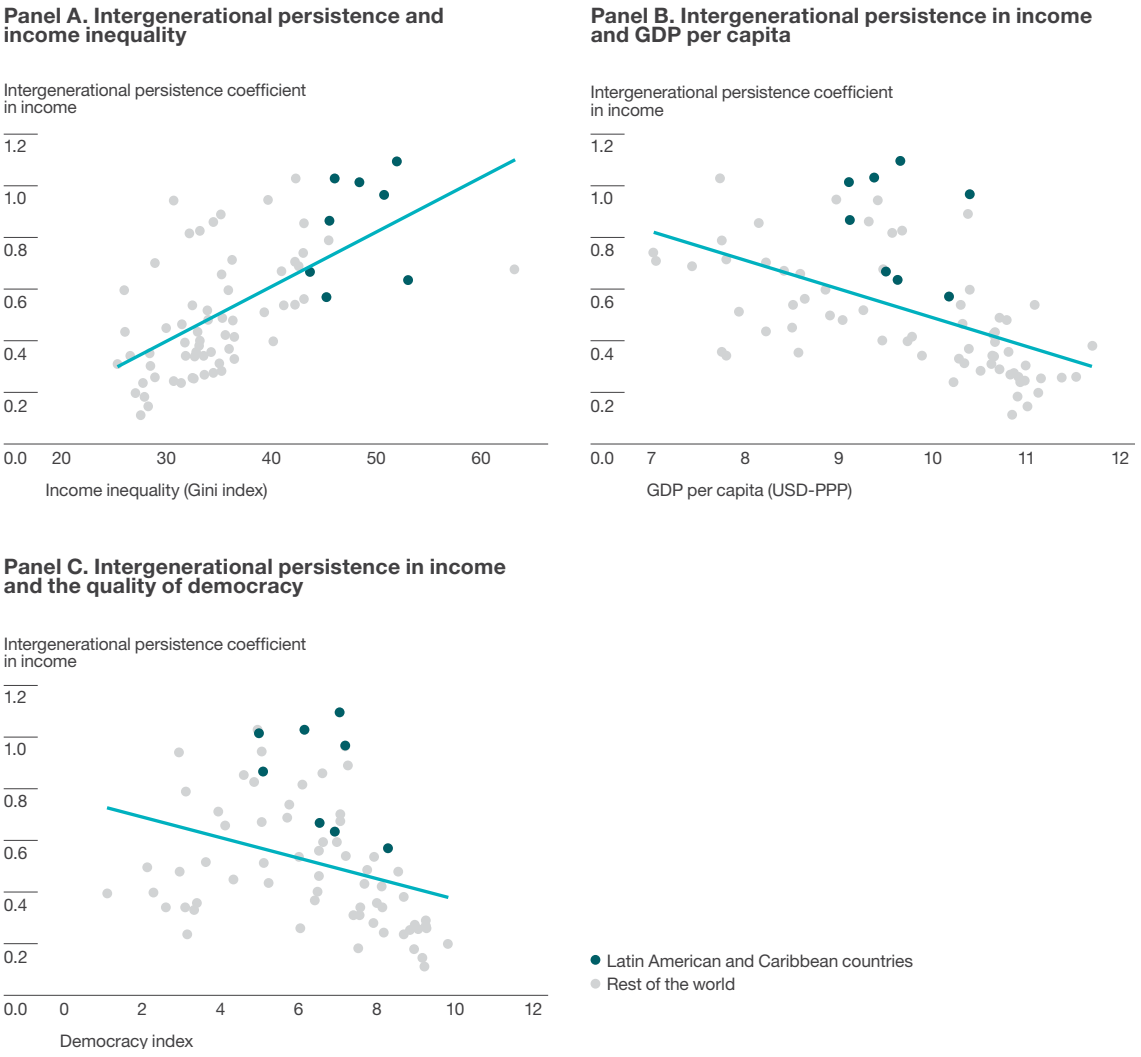
Not only does the lack of intergenerational mobility have serious consequences on inequality levels, but it can also affect a country's economic growth and political-institutional stability. These three components are key dimensions to achieving inclusive and sustainable development. Moreover, they make mobility an important precondition for achieving greater and more stable long-term progress in Latin American and Caribbean countries.

Although high levels of inequality could coexist with high possibilities of social mobility, this is not what happens in practice. A striking empirical fact is the strong positive association between inequality and

intergenerational persistence, a relationship that has been referred to in the literature as the Great Gatsby curve (panel A of Graph 12). Despite the evidence reflected in this curve does not represent a causal relationship between levels of inequality and intergenerational mobility, it is consistent with the idea that the lack of social mobility may reflect the existence of high inequality of opportunities in a society.

Graph 12

Relationship between intergenerational persistence of income and income inequality, GDP per capita and an index of the quality of democracy



Note: Panel A shows the relationship between income inequality (average 2010-2019 Gini index) and the coefficient of intergenerational persistence in income for a broad sample of countries. Panel B presents the relationship between persistence in income and average GDP per capita (in purchasing power parity) for 2010-2019. Panel C presents the relationship between intergenerational income persistence and the value of an index measuring the quality of democracy in each country. (Computed by the Economist Intelligence Unit, the Democracy Index is based on 60 indicators, grouped into five categories: electoral process and pluralism, civil liberties, functioning of government, political participation, and political culture.) In all three panels, the straight line represents a linear regression fit. The Latin American and Caribbean countries included are Bolivia, Brazil Chile, Colombia, Ecuador, Guatemala, Panama and Peru.

Source: Authors based on data from GDIM (2018), World Bank (2022) and the Economist Intelligence Unit (2021).

The degree of social mobility is also related to economic growth in a way that includes both directions of causality. Intergenerational mobility requires some level of growth, which is evident for absolute upward mobility, but also for the sustainability of relative mobility. In a stagnant economy, for some to be better off in relative terms, it would be necessary for others to be worse off in absolute terms. In the other direction, social mobility can affect economic growth through at least two channels. On the one hand, the prospects for social mobility may affect the degree of effort to accumulate human capital and to work, both of which are drivers of productivity and aggregate growth. In contrast, in a society in which there are no prospects for social mobility, incentives for effort are weaker.[4] The other important reason linking mobility to growth stems from the better allocation of talent that can be achieved if there is intergenerational mobility. Without social mobility, individuals are bound to replicate the educational levels, occupations and areas of residence of their families of origin. However, individuals have capabilities that could result in higher productivity if they could freely choose their level of qualification, occupation or place of residence, without depending on family history. The relationship in Panel B of Graph 12, precisely, shows a negative association between countries' GDP per capita and the levels of intergenerational persistence in income. Recent studies that focus on the heterogeneity between regions within a country provide evidence that greater mobility leads to greater economic growth and development. All this evidence implies that the discussion about the equity-efficiency tradeoff should not be limited to the short term. It should also consider the long-term efficiency gains that the redistribution of opportunities associated with social mobility brings about for a better allocation of talent and growth.

Social mobility can also be key for political stability and that of all the other institutions that provide a framework for the relationships between a country's inhabitants. The negative association between intergenerational persistence in income and a measure of democratic quality shown in Panel C of Graph 12 supports this view. Social mobility can increase tolerance among citizens and, in turn, their openness and support for democracy. The possibility of social mobility can also facilitate democratization by reducing the redistributive conflict between the rich and the poor: rich families' fear of becoming poor may lead them to accept greater redistribution as insurance for future wellbeing. Similarly, the prospect of upward mobility may temper support for redistributive policies in less affluent sectors.

How is intergenerational mobility perceived in the region and what are people's preferences for redistribution policies?

Intergenerational mobility and an individual's perception about that mobility, in particular, may affect the demand for greater redistribution. But certain redistributive policies may come into conflict with growth. Thus, at least in the short term, how individuals perceive the prospects for mobility is relevant for anticipating potential redistributive demands and designing policies to compensate for inequalities that do not collide with incentives for effort and investment.

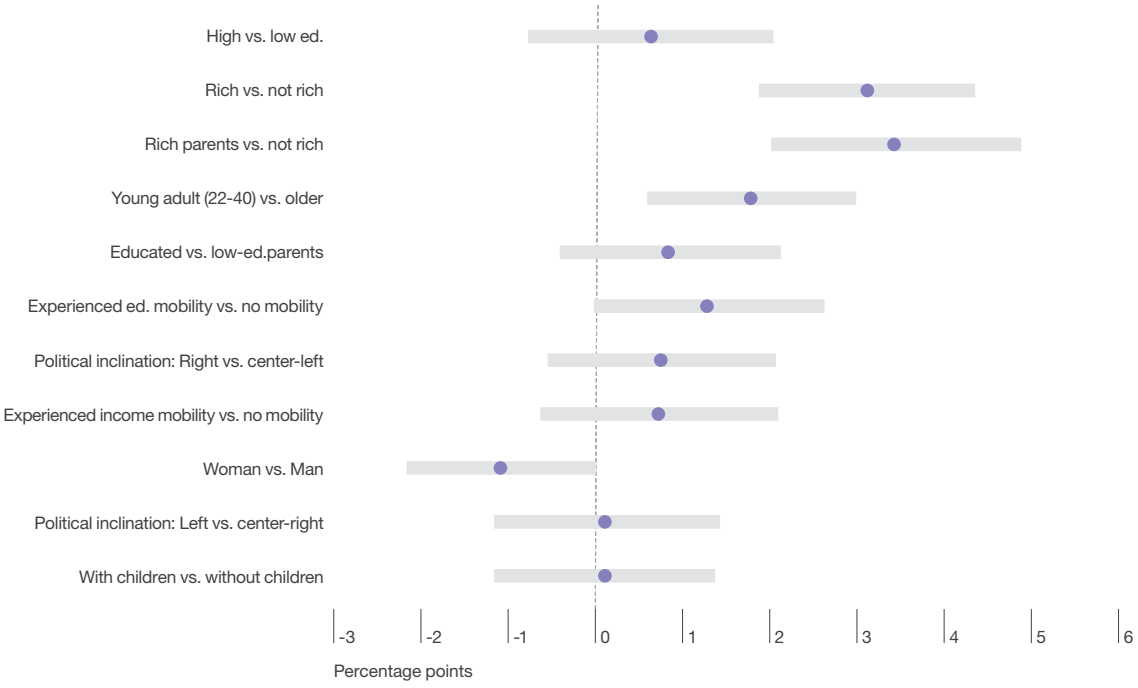
ECAF 2021 surveys Latin Americans' perceptions of intergenerational mobility. When asked about educational mobility, 57% of respondents overestimate mobility, with a gap between perceived and actual mobility of 6.7% on average, although this difference varies across countries. Respondents in the

4. However, for mobility to be understood as an outcome of effort, people's beliefs must be aligned in that sense. Evidence from the World Values Survey presented in the report shows that there is indeed a positive association between respondents' experiences in terms of absolute mobility (improvements over their parents in standard of living and educational attainment) and the belief that "effort pays off" in life.

major cities of Colombia, Peru, and Bolivia are, on average, more “pessimistic” in the sense that they underestimate actual mobility. In the rest of the countries, respondents are rather optimistic, as their perceptions of mobility exceed actual mobility.

