Generational Aspects of Inclusive Growth

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Inclusive growth refers to sharing economic benefits equitably across all segments of society, such as groups of people from different genders, ethnicities, and regions.1 Another important aspect of inclusion is the sharing of economic benefits across generations, both in the static dimension of people in different age groups at a point in time and the dynamic dimension of people from different generations over time. This chapter analyzes the challenges and policy options to promote both static and dynamic generational inclusion.

At a point in time, the two main generational groups that are most vulnerable are the youth and the elderly. The youth have higher poverty rates and they have significantly worse labor market outcomes than other groups in many countries. The elderly often rely on income and health care support from public systems that are under increasing strains due to demographic and other trends.

Turning to the intergenerational dimension, a key issue is the dependence of economic opportunity on resources and advantages passed from parents to their children. In some countries, intergenerational mobility has been falling in recent times, exacerbating the impact of inequality by thwarting opportunities for social advancement.

I. Youth Poverty and Unemployment

Youth worldwide are a vulnerable group. The transition from childhood to adulthood, and especially from school to work, presents multiple challenges that are critical for long-term livelihood outcomes. Young adults’ prospects and outcomes are largely influenced by socioeconomic factors during their childhood such as opportunities in terms of access to quality education and health services, geography, and so on. As a result, disadvantaged youth are more at risk of being marginalized.

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Youth are particularly vulnerable to poverty. Youth unemployment and inactivity rates are higher than those of the adult population (Figure 18.1a–b) and young workers are more likely to live in poverty than their adult peers (Figure 18.1c). Globally, 30 percent of working youth live in extreme or moderate poverty conditions (i.e., living with less than $3.20 a day). Even in countries with well-developed social safety nets, these often target different groups (e.g., elderly, families with children, etc.), leaving working-age youth vulnerable to poverty. For example, in the United States, young adult poverty has increased over the past decades and is among the highest for any age cohort (Hawkins 2019).

Poor labor market prospects and lack of opportunities are a major source of concern for young people and have spurred social discontent in many countries. Surveys of young adults around the world highlight youth concerns regarding difficult labor market prospects. For example, 45 percent of Arab youth saw high unemployment as the biggest obstacle facing the Middle East (2019 ASDAA Burson-Marsteller Arab Youth Survey); 69 percent of young African cited unemployment as their main concerns (2016 IPSOS African Youth survey); and 42 percent of youth surveyed in the European Union (EU) in 2017 said that employment should be a priority for the EU.

The Covid-19 crisis disproportionately affected the youth. Recent survey-based research in the UK shows that young people were among the hardest hit by the coronavirus shock (Adam-Prassl et al. 2020). In particular, they were more likely to have worked fewer hours, earned less than usual, and lost their job in the four weeks through March 25, 2020, than adults. Data for the United States shows that although the 16–24 years old cohort only represents 12 percent of all workers, they represent 24 percent of those employed in industries vulnerable to Covid-19 (Kochhar 2020). In addition, extended containment measures may affect educational outcomes and accentuate inequalities as online schooling content appears inadequate and sometimes inexistent. This is especially a risk in EMDEs where poorer populations do not have reliable access to the Internet, increasing the risk of school dropouts, especially young girls.

Figure 18.1 Youth Vulnerabilities

Sources: World Development Indicators Database, and authors’ calculations.
The transition from education to work is a critical period for youth that has implications for long-term employment outcomes. Technology is rapidly changing work, requiring new skills and increased adaptability among workers. How youth fare in their first transition has implications for future job opportunities in an evolving labor market (World Bank 2019). Entrenched youth exclusion deteriorates human capital which in addition to creating a lost generation, can ultimately affect growth and productivity, hampering future economic prospects of countries.

A. Young People in the Labor Market

Youth unemployment is high at the global level and inactivity is a persistent challenge. According to International Labor Organization (ILO) data, the unemployment rate of youth was nearly 14 percent as of 2019, more than three times higher than that of the adult population, and reached a high of 27 percent in the Middle East and North Africa (ILO 2020a; Matsumoto and Elder 2010). Based on the broader concept of inactivity, about 22 percent of youth globally are not in employment, education, or training (NEET) ranging from 12 percent in AEs to above 25 percent in some large EMs (for example Nigeria, South Africa, Turkey, and the MENA region, Figure 18.2a).

Young people tend to have lower-quality jobs (Ahn et al. 2019; Cho et al. 2012; Quintini and Martin 2014; Shehu and Nilsson 2014). Wage employment remains high, around 54 percent globally (ILO 2020b), on par with the adult population. However, it is not anymore systematically associated with job security and social protection as non-standard forms of work (temporary, part-time contracts, “gig” economy) have been increasing. Globally, the share of underemployed youth (Figure 18.2b) is three times as high as the equivalent share among adults (ILO

![Figure 18.2](image-url) Educational Enrollment

Sources: ILO data and authors’ calculations.
2020b) ranging from around 18 percent in AEs to over 25 percent in EMs. In EMDEs, absent adequate social safety nets, a disproportionate share of young workers are still employed in informal jobs (around 55 percent on average in EMDEs, excluding agriculture sector informal jobs according to Ahn et al. 2019).2

Wage inequality tends to be higher among youth. The youngest cohorts, with less education, typically work in the lowest-paying jobs. As a result, in the United States, for example, the mean wage of 16–24 years old is about 65 percent that of 25–34 years old. Underemployment is also associated with lower earnings. Because the most disadvantaged youth combine low education and low skills or experience, they find themselves at the bottom of the wage distribution and are more likely to experience poverty. As a consequence, wage inequality tends to be higher among youth than among the adult population. However, it has decreased since the global financial crisis, mostly driven by falling returns on tertiary education (ILO 2020b).

