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Expanding Opportunities: Toward Inclusive Growth

PRESENTER

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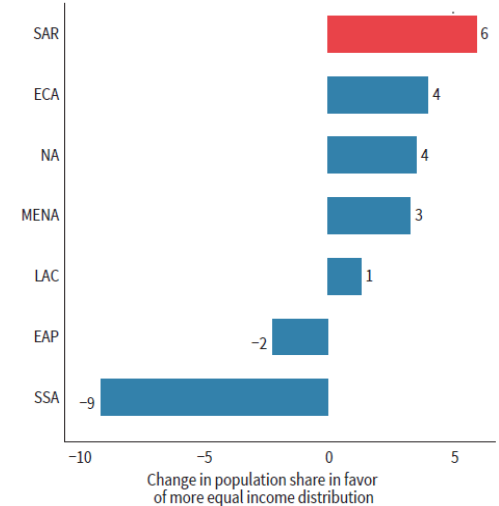
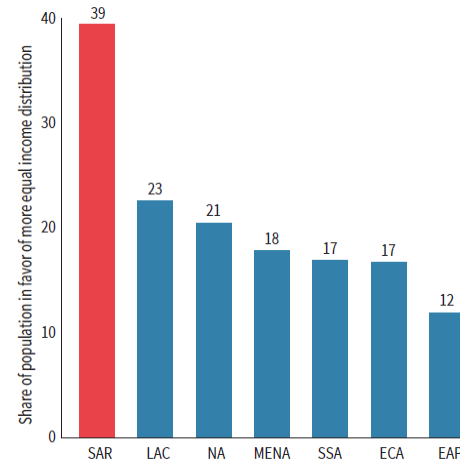
Office of the Chief Economist, South Asia Region, World Bank





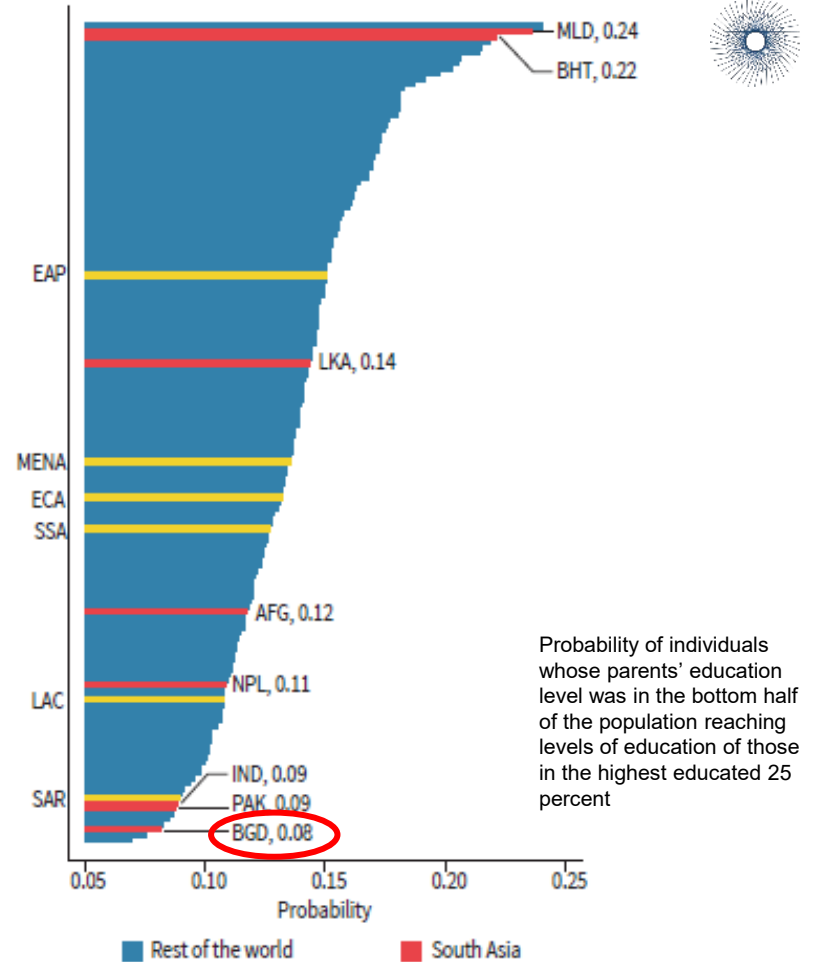
Motivation: demand for equity

- Among South Asians, calls for re-distribution—i.e., support for the statement that “incomes should be made more equal”—are among the highest in the world.
- And, over the past three decades, these calls have also increased more in this region than elsewhere.