The ECAF data show that the differences between perceived and actual mobility may be related to individuals’ life experiences, their reference groups, their political and cultural views, and their personal characteristics, among other factors. Graph 13 presents the differences in the average value of upward mobility perceived by respondents grouped in different categories according to their own or their parents' characteristics (shown in the vertical axis). This analysis shows that the richest, the children of the richest and the youngest (22 to 40 years old) are more optimistic about intergenerational mobility holding other characteristics constant.

Graph 13
Differences in the perception of mobility based on the characteristics of interviewees and their parents



Note: The graph presents the coefficients and their 95% confidence intervals estimated using ordinary least squares. The dependent variable refers to each interviewee’s perception of the level of upward mobility in education in their country. The independent variables are dichotomous variables for each characteristic of the interviewee or their parents. These are presented on the vertical axis. Controls also include city fixed effects and survey modality, but these coefficients are not reported in the graph. Perceived mobility results from the response to the following question of the ECAF: “Think of young people who have parents who did not manage to complete secondary education, that is, low-educated parents. If we take 100 of these young people, how many do you think do manage to finish high school? Your answer has to be a number between 0 and 100.”

Source: Authors based on data from ECAF 2021 (CAF, 2022).

Several experiments were conducted in the context of the 2021 edition of the ECAF. Their objective was to better understand the relationship between social mobility perspectives and citizens' preferences about redistributive policies. Treatment and control groups were created using randomly distributed information on different aspects of the social mobility problem. Given that these groups of individuals only differ, on average, in terms of whether they have received this information (treatment) or not (control), the differences in their opinions after the intervention make it possible to analyze key aspects of the relationship between mobility perspectives and citizen preferences regarding redistributive policies.

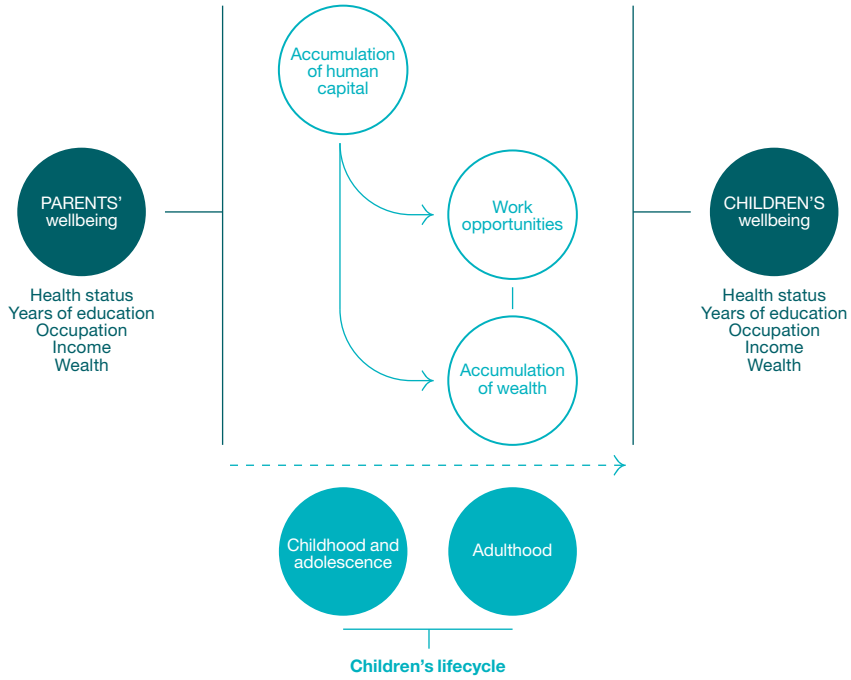
In particular, the experiments consisted of providing information to investigate how the perception of higher or lower social mobility affects preferences regarding how much to distribute and through which policy instruments. By varying the profile of the potential beneficiaries of redistribution policies, experiments aimed to determine whether their characteristics (gender, talent or level of effort) modify the support for some of these policies. These experiments provide novel results for Latin America and the Caribbean. Moreover, as a whole, they contribute to a better understanding of the degree of alignment of citizens' preferences with the policies that the region requires to level opportunities in favor of greater social mobility.

The results indicate that people tend to support more redistribution when they learn about the limited possibilities for progress (e.g., obtaining a university degree) of the most disadvantaged sectors. However, upon hearing about some of the positive aspects observed in educational mobility in the region, the interviewees do not demand less redistribution. Another interesting result shows that Latin Americans value effort and talent when defining who should benefit from policies that favor social mobility. Finally, a third result suggests that those given pessimistic information about mobility redirect their preferences for redistribution toward policies that provide greater opportunities early in life (such as education), at the expense of redistributive policies that correct expost outcomes (such as income transfers).

Three channels for the reproduction of inequalities

The association between high inequality and low intergenerational mobility indicates that there are powerful mechanisms that reproduce the levels of wellbeing attained by people from different generations within the same family. In this report, we analyze three very important channels that impact intergenerational social mobility in Latin America and the Caribbean. As described in Figure 2, these channels are related to the unequal opportunities that people from families of different socioeconomic levels face throughout their lives, which are conducive to **human capital** formation, access to good **jobs**, as well as **possibilities for asset accumulation**. Chapters 3, 4 and 5 of RED 2022 present a wide variety of evidence that shows the strong association observed in Latin America and the Caribbean between the socioeconomic level of the family of origin and these opportunities.

Figure 2
Channels behind the intergenerational reproduction of inequality



Source: Authors.

Human capital

The high inequality in human capital formation (broadly understood as the level of education attained, health status and the development of cognitive and socioemotional skills) is key to explaining the intergenerational transmission of inequalities. The accumulation of human capital is the result of a dynamic lifelong process, but certain stages are more conducive to taking advantage of the investments necessary for full physical, cognitive, and socioemotional development. These stages span the first two decades of life, with highly sensitive sub-stages such as early childhood and adolescence. During this period, parents or guardians play a fundamental role in the decisions regarding investments in their children. If investments at this stage in life are very unequal, large gaps in human capital can be expected. In the absence of timely compensation mechanisms, these gaps tend to carry over and amplify into adulthood. This explains a large part of the occupation and income inequalities observed later in life.

Parents affect investments in the formation of their children's human capital in two ways. On the one hand, they make “parenting” decisions within the home. They invest time, money and effort in their children to build a safe and stimulating space for upbringing. On the other hand, they make decisions that affect the environment their child is exposed to outside the home. The choice of educational center and neighborhood

of residence are crucial in this regard. In the region, parenting decisions inside and outside the home forge a strong intergenerational link in human capital. Disadvantaged families are notably more constrained than advantaged ones. As a result, the investments they can make in their children are unequal. There are three types of constraints: financial, informational and cognitive-behavioral, and in terms of the possibilities of securing investments. Inequality in the severity of these restrictions is reinforced by inequalities arising from spatial segregation and differences in the quality and quantity of public goods and services provided in more and less disadvantaged areas within cities and between cities within the same country.

This process of skill accumulation throughout the lives of Latin American and Caribbean children and young people is the result of a complex interaction of factors that are often completely beyond their control. The inequalities that arise in these initial decades of life are highly conditioned by the circumstances individuals face and result in an insufficient level of opportunities in the formation of human capital, which lays the foundations for their intergenerational persistence.

Human capital inequalities throughout life

Inequalities in human capital in the region begin very early in life. They persist and sometimes, they become more pronounced over time. Peru's Young Lives Study, one of the few studies of its kind in the region, follows the same group of children from the beginning of life until they enter adulthood.[5] The study's data make it possible to analyze the probabilities that these children and young people had of achieving high levels of education based on the home where they were born and trace all the most important milestones of their development during the first decades of their lives

Graph 14 shows that these probabilities are highly dependent on the parent's educational level. It should first be noted that the educational expansion achieved in the region (panel A of Graph 2), which was particularly strong in Peru, meant that the proportion of parents in this representative sample who achieved some post-secondary education ("high" level) was relatively low (22%) compared to that of the children included in the study (65%). However, despite this increase in educational coverage, the graph also shows that the proportion of children who reach a high educational level differ according to their parents' educational level. For example, while more than 90% of the children of parents with high levels of education reach the same level, the proportion of those who reach high levels of education is less than half for children of parents with low levels of education. It can also be observed that there are practically no children with low educational levels whose parents have a high educational level. Moreover, almost all the children who end up with a low educational level come from households where the parents only reached that level.

