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"And Yet, It Moves": Intergenerational Mobility in Italy

Summary of results

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This short report summarizes the result of the paper (with the same title by the same authors), presented at the XIX European Conference of Fondazione Rodolfo De Benedetti, to be held in Ancona on May 27, 2017. We thank the Fondazione Rodolfo De Benedetti for financial support.

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Income mobility across generations is a key socio-economic indicator. It sheds light on the extent to which individuals with unequal initial conditions are presented with equal opportunities to succeed and, as such, it is considered a proxy for a fair and fluid society.

A common approach to the measurement of intergenerational mobility emphasizes *absolute* upward mobility and is especially interested in the economic performance of children from poor families to investigate the extent to which a society offers a chance to make it up to the top even to those who are, initially, at a disadvantage.

Other indicators emphasize *relative* mobility. These studies compare economic outcomes of children with different family backgrounds, and ask: what will be the income of children from low-income families relative to those from high-income families? Intuitively, relative mobility across generations is low if the position of a child within her income distribution is similar to that of her parents (for this reason, we also speak of *positional* mobility).

In spite of its centrality to the academic and policy debate, the body of empirical evidence on intergenerational mobility that economists have collected over the years is rather thin. The reason is that the data requirements are formidable. Surprisingly, very few publicly available datasets around the world have information that allows to link parents and their children and, at the same time, to construct reliable measures of their income.

Italy is no exception in this regard. There exists, so far, no study on intergenerational mobility on a national scale that uses high-quality data on incomes. Over the last decade or so, the empirical literature on intergenerational mobility has witnessed a strong revival thanks to the fact that economists have been able to access large administrative data in a handful of countries (e.g., United States, Canada, Denmark, Sweden, and Norway). These very large datasets have led to precise estimates of intergenerational mobility indexes and have opened the possibility to analyze upward mobility patterns, within countries, at a disaggregated geographical level. This variation has been exploited to learn about what socio-economic factors are strongly correlated

with upward mobility across regions.

In this paper we add to this recent wave of studies and introduce a new dataset that allows us to develop the first systematic investigation of intergenerational income mobility for the Italian economy. Our starting point is an administrative digital database on individual tax returns from the Ministry of Economics and Finance. From this data source, we extract a sample of two cohorts of Italians born, respectively, between 1942-1963 and 1972-1983 and we matched parents and children through their Social Security Numbers. Our final dataset contains nearly 650,000 parents-child pairs with detailed income information.

We organize our study of intergenerational mobility in Italy with these new data in three parts: national statistics, differentials in upward mobility across Italian provinces, and comparison of Italy to other countries.

We begin from the analysis of intergenerational mobility in Italy at the national level. We order parents according to their position in the income distribution and we split them in two equally-sized groups, which we call low-income and high-income. We then do the same ranking with children. Our estimates of intergenerational mobility reveal that children from low-income parents are expected to occupy a higher position within the income distribution compared to their parents, but typically children do not cross the threshold separating the two groups. In other words, a child from low-income parents is expected to move upward in the income distribution, but will still have relatively low income.

Our data also suggest that upward mobility is higher for male relative to female children and for first-born among siblings. Moreover, it is higher for children who, once adult, choose to move, within Italy, to a different province from the one where they grew up. So, geographical mobility begets social mobility.

We are also interested in assessing *relative* mobility and in particular whether mobility at the top of the income distribution differs from mobility in the rest of the distribution. For example,

we may think that belonging to the upper class of society yields better opportunities and will perpetuate social status across generations. We find that, while intergenerational income mobility is quite pronounced (both upward and downward) for children whose parents are not far from the middle class, economic opportunities become more unequal at the extremes. Specifically, as shown in Table 1, for every 100 children born from top-income parents (earning above 50,000 Euros), at least 35 of them remain in the top-part of the income distribution as adults. By contrast, out of 100 children whose parents are in the lowest portion of the income distribution (earning less than 15,000 Euros), only 10 of them will reach the top, once adults.

Parental Quintile	Child Quintile				
	1 st	2 nd	3 rd	4 th	5 th
1 st	27.27	25.78	20.98	15.55	10.42
2 nd	21.49	22.82	22.77	19.16	13.75
3 rd	18.96	20.14	21.44	21.82	17.65
4 th	16.79	17.14	19.83	23.05	23.18
5 th	15.49	14.11	14.97	20.43	35.00

Table 1 National Quintile Transition Matrix (%).

Put differently, consider two children, one from parents at the top of the national income distribution and one from parents in the bottom portion of the distribution. The parental gap in annual earnings, at the time when the children grow up, is around 35,000 Euros. The annual earnings differential for the children, when they become adults, will be on average around 10,000 Euros. So the initial gap will shrink, but it remains significant. Figure 1 documents the relationship between the position of parents within the parental income distribution, and that of their children within the distribution of child incomes. On the horizontal (vertical) axis, the parental (child) position within the parental (child) income distribution is depicted, from the poorest (position or

rank 0) to the richest (position or rank 100).