High inequality of opportunity

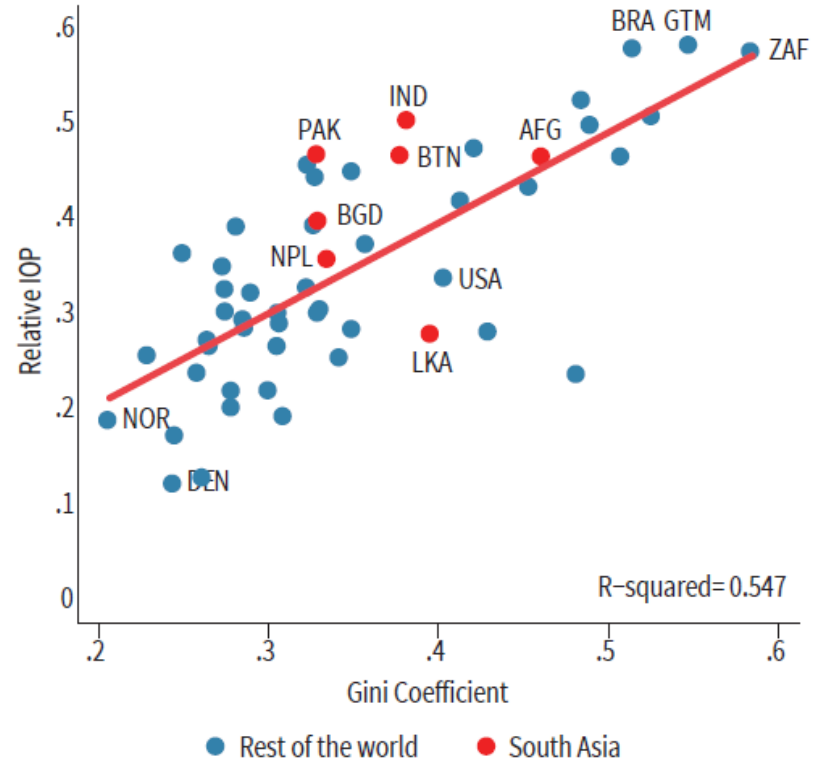
- Almost three decades of sustained economic growth across most of South Asia has brought significant poverty reduction, yet inclusive social progress has remained elusive.
- Inequality of opportunity and intergenerational mobility in South Asia is one of the highest in the world.





The Gatsby Curve

Conditional on the levels of inequality of outcomes, most countries in South Asia have higher than expected inequality of *opportunity*





This matters because:

Inequality of opportunity is more detrimental to growth and societal cohesion than inequality of outcomes.

- Low equality of opportunity reduces incentives to invest in human capital.
- Low equality of opportunity is also linked to misallocation of talent (Hsieh et al., 2019)
 - ✓ While the impact of overall inequality on growth is ambiguous, there is growing evidence that inequality of opportunity is detrimental for economic growth (Marrero and Rodriguez, 2013; van der Weide and Milanovic, 2014; Marrero et al., 2016, Ferreira et al 2018)
- Distributional tensions between groups widen fissures in the social contract (Bussolo et al, 2018)

A focus on equality of opportunity is also useful in the current short term macroeconomic situation with countries reducing their expenditures and in need of public support for adjustment policies.



Key Findings: high levels of unfair inequality

1. **On average for the region, inherited circumstances explain a large proportion** , ranging between 40 and 60 percent of inequality of the distribution of consumption per capita and a slightly lower percent of the distribution of education.
2. **Intergenerational mobility in education is also low** . The average education attainment rank of a child born to parents in the bottom half of the education attainment distribution is the 37th percentile.
3. While the region as a whole experiences unfair disparities, there is a **clear hierarchy of countries within South Asia in terms of social progress.**