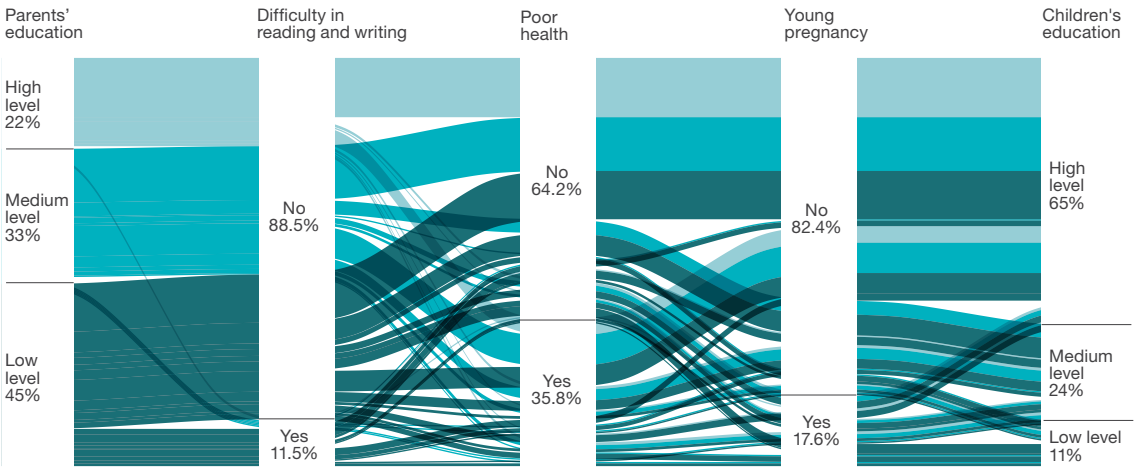
Moreover, Graph 14 reflects the incidence of intermediate developmental milestones with the potential to affect the maximum number of years of education completed. The majority of children (between 6 and 10 years of age) with early literacy problems come from homes with parents with a low level of education, while the proportion of children of highly educated parents who face these early problems in their educational trajectory is negligible. Regarding the health status reported by parents as poor, again, the proportion of children coming from homes with low-educated parents is substantially higher than those coming from homes with more educated parents. The graph shows the proportion of children who

5. The Young Lives Project is a multi-country initiative (four countries in different regions, including Peru for Latin America), which tracks and measures the development children in two cohorts: one born in 1994-1995 and the other born in 2001-2002. Longitudinal follow-up now spans six rounds, including a final one conducted during the pandemic by COVID-19 in 2020 (telephone, with three waves of calls). This data source is of high value for studies on human capital accumulation in the region, as it currently covers the most important stages of people's development. The project is coordinated by the Department of International Development of the University of Oxford (England) and implemented by local partners in each country.

became parents early (before age 23) as the last intermediate link. This fraction is high among children of poorly educated parents and practically nil among those with highly educated parents. In addition, a large proportion of those who come from homes with low-educated parents, who had children early on, only reach low or mid-levels of education. From this type of analysis, several hypotheses about developmental episodes in childhood and adolescence can be derived that reinforce certain initial conditions (advantageous or disadvantageous) and thus limit the probabilities of reaching high levels of human capital in adulthood.

Graph 14

Connection between the education of parents and children mediated by individual development milestones in Peru



Note: The graph presents the life trajectories of the children in the older cohort of the Young Lives study. The extreme points show the proportions of children in that cohort according to the level of education attained in round 6 (endpoint) and the level of education of their parents (starting point). The flows crossing intermediate states are defined taking into account different milestones that may condition the child's development throughout their life trajectory and that are captured in this longitudinal database. These milestones include literacy difficulties, health status (average, poor, or very poor), and whether the children became parents before the age of 23. Educational levels are defined as follows: low, less than complete secondary school; medium, up to complete secondary school; high, more than complete secondary school (including those who started higher education but have not completed it).

Source: Authors based on Rounds 1 through 6 of the Young Lives/Niños del Milenio study (https://ninosdelmilenio.org).

The Young Lives study also enables an analysis of the persistence connecting the position of the household in the distribution of wealth at the date of birth with the position of the children and youth in the study in the distribution of indicators of physical (height-for-age) and cognitive (score on a receptive vocabulary test) development. The association between these indicators of wealth and development is very high for the cognitive dimension (rank-rank coefficient of 0.64 at age 5). The coefficient drops slightly for ages associated with primary schooling but remains high (0.49) until adolescence (15 years). As for height-for-age, inequalities in the first year of life are high (coefficient of 0.35), then worsen, but eventually decline to return to their initial level by adolescence. RED 2022 summarizes similar evidence for other countries in the region, showing important socioeconomic gradients that, in addition to opening early in life, encompass all dimensions of development (physical, cognitive and socioemotional).

When and how are key decisions made for human capital formation and who makes them?

Recent evidence shows that, in addition to the well-known importance of prenatal and early childhood life stages, adolescence is also a critical time in life to invest in human development. Prenatal care both for the mother and the child, routine wellness checkups, along with adequate nutrition and early stimulation are essential in early life. Therefore, health care systems are of critical importance at this stage. Investments during adolescence, in turn, represent a joint commitment between the family, the school, the physical and social environment, and the world of work. All these formative contexts must provide quality inputs for learning, physical and mental health. Moreover, they should steer adolescents in a positive direction toward educational and work aspirations that offer the best prospects in the labor markets.

Regarding the decision makers, evidence reveals that mothers play a very important role in building their children's human capital; however, other family members—fathers, siblings, and grandparents, for example—play their part too. For example, a mother's health before and during pregnancy has a strong impact on her children's health. Mothers under high stress, who smoke, use alcohol or other drugs, suffer or have suffered nutritional deficits, and are exposed to contaminants, will be more likely to deliver children with health problems that can compromise their development. There are two primary reasons why mother's health can be highlighted as playing a fundamental role in the perpetuation of inequalities and a consequently low intergenerational mobility of human capital. First, Latin America and the Caribbean display marked inequalities in the coverage and quality of health care services advantaged and disadvantaged households have access to. Second, recent advancements in healthcare technology and protocols facilitate improvements in the health outcome of newborns and children in their early years at a low cost.

Other relatives can play an important role in the intergenerational transmission of human capital. For example, estimates based on ECAF 2021 data have outlined a significant role for grandparents, in line with studies in other parts of the world. However, contrary to developed countries, the absence of formal childcare mechanisms in Latin America and the Caribbean may exacerbate the intergenerational persistence of human capital mediated by the influence of grandparents. The reason is that, in the absence of other care options, families make informal arrangements with close relatives, like grandparents. The time, resources, and parenting rules used in these interactions represent an additional pathway that can perpetuate the conditions for human capital formation of children in the region.

On the other hand, certain aspects of family composition exacerbate the burden of restrictions on investing in their children. Teen pregnancy and the separation or death of parents at critical stages of a child's life (early childhood and adolescence) involve smaller investments in human capital and imply less mobility. The Demographic and Health Surveys (DHS) suggest that half of the pregnancies in the region are unplanned. Moreover, in these cases, the level of preparedness of households to make adequate investments in their new members is limited. Additionally, unwanted pregnancies show a clear socioeconomic gradient. Teen pregnancies—a phenomenon with high intergenerational persistence—continue to be a big problem across the region.[6] This pattern of young fertility is associated with lower investments in children and high absolute educational mobility gaps between children of teenage mothers compared to those of non-teenage mothers. These gaps, which persist today at around 25% and 30%, respectively, date back to 1950. RED 2022 shows that the family size (number of siblings) in the region also limits the years of education completed by children, but only

6. Estimates based on research conducted for RED 2022 suggest that being the daughter of a teenage mother increases the likelihood of becoming a teen mother to between 61% and 172% in the region, depending on the analyzed country.

in families with less educated parents. This means that family size is important in terms of mobility because the higher the number of children, the lower the investments the most disadvantaged families make in them. High levels of assortative mating (father and mother with similar levels of education) observed across the region also contribute to low educational mobility. These patterns, which illustrate yet another form of socioeconomic segregation (in this case in the formation of couples) have persisted over time.

Regarding how families invest in their children's human capital, RED 2022 highlights two main channels: direct investments within the home and investments made outside the home. In the home, parents invest time, money, and effort in their children to design and implement positive parenting rules and environments. The report shows that these three investments have a clear socioeconomic gradient in Latin America and the Caribbean, suggesting that children with wealthier parents receive a larger quantity and quality of investments in their human capital. On the other hand, for the two most important investments for human capital development outside the home (school and residential neighborhood choices), the same restrictions that determine lower-quality investments (worse schools and neighborhoods) for children of poorer families are once again at work.

The role of educational institutions in human capital mobility

Formal education institutions, from early childhood to higher education, can help to sever or, on the contrary, reinforce the ties of intergenerational transmission of human capital described above. Education systems across the region, especially early childhood, secondary and higher education, are still far from closing socioeconomic gaps and serving as infallible allies of intergenerational mobility. There are three key reasons for this: low quality of basic education services received by children and young people from the most disadvantaged families, high levels of school segregation across the region, and limited access to and insufficient quality of higher education.

