

2020

## 36<sup>th</sup> IARIW General Conference

Paper Prepared for the 36<sup>th</sup> IARIW General Conference, Oslo, Norway, August 24-28, 2020

Social Mobility in Mexico: What Can We Learn from Its Regional Variation?

Raymundo Campos-Vazquez  
Marcelo Delajara  
Roberto Velez-Grajales

Inequality makes it more difficult to achieve higher social mobility (Great Gatsby Curve, see Corak 2013; Krueger 2012). Economic literature points to inequality of opportunity as the main mechanism behind the negative correlation between economic inequality and social mobility. Based on John Roemer's approach (1998), the high persistence of levels of life achievement across generations is explained by family circumstances, which are conditions beyond individual control, rather than by individual efforts. The consequence of a high level of inequality of opportunity is not only a high level of economic inequality, but also a lower rate of economic growth (Aiyar and Ebeke 2019; Marrero and Rodríguez 2013). Therefore, social mobility becomes an important outcome indicator of both economic success and social justice.

Until recently, there was a belief among economists that policies were better targeted at people than at places (Austin et al. 2018). However, with the spatial concentration of economic gains within countries and the associated social problems in lagging regions, there has been a reappraisal of the importance of place-based policies to achieve shared and inclusive growth (Shambaugh and Nunn 2018). This paper is a contribution to the recent literature on the importance of regional differences in economic outcomes and how inequality of opportunity shapes economic results for the case of Mexico.

In this paper, we estimate absolute and relative intergenerational upward social mobility across Mexican regions and states. We study social mobility of wealth using household surveys (Torche 2015b), exploiting two large social mobility datasets to compute wealth indices for men and women, 25-64 years old, and their parents. The indices capture the variation in household assets, home characteristics, appliances, access to services, and years of schooling, across households and generations. The analysis of social mobility relies on the comparison of the percentile rank of the interviewees in the current national distribution of wealth and that of their parents in the distribution of their generation (as in Chetty et al. 2014). We run rank-rank regressions at the national, regional, and state levels in order to estimate intergenerational persistence and absolute upward mobility.

At the aggregate level, social mobility is low. The intergenerational persistence rate of 0.62 is high. In terms of absolute upward mobility, those that were born in households at the 25th percentile reached, on average, the 35th percentile. There is also a high degree of persistence in the bottom and top quintile of the wealth distribution, at levels close to 50%. In comparative terms, Mexico shows substantially lower mobility than advanced countries like Canada, the United States, and other OECD countries.

In addition, there are large heterogeneities across states in Mexico. Absolute intergenerational upward social mobility is larger in the richer and more equal north than in the poor and more unequal south. While those who grow up in poor households (those in the 25th percentile of the national distribution of wealth in the previous generation) in the south remain as poor as their parents, those from equally poor households in the central and northern regions move up several percentile ranks in the national distribution of wealth from one generation to the next. Intergenerational persistence of wealth is also higher in the south than in the north. The case of Chiapas, the poorest state in the country, is especially noteworthy: adults are lower on the national distribution of wealth than their parents were (in the 25th percentile).

Comparisons of the social mobility estimates at the subnational level for Mexico and for Canada and the United States (using Connolly et al. 2019 and Chetty et al. 2014a,b, respectively) imply much lower mobility in Mexico. First, no Canadian province and only the U.S. states of Maryland and Mississippi have estimates of intergenerational persistence similar to the ones in Mexico. Second, close to 60% of the population in Mexico has an upward social mobility rate lower than the few U.S. states at the bottom of the social mobility ranking. Third, the heterogeneities in national social mobility estimates are larger for Mexico than for Canada or the U.S. In these developed countries a person's opportunities to move up the social ladder are determined less by where they are born.

Our analysis aims to uncover the key socioeconomic variables related to social mobility and inequality of opportunity across states in Mexico, which we believe will help suggest policy prescriptions for low mobility regions. The key covariates we find for intergenerational persistence are overcrowding of households, inequality in such overcrowding, and teenage employment. For absolute upward mobility, the most relevant variables are overcrowding, annual average growth of per capita GDP from 1990 to 2016, and teenage employment. Overcrowding could be related to parental investment (Heckman and Mosso 2014): parental inputs are key to developing cognitive and social skills in children. Similarly, the teenage employment variable reflects the opportunities offered to youth to remain in school or to have a quality first job. Finally, it is difficult to promote mobility if there is no inclusive economic growth. Chiapas, for instance, shows a negative average growth rate of per capita GDP from 1990 to 2016.