Despite converging education rates, young women are still at a disadvantage in the labor market. Educational gaps have broadly closed but young women still have more difficulties finding jobs (Figure 18.3) than young men (see Chapter 16) and they are disproportionately represented among NEET (70 percent of youth NEET are young women). Progress has been achieved in recent years to reduce the gender gap in participation in EMDEs, but it remains significantly higher than in AEs (Ahn et al. 2019). Additionally, even for young women who do find a job, evidence suggests that they take longer to find their first job than young men (Manacorda et al. 2017). There is also a gender pay gap among young cohorts reflecting, in part, the fact that young women are more likely to be

![Gender Gaps](image)

**Figure 18.3 Gender Gaps**

*Sources: ILO Database, and authors’ calculations.*

2 A measure developed by the ILO to capture labor market deficiencies such as people working less hours and earning less income than they would like and are available to or using their occupational skills incompletely.
under-employed and are more represented in low pay jobs than young men. However, it is lower than for the adult population, as single young men and women tend to appear very similar to employers, although not everywhere, often influenced by cultural factors.

B. Causes of Youth Vulnerability

Young people are more vulnerable than adults to economic downturns because they have fewer buffers. Because young adults are more financially constrained than adults, economic downturns that translate into deteriorating living conditions often lead youth to make decisions that further affect their prospects such as prematurely ending their education or transitioning into low-quality jobs with poor working conditions and low wages. Because they are less experienced, have shorter employment tenures, and are more likely to have less secure contracts than adults, youth are often the “last in—first out.” In AEs, the youth unemployment rate increased by 5 percentage points between 2007 and 2013 in the context of the global financial crisis. Studies have found that these negative effects can be persistent, especially for youth entering the labor market during recessions (e.g., Cockx and Ghirelli 2016). In EMDEs with weak social protection and widespread informality rates, the informal sector tends to act as a shock absorber when formal labor market demand decreases in downturns (Ahn et al. 2019).

But structural constraints explain a significant share of youth unemployment. All over the world, evidence suggests that youth take a long time, around two years, to find their first job, translating into high rates of long-term unemployment among people who have never worked (Manacorda et al. 2017; Krafft and Assaad 2016). On the demand side, the lack of dynamism of the private sector in a context of dynamic demographic trends and slow economic transformations in EMDEs, at a time where educational attainment is increasing, present specific challenges for youth to transition to jobs that match their qualifications (Fox and Kaul 2017). On the supply side, in some regions duality such as preference toward public sector jobs also explains low youth employment rates among educated youth as those who can afford to stay unemployed (supported by their families) “queue” for these jobs.

A rigid labor market can make the transition to employment more difficult. As new entrants into the labor market, young people can be disproportionately affected by high labor costs (e.g., high minimum wages) and rigid employment protection (e.g., large severance payments) that are likely to discourage employers to hire them in stable jobs (Quintini and Martin 2014). There is evidence that this is associated with lower youth employment (Duval and Loungani 2019). In addition, in AEs, this often translates into an increase in temporary contracts for youth while in EMDEs, which offer fewer benefits and protection to workers, it often leads youth into informal jobs.
In general, longer education is associated with better labor market outcomes. Better education is associated with lower unemployment and inactivity rates, higher-quality jobs, and a better chance to transition to formal work in EMDEs (Shehu and Nilsson 2014). However, the returns to education have been decreasing in some parts of the world, either through a weaker transition to work as labor demand has not kept pace with growingly educated labor supply (EMDEs) or through a combination of lower job quality and more expensive education (AEs). In this context, young people find it more difficult to get jobs than their parents (see the section on intergenerational mobility). As social mobility declines, transitioning to employment is growingly challenging for disadvantaged youth. In some countries, the quality of education has not always kept up with the changing labor demand, making young people ill-equipped to succeed in the labor market.

Gaps in opportunities explain the gender gap in labor market outcomes. Young women still disproportionately face distortions and discriminations in the labor market, mobility constraints, the brunt of family obligations, and restrictions on their rights (ILO 2020b; Elborgh-Woytek et al. 2013; Gonzales et al. 2015; Shehu and Nilsson 2014). Young women are also still underrepresented in some education and career streams such as STEM or vocational education and training programs. Gender gaps tend to widen with marriage and more so with parenthood reflecting the penalty for women in the labor market associated with their disproportionate contribution to household and family obligations. In addition, the lack of networks and role models, which in some regions play a particularly important role in successful labor market transitions for youth amplifies the constraints for young women.

C. Policy Options

Designing and implementing reforms to support youth transition into the labor market is critical to foster sustainable and inclusive growth. Evidence suggests that to be most effective, strategies need to be broad-based, including education, labor market, and product market reforms, aiming at facilitating school-to-work transitions into good-quality jobs.

Some critical areas of reform can be outlined for AEs and EMDEs. If some areas are common to all countries, the starting point is not the same. In AEs, educational attainments are higher, and social protection systems are stronger. Demographics trends are also more favorable for young people as the aging population retires. In these countries, reforms should aim at fine-tuning institutions and policies to better prepare and protect youth, especially disadvantaged ones, in rapidly evolving labor market environments. In EMDEs, there is a need to
continue to improve the educational attainment of young people as well as to fos-
ter economic transformations that create enough jobs for increasingly educated
youth, a multi-dimensional challenge that is particularly relevant for resource-
rich countries (see Chapter 19). In the context of high informality and often weak
social protection systems, supporting youth transition to good-quality jobs early
in their career is critical.