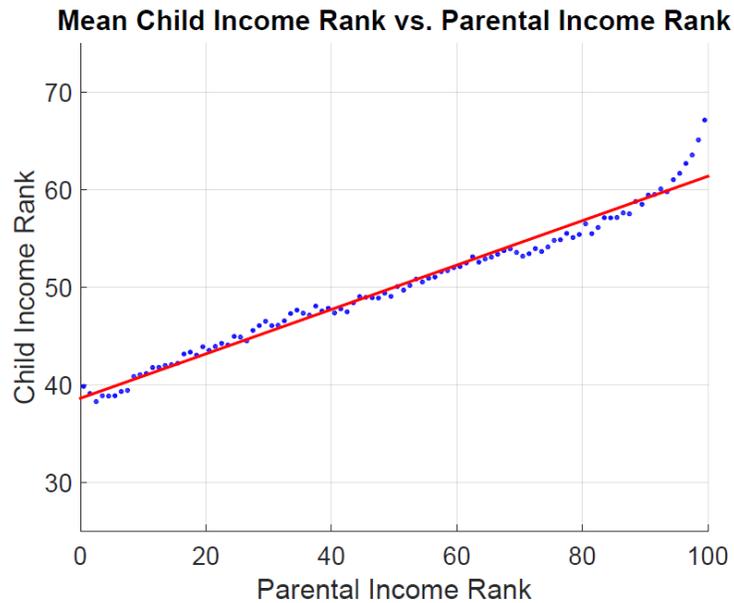


Figure 1 Plot of child mean rank conditional on parental income rank.

The figure shows, for example, that children from parents ranked 90/100 in the national income distribution will, on average, reach rank 60/100 as adults, whereas children from parents ranked 10/100, on average as adults will reach rank 40/100.

In the second part of the paper, we explore the geographical differences in intergenerational upward mobility across the 110 Italian provinces. We document a staggering amount of variation, with a steep South-North gradient, as depicted in Figure 2. Relative to the South of Italy, provinces in the North (especially the regions in the North East), are both more egalitarian —i.e., they display higher *relative* mobility— and more upward mobile —i.e., they display higher *absolute* mobility. In the North, children from parents with unequal background are more similar in their economic outcomes when adults, and children from poor parents fare better when adults.

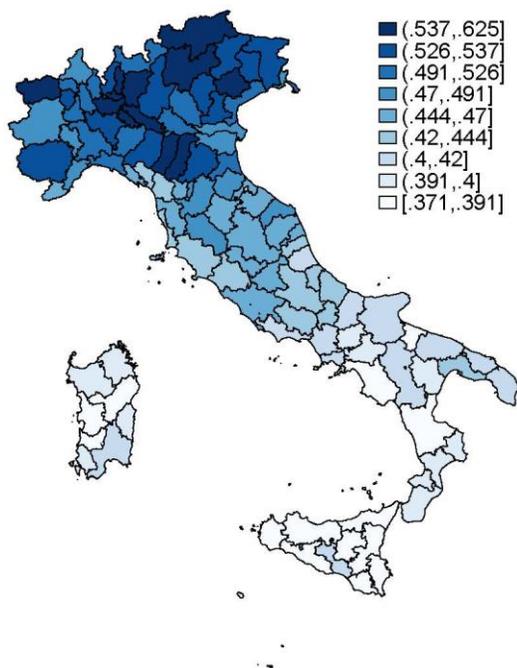


Figure 2 Heat map of absolute upward mobility across provinces. Dark areas are more mobile.

To give a sense of the magnitudes, compare the province of Bergamo (ranked 5th in terms of upward mobility) to that of Palermo (ranked 103rd). The probability of moving from the bottom to the top of the income distribution is 25% for children who grow up in Milan and 5% for those who are raised in Palermo.

Next, we investigate what socio-economic indicators are most closely associated with upward mobility, at the provincial level. Our data point to the importance of local labor market conditions, social capital, and certain measures of school quality. Crime statistics, instead, do not show a significant association.

Finally, we ask: how does the level of intergenerational mobility in Italy compare to that estimated in other countries? We find that mobility in Italy is higher than in the United States, but lower than in Nordic European countries.

In sum, our findings contain some good news and some bad news. On the one hand, they

paint a somewhat less pessimistic picture of intergenerational mobility at the national level, compared to many previous studies that tend to represent Italy as a paralyzed society. On the other hand, they reveal acute inequality in the degree of upward mobility within the country: the North-East appears to be a land of equal and abundant opportunities, and the South to be a land where ranks in society endure across generations. Improving school quality and labor market opportunities for young people could go a long way towards generating more upward mobility across generations.