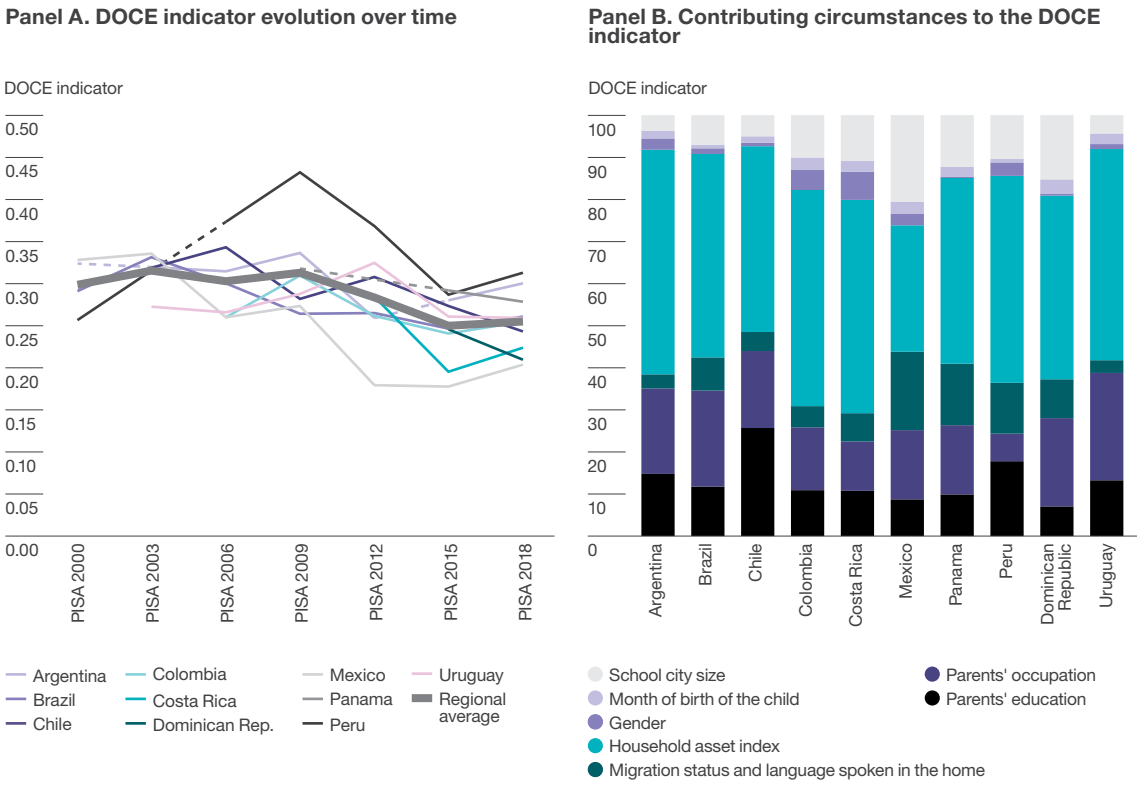
Quality

Students in Latin American and Caribbean countries have some of the lowest average scores on international standardized tests. The problem is not limited to low average quality. There are also strong socioeconomic disparities, with children from high socioeconomic households scoring significantly higher. The socioeconomic gaps in quality may partly result from schools' limited room for action, given that young people's learning is already conditioned by the investments made by parents at home or by environmental circumstances such as place of residence.

An estimate of inequality of opportunities in educational quality (DOCE, for its acronym in Spanish) contributes further evidence. This indicator was created based on test scores from every edition of the OECD's Programme for International Student Assessment (PISA), taken by 15-year-old students from a broad sample of countries, including some in the region. Panel A in Graph 15 shows that inequality of opportunities in Latin America and the Caribbean has remained high over time, with an average value for the period 2000-2018 showing that circumstances beyond the students' control account for almost 30% of the test score differences. This value is higher than that observed in OECD countries, even though inequality of opportunity in Latin America and the Caribbean is probably underestimated because the PISA study does not include a large number of the region's young people from disadvantaged backgrounds who drop out of the education system at age 15. The stability of the DOCE indicator in recent decades contrasts with the relative improvement in

measures of educational mobility that are based exclusively on years of education completed by parents and children. This contrast may explain, in part, why, despite the increase in educational coverage, large socioeconomic gaps in human capital persist. Panel B in Graph 15, using data from PISA 2018, shows that household wealth is the biggest contributing circumstance to inequality of opportunity, followed by parents' level of education and occupation, two circumstances that also define families' socioeconomic status.

Graph 15
Inequality of opportunities in education quality (DOCE, for its acronym in Spanish) in Latin America and the Caribbean



Note: Panel A reports the time evolution of the index of inequality of opportunities in education quality (DOCE) for the Latin American and Caribbean countries participating in at least one edition of PISA (math scores). The DOCE indicator in the graph follows the methodology proposed by Ferreira and Gignoux (2014) and calculates R2 for an ordinary least squares regression, where the independent variables are indicators of seven types of circumstances: gender; parents' education and occupation; migration status and the language spoken in the home; a household asset index, the month of birth of the child, the size of the city where the school is located. Dotted lines represent estimates based on a linear interpolation of the series in the respective country, given that not every country participated in PISA in intermediate years. Panel B shows a decomposition (Shapley method) of the relative contribution of each circumstance to the variability of the DOCE indicator value calculated for each country using the PISA 2018 test.

Source: Authors based on data from PISA 2000-2018 tests (OECD, 2000, 2003, 2009, 2012, 2015[a], 2018[a]).

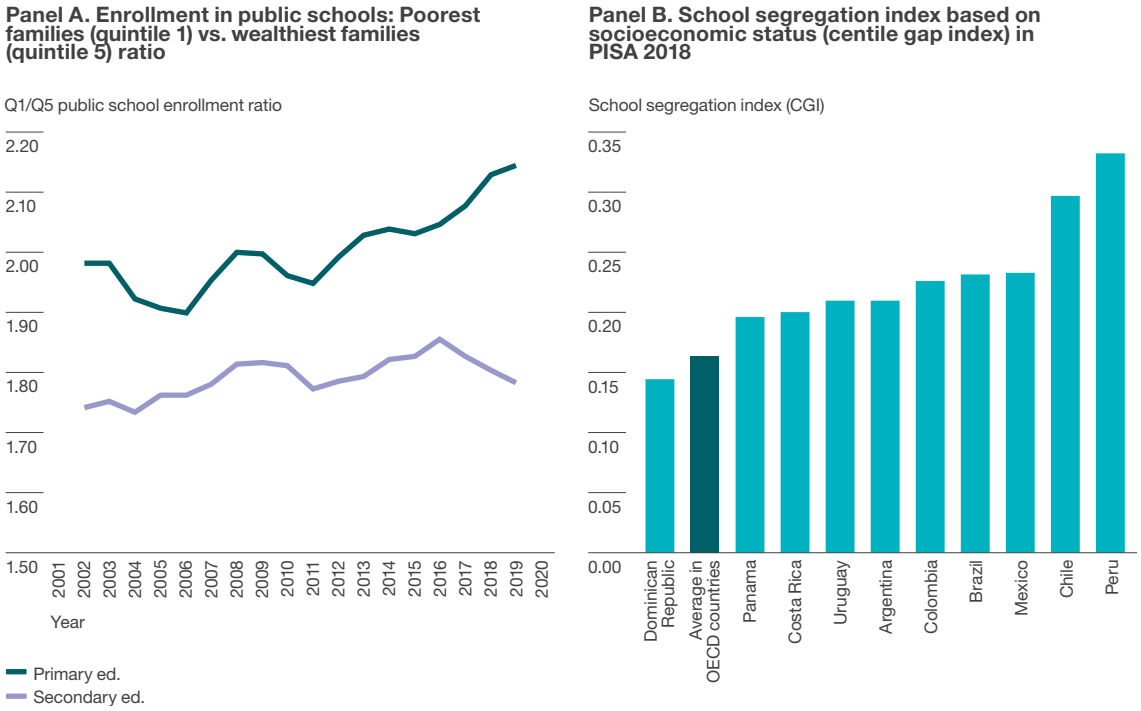
Segregation

School segregation results from parents choosing the best school for their children, considering budgetary, information, cognitive-behavioral restrictions, and other restrictions related to their place of residence and cultural preferences. In addition, these choices are contingent on accessibility to the supply of educational services and, fundamentally, on the differences in curricula and quality that public and private alternatives may offer. It is natural for certain levels of socioeconomic school segregation to arise in places with high socioeconomic inequality and spatial segregation, where transportation costs are also high within the cities. Therefore, more advantaged parents tend to pay more to send their children to schools that offer higher quality or more diverse education services, while poorer parents usually cannot choose any other option than the public school closest to where they live. When this segregation based on the parents' socioeconomic status is significant or when differences between the available public and private schools are substantial, the intergenerational persistence of human capital may be higher. This is the result, for example, of a higher concentration of students from disadvantaged households in schools that provide poorer educational services or the different types of peer effects that operate in schools.

Evidence across the region suggests that school segregation according to socioeconomic status is high and on the rise. On the one hand, enrollment in both primary and secondary public schools reflects a striking difference based on family income. Graph 16 shows that the rate of enrollment in public education is substantially larger (almost twice) among students from the poorest quintile (Q1) than among those from the wealthiest quintile (Q5). In addition, the differences are bigger in primary school than in secondary school, with primary school showing a rising trend over time. Panel B presents a socioeconomic segregation index called centile gap index (CGI). The index equals 1 in countries where schools are completely segregated and 0 in the opposite case. The index in Latin American and the Caribbean countries is significantly higher than the average in OECD countries, with the sole exception of the Dominican Republic. In fact, two Latin American countries (Peru and Chile) show the highest segregation index among the 78 countries participating in the 2018 PISA test. Moreover, a comparison of the values of this index from 2000 to 2018 indicates that segregation in the region is not only higher than in developed countries, but, unlike the stability observed in the OECD average, it has increased in the last two decades.

Peer effects in schools can take many forms. On the one hand, they can affect learning. When there is high segregation, students who were more likely to accumulate skills before school age are concentrated in a few schools and the chances of positive spillovers to less advantaged students are significantly reduced. Beyond its possible effect on learning, school segregation by socioeconomic status implies that rich students' networks are mostly composed of rich people and poor students' networks are mostly composed of poor people. This can affect other dimensions of human capital, such as socioemotional skills or health. Other channels may be involved too: segregation can favor the transmission of certain attributes within each segregated group, related to information availability, identity or preferences. These, in turn, can impact investments in human capital or the return on these investments. This means that peer effects at school will condition the social capital that students can build during their school years. Recent studies conducted for developed countries suggest that these forms of segregation and their consequent impact on social capital are major mechanisms behind the intergenerational persistence of social status.