Everywhere, young people need to be equipped with better and broader skills.
This requires better education throughout their youth, starting with early child-
hood development and good quality primary education. This is especially impor-
tant for disadvantaged youth for which policies should aim at extending their stay
in formal education as long as possible, for example by providing direct cash
transfers to their families (ILO 2011). In EMDEs, it also means improving access
to and quality of secondary education and in AEs focusing on retention through
high school (Quintini and Martin 2014). Given the changes associated with auto-
mentation and the need to build resilience in the face of pandemics, policies need to
support young people in being rapidly adaptable to changing labor market needs
and demand. In this context, tertiary education and vocational studies especially,
ned to modernize to provide youth with those needed skills. Although there is
mixed evidence on the outcomes of vocational training, some studies have found
that in countries such as Germany or Denmark, it has had positive impacts on
youth integration into the labor market (Zimmermann et al. 2013). Generally,
strengthening the link between education, training and work would support
youth integration (ILO 2011).

Flexible labor markets with social safety nets that aim to protect workers—not
jobs—can support youth employment. More flexible labor market institutions are
associated with better outcomes for youth (Ahn et al. 2019; Banerji, et al. 2014;
Purfield, et al. 2018). In general, labor market regulations that reduce duality,
facilitate workers’ mobility, and unemployment protection systems that support
workers’ transition without raising the opportunity cost of work would all con-
tribute to limit distortions to youth’s integration (see Chapter 3 for more details).
In all countries, addressing legal impediments for women’s integration into the
labor market and promoting family-friendly labor regulations is critical to reduc-
ing gender gaps (see Chapter 16 for more details).

Targeted active labor market policies (ALMPs) can support youth employ-
ment, particularly those more at risk of unemployment such as disadvantaged
youth.3 These programs are common in AEs and have increased significantly in
Europe in the aftermath of the global financial crisis. In EMDEs, wage subsidy
programs are less developed than in AEs. Given that on average youth in EMDEs

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3 Active labor market policies are public programs aimed at helping a target population of
unemployed people find work, for example through income support, job search services or training
and skills building, or public works.
have lower education than in AEs, training programs that help young people acquire skills (as in Latin America for example) can be more effective for their integration into the labor market (O’Higgins 2017). In LICs, wage subsidy programs are rare and ALMPs mostly take the form of public employment programs in specific sectors such as public infrastructure maintenance (O’Higgins 2017). In this context, they have low efficiency in improving employment prospects when they do not contribute to building skills (and they sometimes carry a negative stigma) but have also been used as a transitory income support mechanism. Programs aimed at promoting self-employment and entrepreneurship have shown the most positive results among ALMPs in EMDEs, especially when they are combined with other policies in the areas of social protection, access to finance, and so on (O’Higgins 2017; Levy-Yeyati, et al. 2019). Successful implementation of cost-efficient programs tends to require a high administrative capacity to target, implement, monitor, and evaluate outcomes which can be more challenging in EMDEs than in AEs (Angel-Urdinola and Leon-Solano, 2013). In general, ALMPs also have weaker results where job creation is lackluster (see Chapter 3 on labor market policy for a detailed discussion on ALMPs).

Reducing informality should be part of a broader policy strategy to improve job quality in EMDEs. Informal jobs in EMDEs are the norm for many youths. Evidence shows that policies aimed at reducing informality work best when combined with policies to improve the quality of formal employment and broaden the coverage of social protection (O’Higgins 2017). Because of the “signaling” effect of early labor market experiences, policies aimed at reducing informality should target interventions into preventing youths entry into informal jobs by aiming at improving young people’s first experience in the labor market. First jobs programs have been developed, in Latin America for example, focusing on providing young people with good quality apprenticeship, internship opportunities, hiring subsidies, and special arrangements for youth employment (O’Higgins 2017).

Fostering private sector development in EMDEs, especially SMEs, is critical to creating more jobs for growing working-age populations. In many parts of the world, growingly educated youth has been discouraged by the lack of job opportunities. Creating enabling environments for private sector activity to thrive and create jobs is critical. Measures targeted at SMEs and promoting entrepreneurship, such as access to finance, could help support youth transition to work. Young people are tech savvy and they can also benefit from technology-driven change if given adequate incentives and opportunities. In EMDEs, improving the productivity of the informal sectors (including agriculture), by implementing measures to support human capital build-up and to create an enabling environment towards formality (market access, regulations, access to finance, etc.) could also contribute to decreasing youth exclusion and poverty.
II. Elderly Poverty

A. Why Elderly Poverty

The share of elderly people in the world population is now higher than ever and rising. The world population over the age of 65 is projected to increase from 9 percent in 2019 to 16 percent by 2050 (UN 2019). Elderly people face greater risks of becoming or remaining poor due to reduced options to work and more health issues. If elderly people have inadequate savings and social benefits, they can be vulnerable to economic insecurity and poverty, with limited options to escape.

The Covid-19 crisis amplified the existing vulnerabilities of the elderly across the world. With the fatality rates for older people several times the global averages and limited access to essential health services in many countries, elderly people face a range of additional risks from the pandemic, including age discrimination in accessing health care service, neglect, and violence (UN 2020, Policy Brief: The Impact of Covid-19 on older persons). The pandemic may also lead to a scaling back of critical services unrelated to Covid-19, further increasing risks to the lives of older persons (WHO 2020).