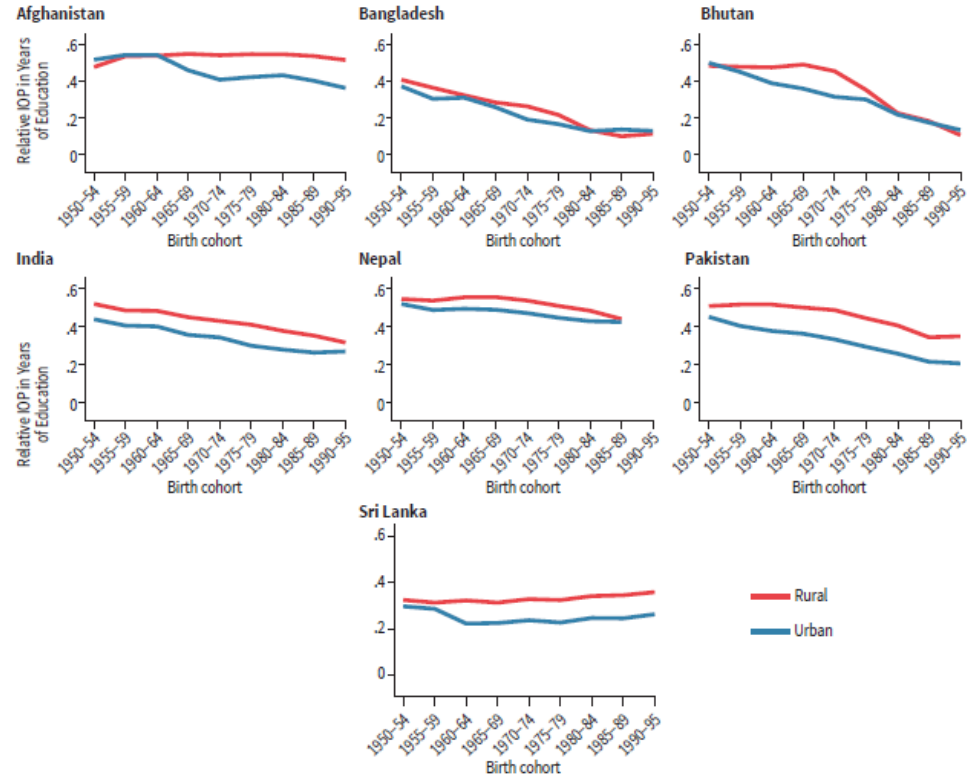
Country	Education		Consumption
	(1) Bottom half mobility	(2) Relative IOP (Years of Schooling)	(3) Relative IOP Consumption, 35–55-year-olds
Pakistan	38.82	0.41	0.54
India	38.83	0.39	0.57
Nepal	40.73	0.55	0.41
Afghanistan	41.99	0.54	0.45
Bangladesh	43.24	0.14	0.44
Sri Lanka	45.23	0.34	0.31
Bhutan	47.93	0.37	0.39



Urban premium

4. Within countries, there is an **urban premium**. Being born in a city translates into higher chances to move further ahead than one's own parents and, more generally, other inherited circumstances do not constrain achievement as tightly as in rural areas.

and we find the urban premium favors girls more than boys .



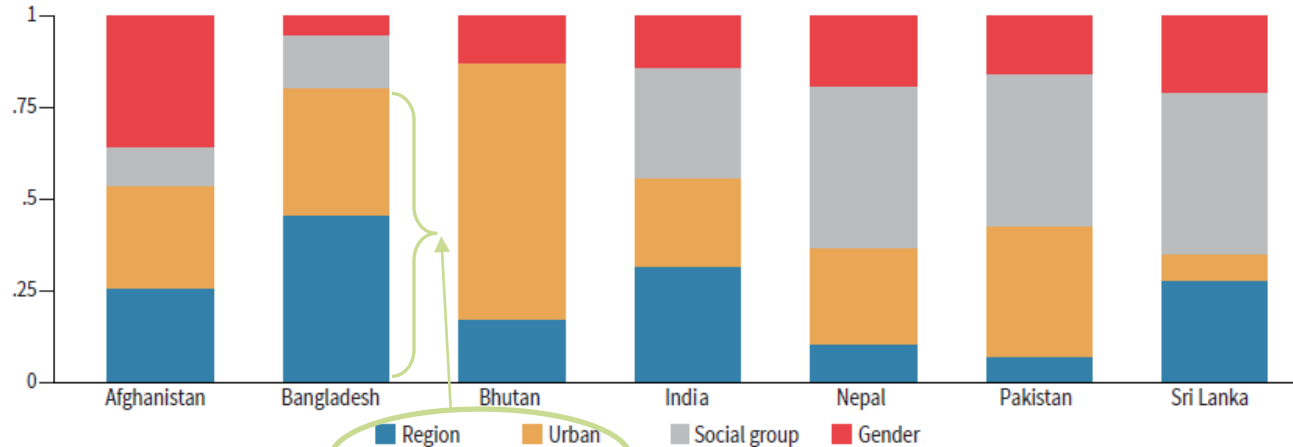


Geography matters

5. **Not all circumstances matter equally** : geography (region of birth, and within it, city or rural area) plays the largest role in all countries, followed by socio-demographic factors such as caste, ethnicity and then gender.