Graph 16
School segregation indicators



Note: Panel A shows the evolution of the ratio of the enrollment rate in public schools between students from the lowest quintile of the family income distribution (quintile 1) and students from the wealthiest quintile (quintile 5). The growing value of the ratio indicates that the poorest families are increasingly choosing public schools in relation to the choices made by the wealthiest families. Enrollment rates by level of education were taken from the SEDLAC database, which standardizes this type of indicator based on household surveys in 18 countries in the region. Ratios are presented as three-year mobile averages for the period 2000-2019. Panel B presents the average of a socioeconomic segregation indicator (centile gap index or CGI), calculated using a household socioeconomic variable (highest parents' socioeconomic index or HISEI) provided by PISA (2018 edition) for the Latin American and Caribbean countries that participated that year and for the average of OECD countries.

Source: Authors based on data from SEDLAC (CEDLAS and the World Bank, 2021) and PISA 2018 (OECD 2018a).

Racial or ethnic segregation is another troubling type of school segregation in the region. The results of an experiment conducted as part of ECAF 2021 show that parents who do not identify with certain ethnical minorities are less likely to send their children to schools with a high proportion of students from these ethnic groups.

Barriers after basic education

Basic education systems in the region are plagued by quality and segregation problems, which hinder basic skill formation among children from disadvantaged families. Technical and vocational education, along with university education, should supplement this basal level of skills with more sophisticated competencies valued by labor markets to facilitate people's productive and social integration during adulthood. To this end, technical and vocational and higher education face the

big challenge of broadening regional coverage without neglecting quality and the relevance of the education services they provide.

Technical education in several countries in the region has shown an interesting potential to address these challenges, with flexible offerings that adapt to changing labor market demands and wider coverage that have made it possible to close geographic gaps, for example. However, enrollment in this level of education remains relatively low in most countries, showing a generalized restriction in the supply of technical education services despite some countries' efforts. According to estimates for several countries in the region, technical and vocational education shows one of the highest levels of intergenerational persistence, i.e., many children of parents who followed this educational pathway will follow it too. This persistence can be partially explained by the sectoral composition and the supply of this type of education at the place of residence, factors linked to the intergenerational transmission of occupations, and additional factors such as family preferences or knowledge about available educational offerings. The aforementioned explanations highlight that there is room for action for policies to expand the supply of technical-vocational education across the region.

Regarding university education, the rate of university graduates in Latin America and the Caribbean is very low compared to the developed world. Although returns on higher education are substantial across the region, upward mobility in university education is very low (Graph 4). This can be partially explained by a slow increase in university enrollment of people from poorer households. There is ample evidence that this situation is caused not only because students accumulated fewer skills during basic education but also, to a large extent, due to financial restrictions. In addition, cognitive-behavioral restrictions, including a lack of clear and timely information about returns on investment in higher education and financing costs, act as barriers against upward mobility at this level. Another factor that conditions intergenerational mobility in higher education is the regional disparity in access to university educational offerings. That said, the expansion of university campuses into smaller cities in recent decades in some countries has reduced disparity to some extent.

Given this scenario, expanding the coverage of higher education, while keeping or improving the quality and relevance of educational services, poses a serious challenge for the region. The experience of countries that significantly increased university enrollment, whether as a result of access to financing or new offerings (in terms of curricula or geographic distribution) highlights interesting lessons. In particular, not all of this expansion resulted in options with positive educational returns in net terms; that is, in many cases, the costs of the investments exceeded the wage gains. This result signals the need to pay special attention to compliance with quality standards for new higher education offerings and the establishment of regulatory mechanisms to prevent excessive pricing by new educational institutions.

The role of the neighborhood in the mobility of human capital

Physical and social environments can condition the development of cognitive, socioemotional, and physical skills, especially in the first two decades of a child's life. Usually, children share these environments with their parents, which exposes parents and children to similar factors. Based on this mechanism, they may share a comparable level or types of skills. While the social environment conditions social interactions and, therefore, peer effects, the physical environment can limit or boost human capital accumulation through habitat quality, access to opportunities enabled by the infrastructure, and the supply of basic goods and services available in the neighborhood. For example, going to public squares, parks or sports centers can help people acquire healthy habits and integral physical development. Similarly, the use of local libraries and cultural centers can support

learning. If these safe spaces are equipped with the necessary infrastructure for social interaction to be productive, they will favor social integration dynamics and encourage the development of socioemotional skills.

However, neighborhood segregation typical in Latin America and the Caribbean is associated with situations where the poorest families not only share their place of residence with families with a similar socioeconomic status but also live in more marginal areas. These areas often lack the basic conditions for a healthy habitat and are far from the opportunities that cities offer to facilitate people's integral development. RED 2022 provides evidence about the relevance of the neighborhood or city of residence for the mobility of human capital across Latin America and the Caribbean. On the one hand, municipalities that offered the largest absolute upward mobility possibilities many decades ago are practically the same today. This geographic persistence is much bigger in some of the region's countries. On the other, there is causal evidence linking the possibilities of educational progress offered by cities with the mobility actually observed in the data. A decomposition of the measure of inequality of educational opportunities in 17 countries across the region also illustrates the importance of geography. These results suggest that geographic circumstances may account for about 25% of the inequality of opportunities in the number of years of education completed.

Work opportunities

Family origin is an important determinant of individual labor decisions and work opportunities, making the labor channel another source for the reproduction of inequalities. On the one hand, families determine an individual's characteristics that play a role in labor market performance. In addition to education—and human capital in broader terms—families determine other attributes, such as ethnicity and race, geographic location, and the place of residence within a city, all of which impact the opportunities and rewards offered by job markets. On the other hand, families, directly and indirectly, influence critical employment decisions, such as whether or not to actively participate in the labor market and, if they decide to participate, occupational choices, including whether to work formally or informally, the specific type of occupation, or the sector of activity.

The assessment in RED2022 shows that, in Latin America and the Caribbean, the socioeconomic status of the family of origin conditions the decision to participate in the labor market and the probability of being unemployed. It is also strongly associated with the quality of employment in dimensions such as the degree of complexity of the tasks involved, whether it is a formal job, or the wages paid. Differences based on the socioeconomic status of the families persist even when comparing workers from different socioeconomic family backgrounds with the same level of education and skills. They are particularly acute in the case of women. These results suggest that there are indeed labor market mechanisms that transcend the role of human capital. Moreover, they create an opportunity for policies aimed at improving the functioning of labor markets in the region in favor of greater intergenerational mobility.

The role of the family in job referrals and labor market decisions

The mechanisms that link individuals' labor market outcomes with their families' socioeconomic status are diverse. The social network and connections of the worker's family is a significant one. By using their network of contacts to make job referrals, families can help alleviate the difficulties workers and employers face in the job search and matching process. They can provide relevant information about the characteristics of the worker and the job. Thus, these recommendations help expand the pool and type of work opportunities, especially for those individuals whose parents have better jobs and contact networks in key areas. In Latin America, individuals from disadvantaged and advantaged families alike rely on family support to get a job. This implies a barrier to intergenerational mobility because families from a higher status can access better recommendations and contacts to get jobs.

An extreme case regarding the influence of families on their children's labor market outcomes is when they are employed by the same companies where their parents are working or used to work. The 2021 ECAF Survey shows that 7.5% of private sector employees have worked for the same employer as their parents, without significant differences based on family socioeconomic status.

Business inheritance is another way through which families have a direct impact on work options. According to data from the ECAF 2021, a high share of people who own a business inherited it, particularly among individuals from more advantaged backgrounds.