B. Measuring Elderly Poverty

There are several measures of elderly poverty and inequality. Absolute poverty rates show the percentage of elderly people living below the poverty line, whereas relative measures assess the distribution of poverty within the elderly group (horizontal inequality) or relative to other age groups (vertical inequality). For instance, horizontal inequality by income tends to be higher for countries with large informal sectors and relatively generous formal pensions.4 Vertical inequality can provide an insight into the relative situation of older people, as many low-income countries with a high absolute elderly poverty rate may have an even higher poverty rate for other age groups (Evans and Palacios 2015).

Global estimates of poverty rates among older people are limited. With the absence of an international harmonized database on age-related poverty, the evidence is mainly limited to regional or country-level databases. In addition, most of the measures rely on country-specific thresholds which are not easily comparable across countries, particularly when comparing developed and developing countries. For example, the OECD defines elderly poverty as income below half

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4 Low pension coverage exacerbates income inequality and may result in a regressive redistribution of resources from low- to high-income individuals.
of the national median household income, which does not necessarily imply a low standard of living.

C. Facts on Elderly Poverty

The poverty rates for older people vary significantly across countries. In OECD countries, elderly poverty rates (over 65) averaged 13.5 percent in 2017, compared with 12 percent for the population as a whole (OECD 2019) (Figure 18.4). However, there are significant differences across countries. The poverty rates exceeded 40 percent in Korea, were above 30 percent in Estonia and Latvia, and more than 20 percent in Mexico and the United States. By contrast, in the Czech Republic, Denmark, and some other countries relative poverty rates were below 5 percent. These differences reflect many factors, including overall poverty rates in a country, pension coverage, family structure, and societal preferences in designing social transfer schemes. Although no harmonized databases exist for developing economies, higher overall poverty rates, larger informal sectors, and lower pension coverage suggest that elderly poverty rates on average are higher than in developed countries.

Incomes of older people relative to the rest of the population also differ depending on pension coverage and the adequacy of old-age social protection systems. For the OECD countries, older people fare relatively better than the rest of the population in 20 countries, including France, Slovakia, and the Netherlands. In Greece, Italy, and Spain incomes for the elderly are above 90 percent of the national average because of the relatively generous pension schemes (Figure 18.5). By contrast, in Korea, Estonia, Latvia, and Australia, older people are much more likely to be poor. For G20 counties beyond OECD, elderly poverty rates are high

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**Figure 18.4** Elderly Poverty Rates (Over 65), 2019

*Source: OECD Income Distribution Database.*
in China and India, 39 percent and 23 percent, respectively, while Brazil has much lower elderly poverty rates (OECD 2019).

For developing countries, relative poverty levels depend on demographics, pension coverage, and cultural arrangements. Older persons tend to be poorer than the general population in many African countries and are more often less poor in Latin America (UNCTAD 2017, Ageing report). Kakwani and Subbarao (2005) find that for Sub-Saharan African countries older persons are poorer than other age groups. In Zambia, for example, 80 percent of people aged 60 years or over were below the poverty line compared to 67 percent national average. In contrast, Evans and Palacios (2015), found that in a majority of countries—out of their sample of 60 developing countries—elderly people are less likely to be poor than children.

Within the elderly group, women and “very old” are more likely to be poor, and there are significant income inequalities in many countries:

- Older women are at greater risk of poverty than older men in all OECD countries where breakdowns are available (except Chile), with the average old-age poverty rate for women at nearly 16 percent versus about 10 percent for men (OECD, 2019). This likely reflects longer life expectancy and a lower labor force participation because of shorter and interrupted careers due to childbearing and caring.

**Figure 18.5** Income Poverty Rates by Age: Elderly vs Total Population

*Source: OECD Income Distribution Database.*
• As the very old (over 75) people are more likely to have spent their savings, have fewer opportunities to work, and more need age-appropriate health services, in most OECD countries the poverty rates are higher for “very old,” averaging 16 percent. In Korea, Estonia, and Latvia this difference is particularly high, reflecting low pension indexation. In addition, in Korea, where the pension system is still maturing, younger generations get higher pension benefits.

• While for the majority of OECD countries income inequality among the elderly is lower than for the general population due to redistributive features of first-tier pension benefits and other schemes, in Mexico, Korea, and the US elderly inequality is higher than that for the general population. For China and India, income inequality for the elderly also markedly exceeds that of the total population.

D. Sources of Income for Elderly People

Pensions remain the main source of income for elderly people in most countries. The main sources of income for old can be broadly classified into five categories: public transfers (pensions, resource-tested benefits, etc.), occupational transfers (pensions based on employment), savings, work, and intra-family transfers (Figure 18.6). For the OECD countries, public and occupational transfers account for about two-thirds of the total income (OECD 2019). For some countries, public pensions and transfers account for more than 80 percent of income (Hungary, Belgium). In contrast, in Mexico, public transfers are as low as 6 percent (as only 35 percent of workers are covered by public pensions). Work is important in many countries (Mexico, United States, Korea) due to several factors. For some countries the pension age is higher than 65 years (United States), for others, people keep on working to fill gaps in contribution histories or to obtain better incomes over retirement. Also, as incomes are measured for households, older people draw on the earnings of younger family members in multi-generational households (Korea). However, intra-family transfers to the elderly have been declining in many countries. In Korea, for example, fewer young people believe that they are obliged to support their parents (Kim 2014). A study for advanced economies shows that in the United States, Germany, and Italy, elderly parents are more likely to support their adult children than vice versa. There are also sharp differences across income groups. It is more likely for adults with lower annual household incomes to support their aging parents than for those with higher incomes (Pew Research Center 2015).