Relative contribution of circumstances

Education IOP



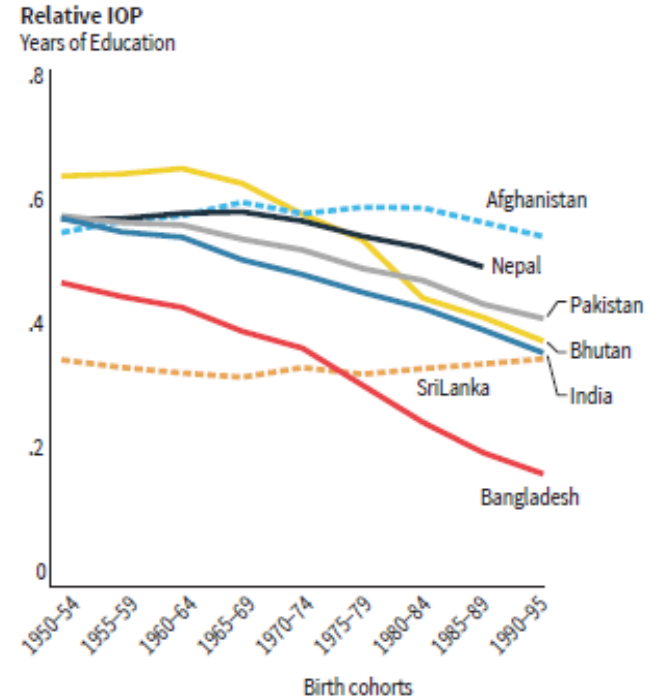
Geography



Trends for education IOp

6. Inequality of opportunity of education has reduced in most countries over the last 3 decades, even if intergenerational mobility remained low and relatively stable:

- This apparent paradox can be explained by the fact that the two concepts – inequality of opportunity and intergenerational mobility – assess different features of the distribution of educational achievement.
- Hence, in South Asia education opportunities have improved for groups that were initially disadvantaged, but there has not been much reshuffling in the ranking of the distribution.

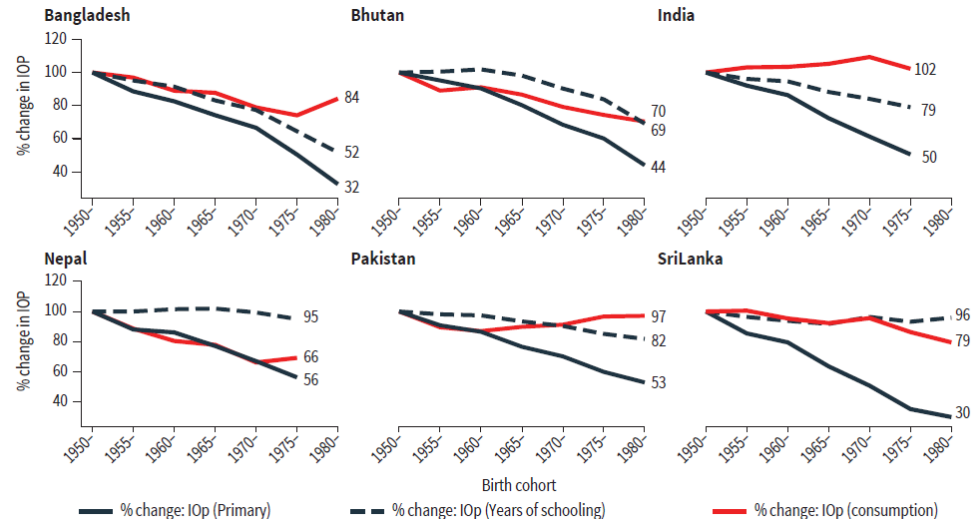
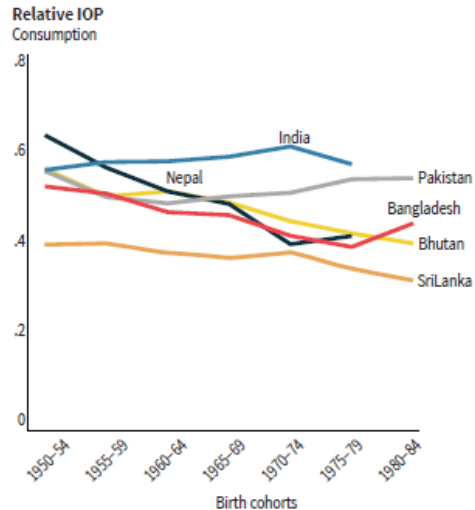