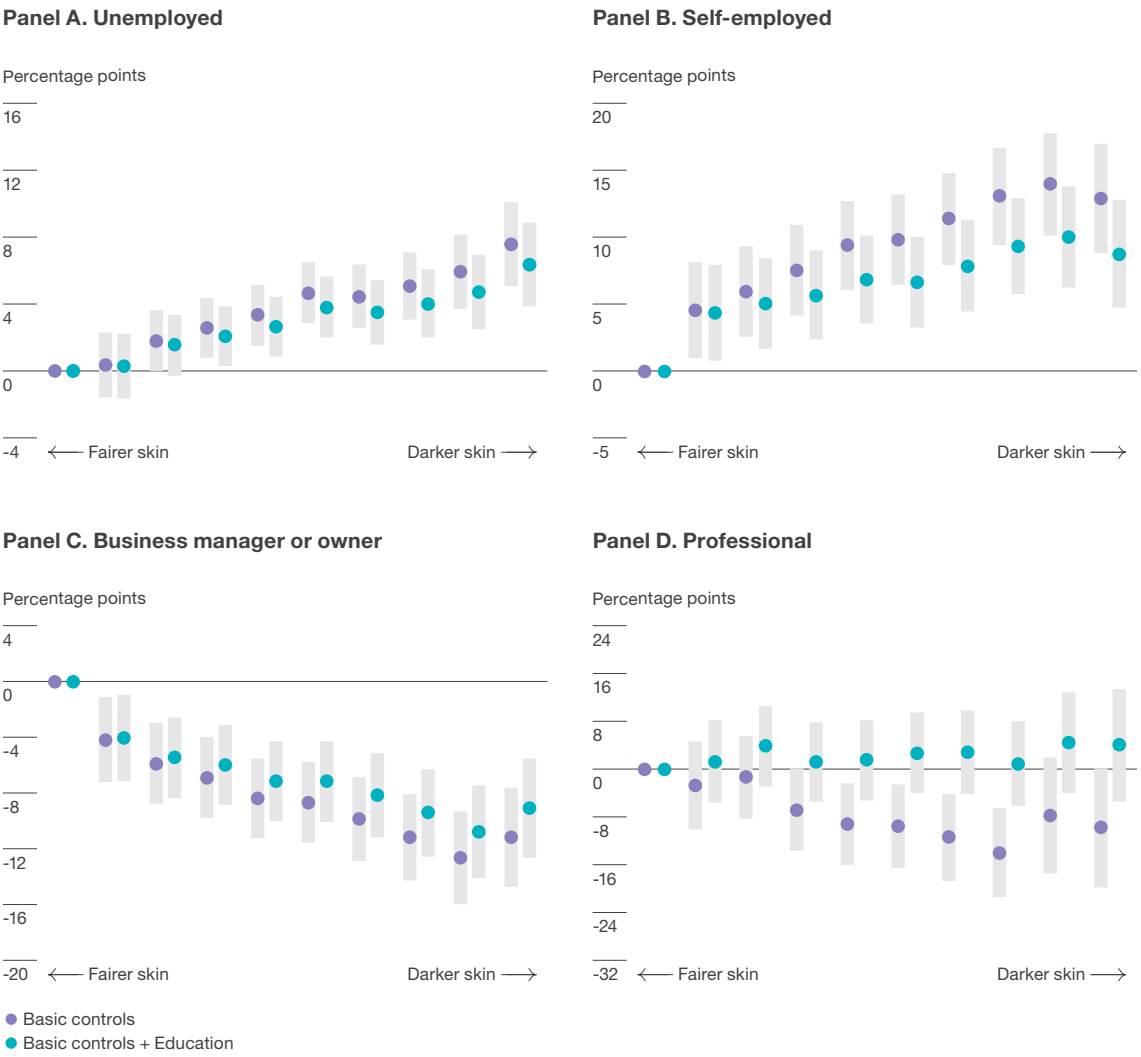
The family also conditions the decisions young workers made based on the information available to them and their parents' expectations regarding their children's labor market prospects. Unequal distribution of information about the quality of different types of jobs and the future potential of occupations can also be a mechanism for the intergenerational transmission of inequality.

Racial and ethnic discrimination in the labor market

Ethnicity and race are attributes transmitted across generations. As such, employment discrimination based on these characteristics is one of the mechanisms through which the labor market affects intergenerational mobility. Employment discrimination occurs when there are differences in labor market outcomes that are not due to disparities in workers' productivity.

Discrimination may originate in the preferences of employers, coworkers, or a company's customers, or it may be rooted in what is called "statistical discrimination". This can happen, for example, when workers of a certain ethnicity are less productive for reasons linked to historical disadvantages, and, in the absence of better information, an employer assumes low productivity is a characteristic of all workers of the same group. Discrimination against certain groups can also occur at earlier stages of life, for example, in formal education. As a result, workers from different ethnicities or races have different productive potential when they reach their working age due to lower levels of human capital. Moreover, because their efforts might not be later valued equally by the labor market, there is a lower incentive to improve productive skills during formal education, thus reinforcing these disadvantages.

Graph 17
Gaps in labor market outcomes by skin color



Note: The coefficients result from an ordinary least squares regression, where the dependent variable is a binary variable that indicates, according to the panel, if the individual is unemployed, self-employed (excluding professionals), a business manager or owner, or a professional. Independent variables are a set of binary variables named from 1 to 10 and identify the individual's skin color. Fairer skin color is the variable omitted in the regression. A 95% confidence Interval is used. The basic controls are binary variables of gender, age, country, and year, while the second set of controls adds the binary variables of the individual's education to the first set. Sample years are 2010, 2012, 2014, 2016, 2017, 2018, and 2019. The countries included are Bahamas, Barbados, Belize, Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Peru, Suriname, Trinidad and Tobago, and Uruguay.

Source: Authors based on data from LAPOP's Americas Barometer (www.LapopSurveys.org).

Evidence in the report shows that the labor market contributes to the intergenerational reproduction of the historical disadvantages suffered by Afro-descendant and indigenous groups across the region. Labor discrimination and a higher presence of Afro-descendants and indigenous people in less

productive sectors and firms help explain this fact. Part of the evidence is based on an analysis of data from the Americas Barometer survey, conducted by the Latin American Public Opinion Project (LAPOP). The report reviews how labor market outcomes differ according to the skin color of respondents in 21 Latin American and Caribbean countries (Graph 17). Results suggest that, on average, the darker the skin color, the higher the likelihood of being unemployed or self-employed, and the lower the probability of reaching management positions, owning a business, or getting professional or technical jobs. A systematic analysis of the literature suggests that part of the gaps in employment outcomes based on ethnicity and race are due to educational gaps based on these same identity traits.

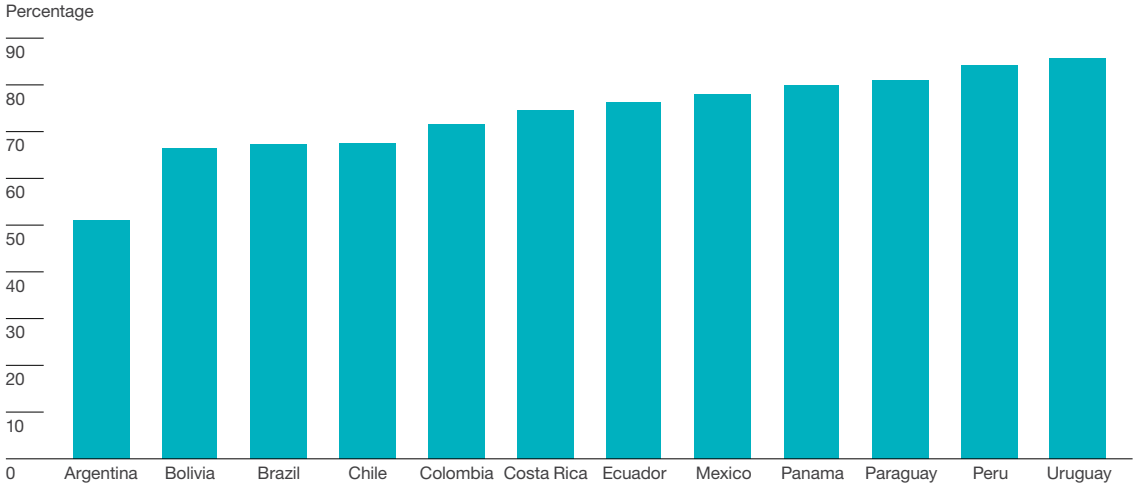
The intergenerational persistence of geographic location and labor market outcomes

In a world where there are enormous productivity and employment differences between neighborhoods, cities, and regions, the geographic location of parents conditions the employment opportunities of their children. For geography to effectively play a role in the persistence of employment opportunities between generations, there has to be a certain degree of persistence in location between parents and children. There also must be differences in economic opportunities between locations. This mechanism of transmission of inequality is paramount in Latin America and the Caribbean, as both characteristics are markedly present throughout the region.

Based on data from official censuses in six countries of the region, the report shows that, on average, slightly above half of the population aged 18-65 live in the same municipality, department, or location where they were born. Large cities display even higher values. Hence, most adults in these countries reside in the same labor market as their parents. Wage gaps between rural and urban zones, in turn, average 40%. Differences are even bigger between high and low-productivity cities, as shown in Graph 18. The magnitude of the wage gap between this group of cities remains even when discounting for differences in the characteristics of workers and firms in both locations. In general, cost-of-living differentials between regions or between cities do not go far enough to offset these wage differences.

Location within cities constitutes an additional mechanism for the reproduction of inequalities. Similarly to intergenerational persistence across cities, a good part of the new generations lives in the same neighborhoods as their parents. In the 2016 ECAF survey, for example, 45% of respondents stated they live in the same neighborhood as their parents and 34% indicated that they live in the same home as their parents. This persistence of location is key for the reproduction of inequality in Latin American and Caribbean cities because formal employment tends to be highly concentrated in one or a few neighborhoods. Thus, commuting distances to the workplace can vary considerably depending on where the place of residence is located within the city. Even when people do not live in the same neighborhood as their parents, the inheritance of wealth—which is very different in terms of quantity and types of assets for groups from different socioeconomic levels—also conditions the chances for new generations to live in areas of the city closer to formal jobs. This spatial distribution of jobs and residences, combined with the region's urban mobility deficit and housing shortage, means that workers from outlying neighborhoods have fewer opportunities to access quality jobs.

Graph 18
Wage gaps between cities with higher and lower wages



Note: The reported wage gaps are the result of an ordinary least squares regression, where the hourly wage is the dependent variable and the city binary variables are the independent variables. The gap reflects the ratio between average hourly wages across the three cities with the lowest wages and average hourly wages across the three cities with the highest wages in each country. The reported wage gaps are statistically significant at 1%. Data correspond to 2019, except for Bolivia and Mexico data, which are from 2014 and 2018, respectively.

Source: Authors based on data from CEDLAS (2020).

Unequal protection against adverse employment shocks

Today's labor markets are highly dynamic. The sum of jobs that can be created and destroyed in one year in five of the largest countries in the region equals 30% of existing formal employment, on average, 5 points more than in OECD countries. While a part of this dynamism comes from the normal operation of the search and matching process, another portion is associated with shocks suffered by specific companies, sectors, or even economies as a whole, that change job demand.

Workers from more disadvantaged family contexts not only face worse labor opportunities than those from advantaged families, but they are also more vulnerable to the risk of job loss. The weakness of social protection mechanisms in the region and the limited capacity of their families to accumulate savings to cushion the consequences of these shocks put these workers at an even greater disadvantage. In Latin America and the Caribbean, these groups have been particularly exposed to the negative effects of technological change. For example, they were much more affected than the rest of the population by the economic consequences of the COVID-19 pandemic and the multiple macroeconomic crises in recent decades.