5 In Korea, the proportion of private transfers in total retirement income among the elderly decreased from 55 to 45 percent between 1990 and 2008.
At the global level, 68 percent of people above retirement age receive some pension, either contributory or non-contributory (ILO 2017) (Figure 18.7). However, the coverage varies significantly across the regions and income levels. While the coverage rates are close to 100 percent in developed countries, in Sub-Saharan Africa, and in Southern Asia less than one-quarter of elderly people

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*Source:* OECD Income Distribution Database.

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6 Coverage for women is somewhat lower than that for entire population at 64.1 percent, largely reflecting lower labor force participation and overrepresentation among self-employed (ILO 2017).
receive pensions, depending heavily on family support arrangements. In addition, the level of pensions—and other social benefits in general—also vary across countries. For OECD pensions, the average replacement rate is around 53 percent at the age of retirement, falling to 47 percent at the age of 80 due to below wage growth indexation. Many developing countries have introduced social pensions

\[7\] Defined as a ratio of pension to pre-retirement earnings.
to address the low insurance coverage of the elderly (Zouhar et al, 2021). Social pensions globally cover almost 35 percent of the old-age population.

Income sources can largely explain the variation of poverty rates and income levels for older people across countries. The elderly are relatively better off in countries with higher levels and broader coverage of public and occupational pensions and higher social transfers related to health care. Income composition also changes along with the income distribution: older people at the bottom of the income distribution are more likely to derive their income entirely from public transfers, while the capital and private pensions are more important for the top of the income distribution. The adequacy of retirement benefits depends not only on cash benefits provided but also on the costs of essential services such as health care. Countries with large informal sectors, not covered by universal retirement benefits, experience higher elderly poverty rates.

E. Demographic Trends and Their Impact on Elderly

Demographic and economic trends, such as longevity and population aging, can have a significant impact on elderly poverty in the future:

- The pace of world population aging is accelerating. Projections indicate that between 2019 and 2050, the number of elderly people will double. Population aging that has already affected most developed economies is expected to spread to developing countries, with a substantially faster rate than it occurred in developed countries. The number of people aged 80 years or over—the “oldest-old”—is growing even faster and is expected to almost triple by 2050. In the middle of the century, two out of every three oldest-old persons will be living in developing regions, countries with still large informal sectors, not covered by public pensions and transfers (UN 2019 Ageing report).

- Each successive cohort of older persons is expected to live longer and possibly also have fewer adult children as potential sources of support in old age. In 2015 there were seven people in the traditional working age for each older person aged 65 years and over in the world. By 2050, this number will be halved. At the same time, with urbanization and the transformation of many traditional family ties, more elderly are expected to live in nuclear households without family support (Kim 2014).

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8 Social pensions are non-contributory benefits that are tax-funded and target the old-age population. They can be universal or means-tested.

9 Universal retirement benefits are usually granted based on age and residence.
• Population aging costs put pressure on public pension and health care systems, affecting fiscal sustainability. As a result, many countries are reassessing elderly benefits and transfers, making them less generous (EU 2012; Shang 2014). These reforms often include raising retirements’ ages or lengthening required years of service, as well as reducing replacement rates. The potential negative impact of these reforms on elderly poverty can be sizable (Shang 2014). Longevity will also increase demand for health care services, particularly long-term care, which is not adequate in many countries (ILO 2017; WHO 2015).

F. Policies to Reduce Elderly Poverty

Policies needed to alleviate elderly poverty vary substantially across countries. In countries with comprehensive and mature systems of social protection and aging populations, policies should maintain a good balance between financial sustainability and pension adequacy. In countries with still limited pension coverage for elderly people and high levels of informality, policies should aim to broaden the coverage while ensuring the sustainability of social schemes. Policies to facilitate employment opportunities for elder workers and to reduce gender inequality in pensions are relevant across all countries. Finally, improving health care affordability and services is essential to maintain living standards for elderly people (ILO 2017; UN 2017, 2020).

• Countries that are planning or undergoing austerity pension reforms can mitigate the adverse impact on older people by adjusting the design of social security systems to support the elderly with lower incomes. This could be done, for instance, by reducing replacement rates for public pensions only for higher-income retirees, introducing universal social benefits, such as social pensions (Zouhar et al. 2021), or by targeting assistance to the poor. However, these policies should be weighed against potential adverse effects on labor markets (Shang 2014).
• Countries with a large informal sector and low pension coverage could rely on a number of measures to broaden the coverage in a sustainable way. These measures can include policies to increase the formal sector by, for example, incentivizing firms to use formal contracts, or by designing social