Different trends for IOp of consumption

7. Remarkably, **the reduction of inequality of opportunity in education has not translated into a reduction of inequality in the distribution of welfare measured by the level of consumption**. Three factors are likely behind this striking observation:

- There has been equalization of opportunity in obtaining basic levels of education, but not so much for higher levels of education, which are the ones that matter for incomes
- This equalization of basic education does not account for quality: inequality in learning outcomes remains and this matters for advancement to higher levels of education and ultimately for incomes.
- The labor market remunerates the same education level in a differential way according to other circumstances.





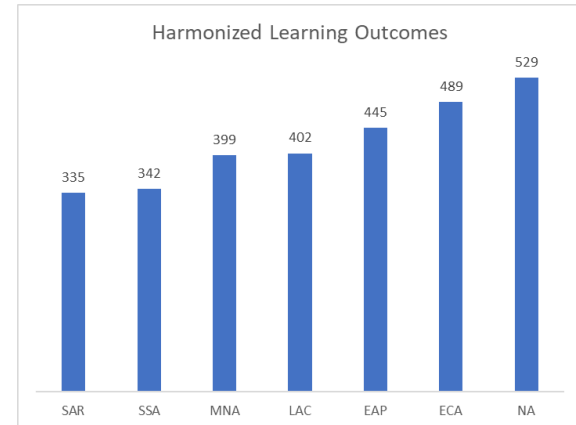
Policy implications

- People in South Asia are increasingly concerned about economic inequality, and policies to promote inclusive growth are likely to find widespread public approval. However, building an opportunity -egalitarian society is not an easy task.
- Framework of the international panel on social progress (www.ipsp.org) useful to classify policies in three groups:
 - i. **pre-market** (or pre-distribution), a group which includes policies preparing individuals such as education, training policies, but even inheritance;
 - ii. **in-market** which affects the rules of how the market (and even society) functions and includes competition policies, technology policies, labor market regulations, electoral system rules amongst others;
 - iii. **post-market** (or redistribution) which includes safety nets as well as progressive taxation.
- Here, we discuss briefly education policies (both supply and demand), affirmative action policies, and labor mobility, as these relate to the findings of the chapter.



Education Policies

- Considerable achievements on primary schooling.
- However, as of 2019–20, government spending on education in South Asia was less than 3% of GDP, well below the global average of 4.3%.
- And quality of education (learning) needs improvement (even on compiling internationally comparable data on learning).
- **On the demand side:** tackle social norms that can affect decisions regarding girls' education and influence employment outcomes of women.



Angrist, Djankov, Goldberg & Patrinos (2021)



Affirmative Action and Spatial Mobility

- **Policies specifically designed for the 'low -opportunity groups', affirmative action deserves renewed consideration.**
 - Nepal's affirmative action policy, which reserves public jobs for disadvantaged groups, has significantly improved educational and labor markets by incentivizing younger eligible candidates to invest more in their human capital (Subedi et al. 2022).
 - Similarly, affirmative action policies for scheduled castes have increased educational attainment in secondary schooling and literacy in India (Cassan 2019).
 - Appropriate implementation of affirmative action policies can serve to reduce the opportunity gaps discussed in the report. However, inequality has multiple dimensions, and affirmative action policies that work effectively along one dimension may neglect another.
- **Enabling individuals to move to places with greater scope for mobility would also help reduce inequality of opportunity:**
 - Many of the constraints on migration are well -known. People often lack information about where to migrate, underestimate the income gains from migration, and are unable to afford the costs of relocation. Or lack access to a safety net that could shield them from the uncertainties of looking for work and living in an unfamiliar place.

Expanding Opportunities: Toward Inclusive Growth

Thank You!

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