Accumulation of wealth

Two individuals with similar skills making a similar effort are expected to reach, under equal opportunity conditions, comparable levels of wealth and wellbeing throughout their lifetime. However, parents' wealth tends to have a very important influence on their children's wealth and wellbeing. Although part of wealth persistence originates in the persistence in education levels and labor market outcomes, there are other significant mechanisms that render the intergenerational transmission of wealth another important channel for the reproduction of inequality.

The levels of wealth inequality have been barely explored in the region, in part because of the scarcity of information available to characterize the type of assets held by households, as well as their valuation. The report provides a detailed characterization of the wealth, knowledge, and use of financial instruments by households of different socioeconomic statuses in some countries in the region, which provides a better understanding of the mechanisms behind the intergenerational persistence of wealth.

This outlook shows a high concentration of wealth—greater than income concentration—across the region. Certain assets, such as financial assets, are more concentrated than real assets. The report highlights that not only do wealth levels vary among groups of different socioeconomic levels, but their asset portfolio composition also changes. For the bulk of the population, housing is by far the biggest asset as a percentage of total wealth, except for the poorest, who find it increasingly difficult to own their own home. Among the wealthiest, the main residence is also paramount but its incidence is lower compared to middle-sector groups, as their share of more sophisticated financial assets increases. In some countries, the share of financial assets in total wealth of the poorest groups also rises, but they are mostly composed of liquid assets (such as cash or deposits). Assets related to owning a business have a higher incidence among the richest. In some countries, they also represent an above-average share among the lowest strata, possibly because of the importance of microenterprises.

In terms of housing, a relevant difference between wealthier and less wealthy households is, in addition to quality, the formality of ownership, which is more likely among the wealthiest. This can determine how fungible this type of asset is in practice. Finally, financial knowledge correlates with the socioeconomic gradient observed in the use of financial instruments in the region, although there is a general lag with respect to more advanced economies, largely due to the underdeveloped financial markets.

Inheritance

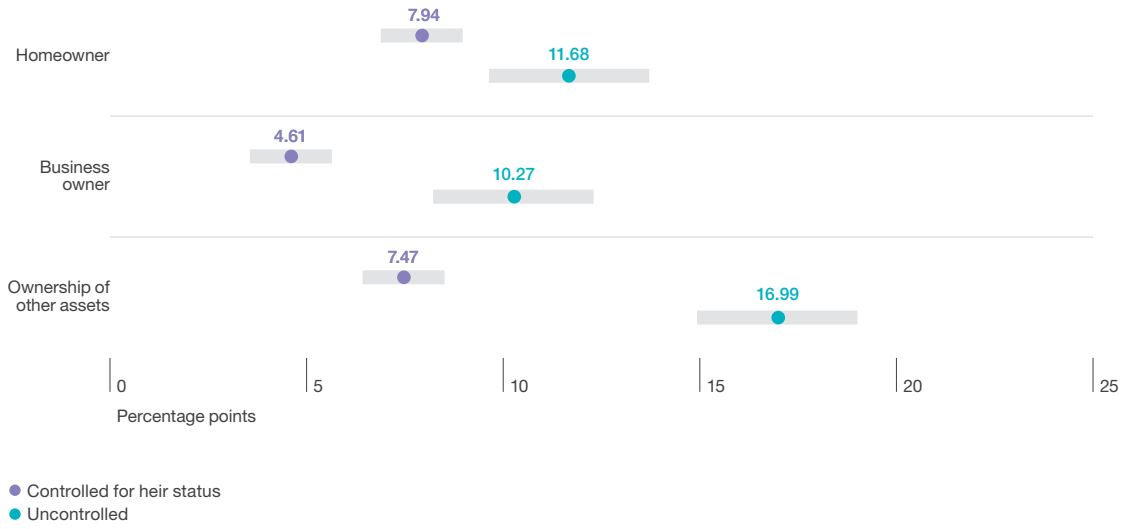
The most direct mechanism connecting parents' and children's wealth is inheritance. Wealth distribution is very unequal; hence, this mechanism is key to the perpetuation of intergenerational inequalities. As in other parts of the world, leaving an inheritance is usual in Latin America and the Caribbean. According to data from ECAF 2021, a large proportion of home, business, and other asset owners in the region report having received these assets as part of an inheritance and there are no differences regarding the family's socioeconomic status.

The report reveals the importance of inheritance as a mechanism of intergenerational persistence, based on new information in ECAF 2021 about assets held by parents and their children and inheritances. Graph 19 presents the coefficient of intergenerational persistence of asset ownership, which measures the likelihood that an individual possesses a certain asset given that their parents

own this type of asset, compared to an individual whose parents do not. The difference in this probability is between 10 and 17 percentage points, depending on the type of asset considered, when not taking into account whether the child received that asset as an inheritance. This difference is reduced—although it is still statistically significant—when the condition of having inherited the asset is controlled for. This result reinforces the idea that inheritance is a key mechanism for the reproduction of wealth inequality.

The report documents that the role of inheritances can be amplified depending on certain characteristics of the family economy and, as such, become key for the intergenerational persistence of wealth. These factors include fertility, marital unions and separations, and, within marriage, the union between individuals of similar wealth.

Graph 19
Coefficient of intergenerational persistence and the role of inheritance



Note: This graph shows the coefficient of persistence of ownership of a home, a business, and other assets (a second home, business facilities, or land). "Uncontrolled" coefficients result from asset-specific ordinary least square regressions (home, business, or other assets), where the dependent variable is a dichotomous variable that indicates whether the child owns the specific asset and the independent variable is a dichotomous variable that indicates whether one of the parents owned a similar asset. "Controlled for heir status" coefficients add to previous regressions a variable that indicates whether the child inherited the specific asset under analysis. "Homeowner" indicates whether the individual answered 'yes' or 'no' when asked whether they owned the asset; "business owner" is a variable that shows whether they answered that they were owners or employers when asked about work activity; "ownership of other assets" answers the question about whether they own a second home, business property, or land. Inheritance variables stem from direct questions about whether asset ownership was inherited. All regressions include as basic controls the child's gender and age group (below 40, from 40 to 50, over 50), marital status, the highest level of education attained by the parent and the child, and whether the child pays social security contributions (i.e., if formally employed). Only individuals over 30 years of age from Asuncion, Bogota, Buenos Aires, Mexico City, Lima, Montevideo, Panama City, Quito, and São Paulo were considered for the estimates.

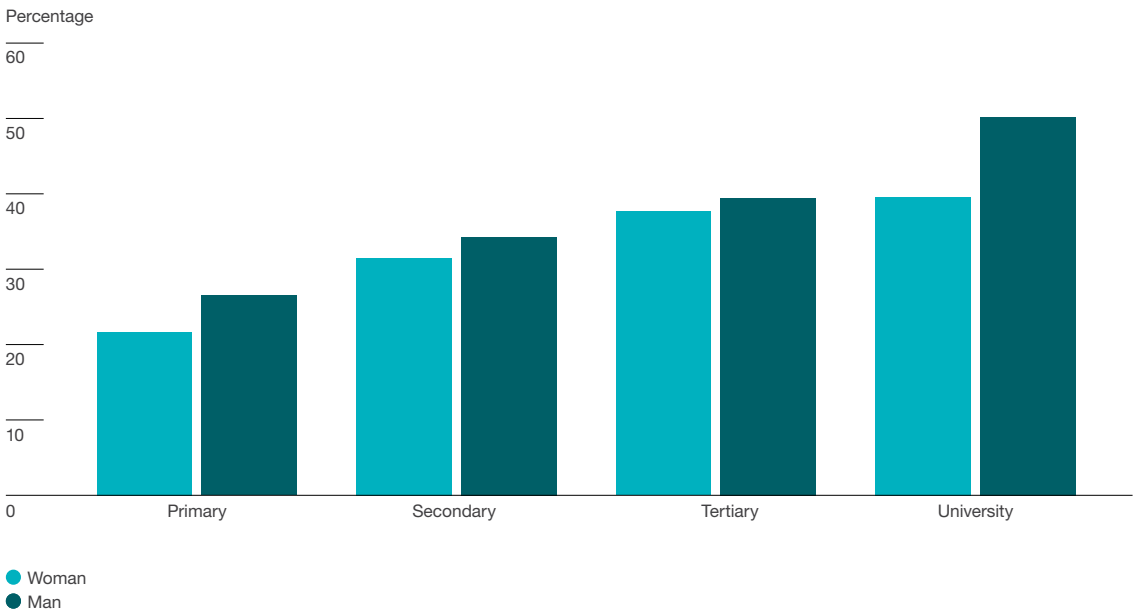
Source: Authors based on data from ECAF 2021 (CAF, 2022).

Transfer of financial knowledge, value, and skills

Certain characteristics of parents can impact their children's financial behavior and skills (e.g., the value they give to savings, their level of financial knowledge and sophistication), and the characteristics of their investment portfolios (e.g., return, liquidity, risk). According to international evidence, lack of financial knowledge could be one of the main drivers of inequality in the distribution of wealth.

Financial literacy is very limited in the region and has a clear socioeconomic gradient. Moreover, it tends to be even lower among women than men. This is documented in the report based on CAF financial skill measurement surveys. From the perspective of intergenerational persistence, the lag of women is relevant given the incidence of single-parent homes where women are the heads of the household. Financial literacy aside, there is evidence that certain personality traits that impact asset accumulation-related decisions, such as risk-seeking behavior, are transmitted from the parent to the child, opening up another channel for the transmission of inequalities regarding wealth accumulation.

Graph 20
Percentage of financially literate people by gender and level of education



Note: This graph shows the percentage of people who answered correctly at least five of the seven questions asked to measure their knowledge about concepts related to inflation (two questions), diversification (two questions), and interest rates (three questions), by education and gender. Values are the simple averages across seven countries in the region in the most recent years available from the CAF Financial Skill Measurement surveys: Argentina (2017), Bolivia (2013), Chile (2016), Colombia (2019), Ecuador (2013), Paraguay (2017), and Peru (2019).

