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A Broken Social Elevator: OECD Turns Spotlight on Low and Stalling Social Mobility

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The recent OECD report on social mobility, "A Broken Social Elevator? How to Promote Social Mobility", provides an interesting continuation of previous OECD work that has been documenting the trend rise in inequality over the past decades and its consequences (See Growing Unequal (2008), Divided We Stand (2011), In It together (2015)).

This new publication addresses in detail how inequality tends to regenerate itself over the course of a life-time as well as over the next generation. Its conclusions are striking:

- **Upward mobility for people with low-earning parents is so limited** that it would take four to five generations for children from the bottom earnings decile to reach the mean group in the 'average' OECD country;

- **Moving upwards from the bottom is also a problem within each generation**. Over a four-year period, one in three people remain stuck at the bottom 20% of the income distribution while another third only manages to move up to the next bottom quintile. When upward mobility does take place for the bottom 20% the OECD report finds that it is due to "unpredictable income change", not to sustained careers.

- **Since the 1990s, the trend in social mobility has been negative.** It has become less likely for people at the bottom to move up and more likely for people at the top to remain there. Floors as well as ceilings have become even 'stickier'.

- **High and rising inequality weakens mobility.** Higher mobility, both over the course of a life-time, as well as across generations, is associated with lower inequality. This implies that the trend increase in inequality which has been observed in OECD countries over the past decades, besides being a concern in its own right, will most likely impede upward social mobility for the future generations. .

Moreover, the OECD **does not try to downplay the problem to one of 'perception'**. Indeed, the report not only signals that people are becoming more pessimistic about the chances of improving themselves over their life-time and that they increasingly think that parent's financial situation plays a major factor in people's lives. It also documents that "these perceptions do somewhat square with actual measures of social mobility".[i]

Policy matters

The report stresses that there is nothing inevitable about income distribution floors and ceilings being persistently "sticky". The fact that there are large differences in mobility outcomes across OECD countries indeed strongly suggests that policy can and indeed should intervene to improve things.

Here, the OECD is calling for a range of policy measures to break the vicious cycle of unequal outcomes generating unequal opportunities: (i) education to support social mobility by avoiding unequal opportunities; (ii) public investment in health with access to health insurance for all households; (iii) family policies to level the playing field for all children; (iv) tax policy to affect wealth accumulation.

The report also underlines the **importance of social benefit and assistance schemes** in protecting people against shocks such as job losses. In this respect, the OECD is concerned by the fact that **unemployment-benefit coverage across the OECD has clearly been falling.** It also finds that middle-income households face a lower risk of moving down to the bottom in **countries that spend more on active labour market programmes**[ii].

Moreover, the OECD even goes a step further by insisting that preventing unemployment spells is the safest way of avoiding negative long-lasting impacts[iii] and by advocating the use of policy tools including **advance notification and social partner-managed initiatives**, such as the Swedish Job Security Councils, to organise proactive measures in order to ensure a smooth transition for displaced workers.

Finally, there is welcome support for the role of trade unions in organising training for workers, especially lower skilled workers, through its reference to the **Union Learning Fund in the UK**, managed by the British TUC and which the TUAC has been show casing to the OECD[ivv]. Also welcome is the call for policy reform of competition rules that outlaw collective bargaining for the formally self- employed, who may very well be in a *de facto* form of (disguised) employment relationship[vi].

At the same time, however, a number of other policy proposals raise questions as to their possible effect of promoting a "low wage" economy. This concerns calls for (i) permanent in-work benefits; (ii) earned income tax credits; (iii) a universal basic income that is set at a level below guaranteed minimum income standards; (iv) reduced employer social contributions on low wages.

While the intention of these measures is to improve labour market access for more vulnerable workers by lowering their wage cost for employers without lowering their net wages, there are perverse effects and incentives that are not taken into account by the OECD. By accommodating or even rewarding employers that offer low productive jobs, these schemes may very well push the economy towards low wage/low productivity equilibrium. They trap workers into low productivity jobs since these in-work benefits are typically withdrawn when workers would move up the job ladder. Ultimately these measures could increase the income share of profits and capital as employers obtain increased access to cheap labour through subsidies or even manage to capture part of the subsidy by pushing down the (gross) wages paid to their workers [vii].

The OECD report could have instead explored alternatives approaches such as establishing a "Job Guarantee" where decent paying jobs along with training opportunities are offered to workers who find themselves in a vulnerable position in the labour market.

Conclusion

In sum, this OECD report on social mobility is much welcome in highlighting the role of policy to effectively break the vicious cycle of unequal outcomes generating unequal opportunities and to rebuild social mobility upward. Many of the policy proposals make sense, including those related to labour market institutions and to social safety nets.

However the report also advocates for a series of measures that, directly or indirectly, subsidise low-wage jobs, thus sustaining and even promoting the model of a low wage economy. This is not consistent with the OECD's stated objective of improving upward mobility.

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[i] A Broken Social Elevator? How to Promote Social Mobility, p. 13.

[ii] See graph 1.18 page 51, although the association between active labour market policy and protection against downward mobility seems to be driven by one country (Denmark).

[iii] Page 52.

[iv] Unions and Skills - TUAC discussion paper on OECD strategies for skills, Jobs and the Digital Economy Paris, 22 July 2016. https://tuac.org/wp-content/uploads/2018/06/1607t_unions-skills.pdf

[v] Page 53.

[vi] Page 314.

[vii] An example of the latter is the US earned income tax credit which has the effect of reducing gross wages not only for those who are covered by it, but also for unrelated wage earners. As a result, the latter may even see their net wage falling. See here