PART I

Issues and Concepts
The closing years of the twentieth century have been marked by the consolidation worldwide of the market economy. With the end of the cold war the new countries of the former Soviet Union and the newly liberated countries of eastern Europe adopted at least the trappings of market-driven systems. In Latin America the dismantling of state-run enterprises and the opening of markets that began in the 1980s as a response to the debt crisis dramatically accelerated in the 1990s. In East Asia, after three decades of fast growth under market approaches that ranged from laissez-faire in Hong Kong to a government-led market in Korea, a financial crisis in the late 1990s produced still another round of market-oriented consolidation. In India and Pakistan, and even in China, economic policy changes have been inevitably directed toward liberalization. In Africa and the Middle East, those countries that more quickly and fully adopted market policies have been widely acknowledged to have the best prospects for escaping economic backwardness. Even among industrialized countries, U.S. prosperity, compared with recession in Japan and slowdown in Europe, seems to vindicate devotion to market principles.

Meanwhile, the apparent triumph of market systems was accompanied by increasing adherence to democratic systems of governance. Open markets and democratic systems seem to go hand in hand.
But the prevalence of the market economy has not been without costs. Inequality across and within countries has persisted and possibly worsened.\textsuperscript{1} Market competition rewards those countries and people with the wherewithal (property, connections, and, increasingly central in the information age, education and skills) to exploit the new rules.\textsuperscript{2} Along with greater inequality has come increased insecurity as even people with good jobs and rising income work in more volatile and flexible labor markets and as the globalization of markets generates constant adjustments in the nature and location of production and thus of jobs.

Despite these problems, voters throughout the democratic world have for the most part endorsed the market reforms, choosing the potential for more dynamic growth in more open societies even with the accompanying risks of inequality and insecurity. In a global system that seems unfair and unstable, democracy and open markets persist and grow stronger, belying concerns about isolationist backlash and resort to authoritarian populism.

Why? And will this trend persist, or are open markets and democratic systems vulnerable? In this book we build on studies of inequality, markets, and democracy to explore how market reforms and other political and policy changes affect changes in individuals’ and households’ status, both in absolute terms and relative terms, and in their perceptions of their status.\textsuperscript{3} In other words, we use conventional measures of status, especially income and education, to measure people’s mobility in different societies and under different policy regimes.

Why focus on mobility? One explanation for voters’ continued endorsement of market reforms is that the reforms create new opportunities in more meritocratic systems, that market signals are perceived to reward hard work, innovation, and talent more fairly than more centralized and statist economic systems do. Perhaps increased inequality has created increased opportunities, or at the least is associated with changes in incentives that generate both new opportunities and new risks for people. Perhaps it is the existence of such opportunities that makes the move to the market politically acceptable in regions of high and increasing inequality such as

\textsuperscript{1} Schultz (1998). This provides the most comprehensive recent survey and deals with both inequality across and within countries.

\textsuperscript{2} Birdsall (1998); and Birdsall (1999).

\textsuperscript{3} For example, on Latin America, see the essays by Birdsall, Graham, and Sabot (1998); Lora and Londoño (1998); Graham and Naim (1998); Graham (1998); and Graham and Kane (1998). See also Haggard and Webb (1994).
Latin America and in those of visible and painful downward mobility for many, as in eastern Europe and parts of the former Soviet Union.

But increased inequality and insecurity may simply reflect deep and persistent differences in the capacity of individuals and households to exploit markets or to achieve equal access to education, employment, or property rights. Amartya Sen's well-known definition of poverty, for example, focuses on people's capabilities to participate as productive members of society rather than focusing only on their incomes. Sen notes that the opportunity to convert personal incomes into capabilities depends on a variety of personal circumstances, including age, gender, and health status, and on other circumstances such as the physical environment and the state of available public services. This broader and less static view of poverty underlies our approach to inequality and mobility.

If inequality reflects discrimination against certain groups or results from linguistic, cultural, or historical handicaps that ensure the intergenerational transmission of poverty, then mobility, measured over lifetimes and even generations, will be constrained. Acceptance of continued market reform could be the short-run outcome of the limited political voice of those excluded from new opportunities, and time and greater accountability of public policy to the median voter could generate a political backlash against market policies. The signs of such a backlash are present, if limited, as the twenty-first century approaches.

In short, the central idea behind the essays in this volume is that mobility provides a better measure of changing opportunities than do the traditional measures of inequality, and that understanding mobility is critical to the discussion of inequality and of what to do about it. This is especially the case in the new market economies of eastern Europe and Latin America, which are undergoing major economic and political transformations.