Source: Authors based on data from CAF financial skill measurement survey (CAF, 2019).

Limited access to credit

Across the region, difficulties in the access to credit, in general, and mortgage market imperfections, in particular, are two additional causes that increase children's dependence on family wealth for asset accumulation. Evidence presented in the report shows that the coefficients of intergenerational persistence of homeownership are lower in regions within countries and cities with higher loan penetration, suggesting higher intergenerational wealth mobility. In other words, failures in credit markets across Latin America and the Caribbean prevent them from acting as a source of opportunities for people from more disadvantaged contexts.

Vulnerabilities and lack of insurance

Exposure to shocks as a result of natural disasters, illness, and macroeconomic instability can impact asset accumulation and, in some cases, lead to poverty. Macroeconomic stability has been recurrent across the region, but natural disasters could become a major concern in the future as factor that increases inequality. Latin America and the Caribbean is one of the most natural disaster-prone regions in the world. Given the effects of climate change, these can be expected to increase in frequency and severity. Health shocks are also a source of significant financial risk for households in the region. Poor families are more vulnerable to all these shocks not only because their exposure is higher but also because they have limited access to mechanisms that allow them to insurance against them. Moreover, as shown in the report, this heightened vulnerability, in part, stems directly from the level and composition of their assets.

Vulnerability to these risks impacts the intergenerational persistence of wellbeing. Shocks can affect transfers between parents and children, reducing, for example, the amount of an inheritance, and even changing the direction of lifetime transfers, with children having to assist their parents, thus reducing their ability to save. The evidence presented in the report shows that having a parent with poor health status is associated with a substantial increase in the probability that children will make monetary and time transfers—through care—to their parents. In addition, this channel is reinforced by the intergenerational persistence normally observed in vulnerabilities to these shocks (such as persistence in health conditions and access to health insurance), which often originate in inertia stemming from informal employment condition.

More opportunities to foster social mobility

Lack of opportunities to build human capital, find good jobs in labor markets, and accumulate assets are key underlying factors behind the reproduction of inequalities. The report presents extensive evidence that opportunities in these three areas in Latin America and the Caribbean are very unevenly distributed across people from families of different socioeconomic statuses. In this regard, policies that level opportunities in these three areas are critical to improving mobility prospects for new generations. The assessment in RED 2022 highlights that a better targeting of policies focused on groups that have systematically been left behind—those from the most disadvantaged families,

Afro-descendants, indigenous peoples, and those in regions of the country or areas of cities that lag behind—is indispensable for these groups to overcome the barriers they face and achieve greater social progress.

Leveling the playing field in the first two decades of life

There is an ample range of policies that can help reduce inequalities throughout the skill formation process. This policy menu can be grouped into three categories: interventions that impact parenting in the home, those that affect human capital formation outside the home, and those that provide adequate insurance against risks to shield the investments made by families inside and outside the home.

Continuing to increase availability of formal education is essential for a policy agenda that seeks to promote social mobility. The region needs to improve both the coverage and the quality and relevance of basic, technical-vocational, and higher education. Policies that help families soften the main restrictions they face when investing in children and adolescents in the home can also drive intergenerational mobility. They include not only those that relax financial constraints but also cognitive-behavioral and insurance limitations.

The understanding that the gradient in investments is not only due to financial restrictions is of vital importance for public policies aimed at supporting and accompanying the most vulnerable families in the parenting process. These policies should include integral support options with some low-cost components that go beyond transferring monetary resources to families to take them out of poverty even if only temporarily. An issue that requires special attention in the region is parenting practices that help families not only create a more nurturing environment inside the home but also implement simple yet effective practices for the proper nutrition and early stimulation of their children sooner rather than later.

Given the importance of the environment in human capital formation and the high levels of spatial segregation in the region, policies that promote social mobility should strengthen the environmental conditions where children and the young spend their daily life. For the most segregated and disadvantaged neighborhoods, these include improving access to urban equipment that is key to human capital accumulation or that can eliminate from the environment risks imposed by shocks associated with conflict, violence, and natural disasters.

The region must also continue its efforts to ensure basic universal health coverage, with a focus on maternal and child health. An essential set of interventions includes prenatal and pediatric checkups, early childhood vaccination, and nutrition policies.

Labor markets that promote mobility

Policies to foster more opportunities in labor markets are diverse. As general guidelines, they should aim to level the productive potential of workers, make more equitable the treatment in the labor market for people with different productive potential or certain characteristics for which they suffer labor discrimination, and assist people from more disadvantaged backgrounds to make better employment decisions. There is a wide spectrum of policies and interventions for meeting these goals, ranging from low-cost alternatives to those with structural requirements that involve a greater allocation of funds.

The first group includes active labor market policies, including training, apprenticeships, and job search assistance. These are aligned with the three broad guidelines to ensure labor policies improve mobility. Evidence of their success suggests that they should be allocated more funding and focus on disadvantaged populations, such as Afro-descendants, indigenous people, and residents from outlying neighborhoods.

To a large extent, leveling employment opportunities requires decreasing inequalities across regions. This goal could be achieved by providing regions with basic urban infrastructure and facilities for the provision of education, health, public safety services, and social transfers. Even though these interventions do not seek to fully equalize productivity across different areas—which would be too expensive and not always cost-effective—they can help maximize the development of each region's productive potential, while guaranteeing minimum levels of welfare for the entire population in dimensions related to these infrastructures. Migration to more productive areas can also be a way of reducing inequalities and can be facilitated with information interventions, apprenticeships, and affordable housing.

The very high rate of urbanization in the region holds great potential for policies that equalize job opportunities between city neighborhoods. This primarily involves investments in mass public transportation to shorten daily commutes to jobs. Urban planning and housing policies also have a role to play.

Finally, enhancing the development of universal social protection against unemployment can give workers and their families more protection against adverse shocks, so they can spend more time improving their human capital and searching for a job. Wages and employment protection regulations can also be used as tools to improve the labor market outcomes for disadvantaged populations.

Equal opportunities to diversify and improve asset quality

Based on the analysis of wealth distribution, the differences in portfolio composition and financial literacy of households of different socioeconomic statuses, and the persistence of wealth between parents and children in the region, five policy actions can be identified to promote greater intergenerational mobility: inheritance taxation, the development of mortgage credit markets, property titling, the promotion of financial literacy, and strengthening social protection arrangements.

The region collects relatively little inheritance tax, which opens a space to explore alternatives for the use of this redistributive instrument. The report recognizes that the design of these taxes is critical and poses specific challenges. For example, the tax treatment of inheritance and transfers between living individuals should be aligned, but this is not always the case. Misalignment favors the wealthiest, who have savings or assets that can be liquidated more easily at any given moment.

Access to mortgages is very limited in the region. Its expansion could improve intergenerational mobility in different ways, provided that it is properly focused on the groups with the greatest difficulties in accessing housing, that it helps to improve its quality, and that it takes into account the property's location to improve access to opportunities. These aspects have not always been addressed by efforts to expand access to housing credit in the region. In addition, it is important to bear in mind that these policies may imply a transfer of rental income to homeowners through price increases. Of course, certain requirements will favor stronger mortgage markets, such as macroeconomic stability, sound legal rights, the quality of credit rating systems, and efficient property registration processes.

Reducing the high incidence of informal housing ownership among the most disadvantaged groups would also lead to big benefits for increasing multiple dimensions of wellbeing. Property titling programs lead to more housing investment and improvements in health and the labor market. Lower registration costs—monetary and non-monetary—are key to fostering and sustaining formal ownership over time.

Financial education in conjunction with the implementation of other policies for access to financial services aimed at the most vulnerable is necessary to reduce the significant gaps observed across the region in both dimensions.

Finally, there is an ample range of policies that can mitigate the impact of health shocks and improve intergenerational mobility, such as promoting healthy habits, improving the coverage and quality of social insurance, and developing long-term care policies for older adults.

Report on Economic Development 2022
Inherited Inequalities: The role of skills, employment, and wealth in the opportunities of new generations

The preparation of The Report on Economic Development (RED) is the responsibility of the Socioeconomic Research Division of CAF's Department of Knowledge. Lucila Berniell and Dolores de la Mata oversaw the editing of the report content, with the assistance of Cristian Bonavida. Ana Gerez was responsible for style and editorial corrections.

The chapters were written under the responsibility of:

Chapter 1 Lucila Berniell, Dolores de la Mata, and Ernesto Schargrodsky
Chapter 2 Lucila Berniell, and Dolores de la Mata
Chapter 3 Lucila Berniell, and Dolores de la Mata
Chapter 4 Guillermo Alves
Chapter 5 Fernando Álvarez

Latin America and the Caribbean is one of the most unequal regions in the world. This high inequality has deep roots, which have transformed it into a persistent phenomenon that is **transmitted from generation to generation**. The flip side of this phenomenon is low intergenerational mobility. This impacts not only equity but also other central aspects of the region's economic development, such as growth and political-institutional stability.

This new edition of the CAF's **Report on Economic Development** (RED 2022) analyzes the problem of persistent inequality from a new perspective, with a multidimensional diagnosis of the evolution of intergenerational mobility over the last century. The report identifies the main barriers to social mobility based on inequalities of origin, including family socioeconomic status, ethnicity, gender, and geography. The three central channels through which these barriers operate are human capital formation, access to quality jobs, and the possibilities for asset accumulation. To reduce the weight of **inherited inequalities**, the report proposes a wide range of policies to ensure access to better **opportunities for new generations**.

CAF DEVELOPMENT BANK OF LATIN AMERICA

2022 RED Report on Economic Development

www.caf.com