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10 Shang estimates relationship between public pension replacement rates and elderly poverty and finds an elasticity of about -0.4. In addition, Shang finds that reforms will disproportionately affect the poorest part of elderly population.
11 In many countries access to health services is limited and health workers may have inadequate training to deal with issues common in old age.
assistance in a way that makes contributory schemes more beneficial for
workers (Figliuoli et al. 2018). Also, efforts could be made to increase cov-
erage for the lower-skilled and less-educated by, for example, automatic
enrollment in voluntary pension plans (Benartzi and Thaler 2013).
• With increasing longevity, policy measures should also support labor force
participation for older people. These policies should focus not only on post-
poning the formal retirement age but also on creating incentives and oppor-
tunities to keep older workers with accrued pension rights in employment
and on facilitating flexible working arrangements. Health care and training
can maintain the productivity and employability of older workers (Figliuoli
et al. 2018).
• As in many countries, women are disadvantaged in the wages they earn, pol-
icies should aim to reduce gender gaps in pensions. Potential measures
could include using more progressive pension schemes, and compensating
women for “lost” years due to childbearing and caring. In addition, policies
that help to promote labor force participation by women—for example, by
improving child care benefits—could result in higher contributions and
higher replacement rates upon retirement (Shang 2014).
• Policies to improve access to universal health coverage, including long-
term care protection, are essential for maintaining living standards for elderly
people. Even before the Covid-19 crisis, as many as half of older persons in
some developing countries did not have access to essential health services.
The pandemic may also lead to a scaling back of critical services unrelated to
Covid-19, further increasing risks to the lives of older persons (WHO 2020).
A simple increase in coverage may not be sufficient to address the needs of
the aging population. Even in high-income countries, health systems are
often better designed to cure acute conditions than to manage and minimize
the consequences of the chronic states prevalent in old age.

III. Intergenerational Mobility

Socio-economic status at birth influences prospects of employment, health, and
education outcomes, as well as other opportunities that are important for our
well-being. This is shown by a number of studies about social mobility. For exam-
ple, in OECD countries, children whose parents did not complete secondary
school have only a 15 percent chance of going to university. At the same time,

12 Since workers may choose between formal and informal employment opportunities based on
the perceived value of future benefits from formal employment relative to current contributions, pen-
sion schemes may be designed in a way that increases incentives to participate.
children with at least one parent with tertiary-level education have a 60 percent chance of making it to university (OECD 2018).

The relationship between the parents and adult children’s socioeconomic positions describes intergenerational social mobility. There is a difference between absolute and relative intergenerational mobility:

- **Absolute** intergenerational mobility compares the living standards across generations and looks at the share of children with higher living standards as adults compared with their parents.

- **Relative** mobility, or social mobility or fluidity, measures the probability that a child will attain a different economic status than that of their parents.

In this sense, social mobility is about ensuring that every individual has the opportunity and a fair chance of achieving their potential regardless of their family background. Relative intergenerational mobility and social mobility are used interchangeably and are the main focus of this section.

Citizens and governments are increasingly worried that younger generations will have fewer opportunities for upward social mobility than preceding generations. For example, in the UK, according to the Social Mobility Bathometer, a national survey of over 5 thousand people, revealed that 40 percent of respondents think that it is getting harder for people from less advantaged backgrounds to move up in British society, while only 21 percent think the opposite is true (Social Mobility Commission 2018). In the United States, data suggests that the chances of out-earning parents have been declining, too, especially for those from the middle class (Lu 2020). The data on historic trends supports these concerns. OECD estimates that it could take on average four to five generations for children from a family in the bottom decile of the income distribution to reach the average income in OECD countries. This estimate ranges from two generations in Denmark to nine and eleven generations in Brazil and South Africa (OECD 2018).

Social mobility goes both upward and downward. “Sticky floors” refer to the low upward mobility at the bottom of the income distribution. At the same time, children from privileged families are much less likely to experience downward mobility: the ceilings are “sticky,” too (OECD 2018).

Intergenerational mobility is closely related to equality of opportunity. Economies with more unequal opportunities tend to have lower intergenerational mobility. Intergenerational mobility can be used as one of the possible indicators of inequality of opportunity (Stiglitz et al. 2018).

Countries with higher income inequality tend to be countries with low intergenerational mobility. This relationship is commonly referred to as “The Great Gatsby Curve” (Figure 18.8).

There is limited knowledge of the causal relationship between the two. Low mobility can be both a cause and a consequence of greater inequality. For
example, inequalities in socioeconomic outcomes determine access to opportunities in education, health, and the labor market, and, thus, influence the potential for social mobility.

Lack of social mobility can have a negative impact on economic growth. As the OECD explains, a lack of upward mobility among individuals at the bottom of the income distribution means a loss of potential talents and investment opportunities (OECD 2018). In other words, inequality of opportunity prevents people from realizing their economic potential. The World Economic Forum estimates an opportunity cost of low social mobility based on the findings of its Global Social Mobility Report (WEF, 2020). This report suggests that if countries improved their performance by 10 points in the WEF’s Global Social Mobility Index the global economy would gain an additional US$514 billion per year (in PPP terms), all else being equal. This gain could be as large as US$14.5 billion in Brazil, US$103 billion in China, US$18.5 billion in Germany, US$42.8 billion in India, US$17.8 billion in Russia, and US$3.4 billion in South Africa.

Perceived and actual mobility affects life satisfaction, social cohesion, and policy preferences. Studies suggest that prospects of upward social mobility positively influence people’s life satisfaction and well-being. Perceptions about equality of opportunities can reduce the likelihood of social conflict (OECD 2018), while inequality of opportunity is associated with lower levels of support for the market economy and democracy (EBRD 2016). Pessimism and optimism about social mobility are significantly correlated with people’s preferences for redistribution policies (Alesina et al. 2018).
A. Measuring Intergenerational Social Mobility

Intergenerational mobility can be analyzed in terms of various outcomes, such as earnings, education, occupation, wealth, or health. It is also a concept that may be difficult to measure with a single indicator. Social and economic mobility should be considered in combination with measures of poverty and inequality.