In addition, we recognize that people's perceptions of their own mobility and access to opportunity, perceptions that may or may not square with reality, are critical to their opinions about the market and thus to their voting behavior. These perceptions are often influenced by relative income differences as much if not more than by absolute ones, particularly as absolute income levels increase. Because the sustainability of open markets in democratic societies hinges ultimately on voter support, we also explore

5. For theoretical discussions of such a possibility, see Benabou and Ok (1998); and Piketty (1995).
the links among actual and perceived mobility, and between perceptions and political behavior.\textsuperscript{7}

\textbf{Mobility and Markets: Major Themes}

The chapters in this book lay some groundwork for new research on the effects of economic change on mobility and on the implications of those changes for democracy and markets. New research needs to cross disciplinary boundaries and go beyond existing concepts and models. Progress is necessary in a number of areas; we have framed this book through themes that we feel are critical.

\textbf{Unbundling Inequality: Concepts and Measures}

Central to our exploration of the effects of economic change on mobility is whether people are willing to accept more inequality (or the persistence of great inequality) if economic change generates more opportunities and thus more mobility, including mobility that is downward.\textsuperscript{8} Inequality and mobility and their link to economic change requires consideration of two points: the nature of the inequality measured and the time period over which it is measured.

\textit{The nature of inequality.} The nature of inequality governs the effect of market reforms and economic change on mobility. Some inequality is constructive and rewards innovation and productivity. Some is destructive and blocks the productive potential of the poor.\textsuperscript{9} The former communist econo-

\textsuperscript{7} Of course it is not possible to distinguish completely between the economic or market reform process and the political changes that have preceded, accompanied, and in some cases reinforced open markets: more civil liberties, more active civic participation in nongovernmental groups, more power to local governments, and more accountability of government to citizens in general. Perhaps even in the face of great and growing inequality, the stronger accountability of increasingly democratic societies is improving voters' perceptions of market reforms and their long-run benefits for them and their children—so that, for example, in eastern Europe it is the transition to democracy that has made the tough reality of increased downward as well as upward mobility more palatable. In the fourth section of this book, though, the authors consider how market reforms have affected political perceptions and behavior, not how political changes have affected perceptions of market reforms.

\textsuperscript{8} We discuss later the various possible definitions of mobility, which include absolute and relative mobility, time dependence, positional movement, share movement, and directional income movement. See chapter 5 by Gary Fields.
mies are examples of systems in which there were insufficient rewards for risk taking, hard work, and productivity; that is, insufficient constructive inequality. But destructive inequality can in addition entail inequality of access to productive assets, such as land, capital, education, and even the "asset" that contacts and personal connections provide, as has occurred historically in Latin America. Destructive inequality creates an unlevel playing field from the start and makes it difficult for even the most innovative and hardworking poor to take advantage of economic opportunity.

The nature of inequality affects the extent to which it impinges on growth and economic efficiency. By definition, destructive inequality inhibits aggregate growth. Constructive inequality may in fact encourage growth. Unfortunately it is not easy to distinguish empirically between these two types of inequality. But a good indirect approach is to analyze access to opportunities by measuring the extent and nature of social mobility.

In the 1990s, economists produced a large body of new work on the links between inequality and growth in developing countries. For much of the postwar period the conventional wisdom was of a trade-off between augmenting growth and reducing inequality. For those following Nicholas Kaldor, a high level of savings was considered a prerequisite to growth in capital-poor societies; concentration of income would generate high savings because the rich have a higher propensity to save than the poor. For those following Simon Kuznets, growth was seen as necessarily increasing income inequality in poor economies because over a long initial period labor would shift from sectors with low productivity to those with high productivity, and income gaps would widen. In a sense the conventional wisdom assumed that most inequality is inevitable and in any event "constructive."

More recent empirical studies suggest that the relationship is less simple, and at least some measured inequality is destructive. Alberto Alesina and Roberto Perotti identify several ways inequality hinders growth. High inequality creates perverse fiscal incentives: the rich have few incentives to

9. This dual concept of inequality was emphasized by Sheahan and Iglesias (1998).
10. We do not attempt here to provide an extensive literature review. We also limit ourselves to the economics literature, realizing that there is a rich discussion of the effects of inequality in a number of other disciplines, including philosophy. See Rawls (1971). We also limit the discussion to inequality rather than the broader concept of equity. For an excellent discussion of the concept of equity and its role in increasing economic efficiency, see Young (1994).
High inequality may also hinder investments because it increases investors' fears about political instability on the one hand and on the other hand implies a smaller base of people in society with the capacity to save and invest. Nancy Birdsall, David Ross, and Richard Sabot note that higher levels of inequality may reduce the poor's propensity to save and to invest in the education of their children. Karla Hoff explores how, in the presence of market failures, inequality can exacerbate efficiency losses, perpetuate itself, and trap people in poverty. Because of imperfect capital markets, for example, access to credit may be restricted to those who have collateral wealth; a person's initial assets may be an important determinant of his or her ability to finance the high-return investments, including education, that make it possible to escape poverty. This poses a particular problem for investments in human capital because future earnings cannot be used as collateral. The implication is that initial assets determine productive potential.

