

INTERVIEW TO MAURIZIO FRANZINI



Maurizio Franzini (MF) is full professor of Economic Policy at Sapienza University of Rome. He serves as Director, PhD School in Economics.

*Professor Franzini has recently published a very interesting book intitled “Disuguaglianze inaccettabili. L’Immobilità Economica in Italia” on which we are going to base this interview carried out by **José M. Mella (JM)**, full professor of Applied Economics at the University Autónoma of Madrid.*

José María Mella: Prof. Franzini, you start your book speaking about the inheritance inequality, which means that inter-generational transmission of income or wealth can have a direct impact on one's mobility (or immobility) and class position in society. Would you mind explaining us your economic reasoning?

Maurizio Franzini: Reliable data show that what an individual earns in the labor market is highly correlated with her parents' income. This is particularly true in the Mediterranean countries, in UK and USA. Therefore, family backgrounds play a major role in determining the chances one has in her economic and social life. It has to be noticed that I am referring to labor income, not to income coming from capital or wealth that can be easily inherited. In other words, parents are transmitting to their children also what is required to get a high labor income. The main problems are to identify what the parents transmit that allows higher income and through which channels and why this effect is stronger in some countries rather than in others. However, independently from this, the finding is extremely important in itself. Only now, thanks to the availability of reliable data, we can establish whether one of the big historical promises of markets and capitalism has been fulfilled, i.e. that, different from the ancient regime, individual chances would not depend on family origins. The data tell us that this promise, at best, has been only partially and locally fulfilled. I think there is much to worry about.

JM: In the context of social mobility and the inter-generational transmission of inequality, one of the key factors you mention is the human capital. What are your findings in terms of the relationship between educated children from educated parents and educated children from rich parents?

MF: Education is positively correlated with income; therefore educated parents quite often are also rich parents. However, there is a specific positive effect of the economic conditions of parents independently from their education. This effect impacts upon the human capital of their children. More important, it seems to influence the economic prospects of the children also independently from human capital. In other words the children of rich parents earn more on the average both because they are more educated and because their income is higher even when they are not better educated.

JM: You questioned the hypothesis that different human capital endowments determine income inequality. In your opinion, which are the main social factors beyond human capital that significantly play in the labor market?

MF: On the average human capital – usually measured by the highest education level one has achieved - guarantees a positive return in all labor markets. However labor income dispersion across people endowed with the same education level (the so-called “within-inequality”) is huge everywhere. This raises the question: if it is not human capital, what is the cause of such dispersion? It could be the quality or the field of education or the so-called soft skills or the power of social networks that can pave the way to higher income even in the absence of better competences and abilities. There are good reasons to believe that in some countries, and especially the Mediterranean ones, social networks are a major cause of “within-inequality”. As I argue in the book this could not be possible if markets were “impartial” and did not generate rents which can be discretionarily allocated to those who are endowed



with better social networks.

JM: You consider that the inequality intergenerational transmission is a serious problem so then that makes you wonder what is the acceptable level of this inequality bearing in mind the so-called “equal opportunity” and meritocracy?.

MF: The meaning of intergenerational transmitted inequality is very simple: the rich will very likely be the sons of the rich and the poor will be the sons of the poor. This is at odds with the idea of equality of opportunity which implies that inequality, if any, should not depend on the opportunities one had but only on individual merits. It is not an easy task to define both merit and other side of the coin, i.e. opportunities. However nobody could challenge the idea that there is no merit in the social networks one is part of and no demerit if poor family economic conditions did not allow getting a high level of education. Therefore I suggest that to be acceptable inequality must, at least, not depend on the advantage coming from social networks nor from a selective education system where the poor are disadvantaged. This is a minimum condition, but in the situation we are it would allow a big jump ahead towards a fairer society.

JM: Your research deepens in the idea that inequality is not actually the main issue, but the lack of mobility. You argue that there is a “vicious circle” between low mobility and increasing inequality, by means of canals of different political power/institutions/social relations/ and market failures. Could you explain a bit more this seemingly sort of puzzle?

MF: Actually what I argue is, on the one hand, that mobility, if taken seriously, is a tremendously important problem not to be overlooked and, on the other hand, that there are strong links between low mobility and high inequality, so that it would be wrong to believe – and many people hold this wrong belief - that a high level of intergenerational mobility can be achieved independently from the level of income inequality. In other words, as the data show, where income inequality is high, mobility is low. Therefore, reducing inequality could be a pre-condition for boosting mobility. In the book I sketch out the many ways in which inequality can hamper mobility. In conclusion, the overall picture is a rather gloomy one: where inequality is high, mobility is low; this means that in the next generation the rich will be to a large extent the sons of the rich and the poor the sons of the poor; in turn this implies that inequality will persist and will have highly unacceptable features. Unfortunately, this pattern applies today to several countries.

JM: Finally, Prof. Franzini, in the last chapter of your book, you make proposals for Italy about three policies for reducing inequality. Could you explain them? Do you think that these policies could be generalized to other peripheral European countries?

MF: In a few words I suggest three types of policies. The first should be aimed at increasing the chances of people coming from poor background to get a higher level of education. The second policy should remove as many as possible factors that allow to reap rents in the markets (and also in political circuits) because rents are the pre-conditions for rewarding undeserved advantages such as those guaranteed by the inclusion in more powerful social networks. The third policy is more compensatory than preventive and could be part of a new design of the Welfare state: I suggest the introduction of a sort of basic income which takes into account the advantages coming from the family background and, therefore, is higher for the sons of the poor and lower for the sons of the rich. If basic income is to be guaranteed to all citizens one should also recognize that not all citizens are born equal if family backgrounds matter. Finally, I believe that fairer access to education, less rent-laden markets and a better designed compensatory welfare state could be useful measures also in other countries.

JM: On behalf of econoNuestra (eN), thank you so much indeed for your insightful answers. They are without doubt a great contribution to the debate which is now being launched in Spain and other European countries by the eN-FUEHM-project.