Intergenerational mobility of earnings measures the persistence of income between generations. Relative mobility in earnings can be measured by calculating the elasticity of intergenerational earnings (IGE). For example, consider the linear parent-child regression of the form:

\[ y_{i, \text{child}} = a + b y_{i, \text{parent}} + e_i \]  

(1)

The coefficient \( b \) represents the elasticity with a higher number implying that it is more difficult for an individual to move outside their income class. An elasticity of zero means the highest social mobility where a child's adult outcomes are not related to the status of their parents at all. If elasticity is 100 percent, all life outcomes of a child are fully linked to the socioeconomic status of their parents.

According to the World Bank Global Database of Intergenerational Mobility (GDIM), income mobility appears to be lower in low and middle-income countries and higher in high-income countries (Figure 18.9). For example, in high-income countries, an average IGE was estimated at around 35 percent. The highest income persistence was estimated in countries in Latin America and the Caribbean with an IGE of around 90 percent.

There are notable differences within income or regional groups. The elasticity in OECD countries varies from below 20 percent in the Nordic countries to

![Figure 18.9 Intergenerational Mobility in Income](image)

*Note: The graph shows estimates of persistence in income as measured by intergenerational income elasticity from the World Bank GDIM; regional averages are authors’ calculations.*

*Source: GDIM. 2018. Global Database on Intergenerational Mobility. Development Research Group, World Bank.*
70 percent or more in emerging market economies (OECD 2018). Among high-income economies in Europe and North America, the estimates of earnings persistence for Germany, the UK, France, and the United States were above 40 percent. Income persistence in Turkey was estimated at 30 percent, which is below the average in Europe and Central Asia, and much lower than in its emerging market peers, such as Brazil and South Africa with income persistence of above 60 percent (World Bank GDIM 2018). In Asia, where the average IGE is around 50 percent, estimates for Taiwan and Singapore suggest relatively high-income mobility in these two countries—18 and 26 percent, respectively (World Bank 2018).

Intergenerational educational mobility has a strong association with intergenerational persistence in wages. A World Bank study estimates the lowest education mobility in Sub-Saharan Africa and South Asia, and highest in Western Europe, Canada, Australia, and Japan (Figure 18.10) (Narayan et al. 2018). This measure is based on a coefficient from the regression of children’s years of education on the education of their parents (World Bank 2018).

As in the case with income mobility, there is significant variation within regions. For example, in Africa, intergenerational mobility in education was relatively high in South Africa and Botswana, and low in Sudan, Mozambique, Burkina Faso, and Malawi (Alesina et al. 2019). There is generally a positive correlation between mobility in earnings and in education, but some notable exceptions exist.

Social mobility in occupational status reflects social inequalities and has an impact on individuals’ life chances and life choices. Studies of mobility across

![Figure 18.10 Intergenerational Mobility in Education](image-url)

*Note:* darker shades indicate higher intergenerational education mobility; white color indicates that data was not available.

*Sources:* Narayan, A. et al. 2018; GDIM 2018. Global Database on Intergenerational Mobility. Development Research Group, World Bank.
social classes represent more established literature on this topic. Such mobility is often captured by the occupational status of fathers and sons. There are several ways to study social mobility based on occupation or social class (OECD 2018). Relative social mobility in occupation can be defined as the probability that a child born to parents from a particular social class remains in the social class. In their analysis for presentational purposes, the OECD aggregates social classes based on occupation into three broad categories: manual workers, routine workers, and managers. Their findings show that about a third of children from manual workers remain manual workers themselves, while half of the children with parents in managerial class become managers.

Prospects of social mobility can vary within a country, where the chances of being successful are linked to where a person lives. Chetty et al. (2014) establish that there is substantial variation in intergenerational mobility across different areas in the United States. In the UK, according to Social Mobility Commission, the population living in London and the commuter belt areas around it are more socially mobile in comparison to the rest of the country. In these areas, children, including those from disadvantaged backgrounds, demonstrate excellent results at school and have better higher education opportunities. In contrast, young people from some of the isolated rural and coastal towns have poorer chances of achieving good educational outcomes and have lacked access to further education and employment opportunities (Social Mobility Commission 2017). Alesina et al. (2019) show that proximity to the coast and the capital city in Africa within a country leads to higher mobility, even after conditioning on the initial level of literacy. They also find that malaria-prone regions tend to have lower mobility.

Studies suggest some differences in social mobility between women and men. Women are more likely than men to achieve a higher level of education than that of their parents. OECD finds that there is a gender gap in upward educational mobility in favor of women, which is particularly wide in Denmark, Estonia, Finland, and Italy (OECD 2017). At the same time, the mobility of educational attainments between mothers and daughters tends to be lower than the mobility between fathers and sons. OECD finds such patterns in southern Europe and the emerging market economies (OECD 2018). Some studies suggest women tend to have greater occupational mobility than men (ILO 2018). However, occupational segregation by gender remains a barrier to many women. Relative earnings mobility tends to be similar for daughters and sons (OECD 2018). Although certain patterns of social mobility emerge, the estimates are likely to be country-specific, and as we suggested earlier, can also vary within countries.

B. Barriers and Drivers of Social Mobility

People can face barriers to social mobility at different stages of their life. At the early stage, early childhood education and care give children a good start in life.
Certain features of a secondary and tertiary education system can create obstacles for upward social mobility. For example, early selection and tracking can explain limited educational mobility in some of the EU member states (Eurofound 2017). The transition from school to employment poses challenges related to youth unemployment and may leave a large number of youth among those who are not in employment, education, or training (NEET). Lack of access to certain occupations is linked to parental background, and in some instances to discrimination, elitism, and nepotism. Especially affected are women and ethnic minority groups. Various shocks related to health, changes in marital and job status in absence of effective social protection mechanisms may damage the life prospects of the most vulnerable.

The Global Social Mobility Report by the World Economic Forum identifies main drivers of social mobility as policies, practices, and institutions across the following dimensions: health, education, technology, work, and social protection, and inclusive institutions (WEF 2020). On a global level, the report suggests that such areas as fair wage distribution and deficiencies in social protection coverage are challenges among several countries, while the lack of opportunities for lifelong learning are challenges faced by all countries analyzed in the report. Looking at findings across regions can offer several insights. While countries in North America are doing relatively well in such areas as access to technology, education quality, and health, as well as work opportunities and inclusive institutions, they could improve in such areas as high incidence of low wages, working conditions, and social protection that could help protect workers from adverse personal shocks. In Sub-Saharan Africa, countries could improve in several areas, including access and quality of education, fair wage distribution, and social protection.

C. Policies to Promote Intergenerational Mobility

Policies can have an impact on how advantages or disadvantages are transmitted from parents to children. Such policies may include a wide range of measures including policies to support health and education mobility, policies to support families, labor market policies, tax and transfer policies, local and urban development and planning and housing policies, access to technology, and, more broadly, policies and reforms aimed at building more inclusive institutions.

Policy interventions starting from one’s early childhood to their transition to the labor market can bring positive returns in supporting social mobility. The phenomenon of sticky floors tends to emerge from a very early age and matter for opportunities later in life. Young people, in particular those from disadvantaged backgrounds, may struggle at school, drop out from formal education, and encounter difficulties in the labor market. Policy options outlined in the section on “Youth Poverty and Unemployment” provide an overview of measures that can help support families and youth and promote social mobility, including the
need to provide life-learning opportunities and effective social protection schemes. Moreover, policies should also emphasize the need to tackle various forms of discrimination in the labor market. Such measures can facilitate job access to professions based on candidates’ ability rather than their socioeconomic background or social network.

Policies to support working parents can also be instrumental. Such policies can focus both on providing flexible working hours to parents, financial support for childcare as well as providing support in developing parental skills. For example, the Parenting Early Intervention Program (PEIP) in the UK focuses on parents from socially disadvantaged backgrounds emphasizing the role of such skills. Promotion of access to childcare for ethnic minorities is another measure to promote social mobility.

Social mobility also requires policies to reduce spatial segregation and inequalities between neighborhoods in cities. Measures to improve access to good-quality education, health, jobs, and affordable housing as well as the development of transport infrastructure on a local level have been recommended as policies to address regional or spatial divide within countries. Measures to improve access to jobs and creating job opportunities at the local level may include tax breaks and creating enterprise zones as employment support programs. Such measures may need to be considered carefully not to undermine the tax base and thus make it difficult to support the needed public infrastructure.

Tax policies that affect wealth accumulation can also affect social mobility. Wealth is more unequally distributed than income, and wealth deprivation can cause “sticky floors,” while wealthier parents are likely to pass on their advantage to their children (“sticky ceilings”).

In short, social mobility and social inequalities are not set in stone. Policies can help in promoting equality of opportunity to avoid passing the socio-economic disadvantages from one generation to another.

IV. Conclusion

Sharing economic benefits equitably across all segments of society includes addressing the specific challenges of different generations. The youth, who are trying to establish themselves in the labor market, and the elderly, who in some countries have limited incomes after completing their working lives, are typically more vulnerable to poverty relative to adults in their middle years.

13 Think Family Toolkit (2010), Guidance note 07, 2010; https://dera.ioe.ac.uk/9475/17/Think-Family07.pdf
Strategies to foster youth integration into the labor market need to be broad-based. They include good quality primary education all the way up to tertiary education, vocational training, and apprenticeships. Additional policies would include flexible labor markets with social safety nets to protect workers and active labor market policies to support employment along with measures to foster private sector development and entrepreneurship.

The elderly often rely on income and health care support from public systems that are under increasing strains due to demographic and other trends. In countries with comprehensive and mature systems of social protection and aging populations, policies should maintain a good balance between financial sustainability and pension adequacy. In many developing countries with large informal sectors, the policy objective is to broaden coverage and increase formalization.

There might not be a general consensus on the acceptable level of inequality of outcomes, but there is widespread agreement on the need to promote equality of opportunities. Everyone should have the same chances in life, regardless of their initial socioeconomic positions and that of their parents. In that sense, equality of opportunity is closely related to relative intergenerational mobility or social mobility. There is an increasing concern that social mobility has been declining and it can have a negative impact on economic growth, affect life satisfaction, and social cohesion. Policies that may help promote social mobility include early interventions such as supporting early childhood education and care; labor market policies to better integrate the young and improve access to certain jobs, measures to tackle spatial segregation and concentration of poverty, and investment in housing and infrastructure. Effective social protection schemes can also protect against unexpected income losses, especially for those most vulnerable and in precarious employment.

The pressing issues of climate change and public debt that have important implications for intergenerational equity and justice are discussed in other chapters of the book.

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