Economists have also developed models that explain inequality and its persistence even in the absence of market failures. George Akerlof describes a phenomenon he calls the economics of identity, which stems from individuals' ties to particular social groups. Because leaving such groups threatens individuals' identity, they are often reluctant to do so, even if it means giving up opportunities to escape poverty. This is applicable to a variety of social groups, ranging from adolescents in ghetto gangs to ethnic minorities and immigrants. Steven Durlauf analyzes the role of neighborhood effects in determining individuals' economic success and the productivity of investing in children's education. He shows how stratification and neighborhood feedback effects with behavioral norms in poor neighborhoods can discourage economic effort and perpetuate inequality.

14. See Birdsall, Ross, and Sabot (1995); and Birdsall, Pinckney, and Sabot (1998). The latter sets out a model in which, given imperfect capital markets, new and equal opportunities for the poor will increase the poor's savings and investments, setting off a dynamic process of equitable growth.
15. Hoff (1996). Chapter 6 by Behrman, Birdsall, and Székely, meanwhile, demonstrates that in Latin America imperfect capital markets are associated with a stronger link between family background variables and children's schooling.
17. Durlauf (forthcoming). Another group of studies attempts to overcome the limitation of static, rational-actor-based models in explaining economic processes and outcomes and relies on agent-based modeling techniques to capture the interactive dynamics between individuals and their environments. Epstein and Axtell (1996) demonstrate how individual traits such as expectations acquired from repeated economic interactions among agents can lead to high and persistent inequality even without market failures.
Empirical evidence suggests that the restraining effects of inequality on growth are essentially a story of destructive inequality: blocked or limited mobility and opportunity for low-income groups. The transition to a market economy, coupled with a transition to democratic government, provides a historic opportunity to break these vicious inequality circles. In regions such as Latin America, the defeat of inflation has improved the situation of the poor. There and in eastern Europe, trade liberalization makes it possible to reduce corruption and insider rents that favor a protected corporate elite. Throughout the developing and developed world, privatization has the potential to increase competition and improve access to services. In fact, however, recent studies suggest that the effects of these initial market reforms on inequality in the emerging market economies have been mixed. Studies for several countries in Latin America indicate that trade liberalization, for example, increases inequality of wages in manufacturing as demand for skilled workers increases faster than supply.18 Recent cross-country analyses suggest that effects at the level of the entire economy may be more benign: trade liberalization affects relative prices as well as relative wages and may favor low-income consumers.19

In the medium term the implementation of a second stage of reforms, in sectors such as health and education, finance, social security, and labor markets, could attack the roots of destructive inequality. What distinguishes these reforms from past efforts to deal with inequality is that they address its causes. Rather than merely mitigating the effects of poverty, they increase the productive potential of the poor by emphasizing fiscally sustainable, productivity-enhancing measures and avoiding microeconomic disincentives that create dependence. Instead of relying on redistributive transfers, they increase the capacity of the poor to benefit from opportunities, for example, by providing incentives that encourage them to make investments in education. Depending on their extent and depth, these reforms should be reflected in greater social mobility in the countries where they are most vigorously followed. The dynamics, of course, will differ among countries and regimes, depending on the scale of the economic changes and such initial conditions as inequality itself.20 In the former communist countries there is little doubt that with dramatic changes in incentives inequality has increased from a low level. Some of that increase was

necessary to spur productivity and innovation and therefore opportunity. In Latin America, in contrast, distribution patterns remain very similar to what they were before the reform period. Latin America began its reforms with the most unequal income distribution of any region in the world, a distribution that seems so far to have blocked the productive capacity of the poor and constrained the region's growth.

The measurement of mobility: inequality over time. The authors in this volume are concerned with two distinct aspects of mobility, neither of which is easily captured in conventional measures of income inequality. The first is lifetime income and mobility. The incomes of doctors in the United States, for example, when measured at any point in time are unequal because in their early years as interns they earn little compared with what they will earn later in their careers. Annual measures of the distribution of bricklayers' incomes will exhibit much less inequality because bricklayers' earnings opportunities do not increase as much with time as do those of doctors (figure 1-1). Obviously, in economies undergoing major structural change the situation is more complicated because many people will change occupations during their lifetime, some occupations will emerge and others disappear, and the lifetime income profiles of different occupations may shift altogether.

In short, typical measures of inequality tell us nothing about doctors' or bricklayers' lifetime income or mobility. Measures of inequality are like snapshots; they reflect differences in income at a specific point in time, but not whether those at the top or bottom of the income ladder are moving up or down or expect to do so. They therefore tell us little about what is happening to people's opportunities and to their well-being over a prolonged period of policy change.

A second measure of inequality is intergenerational within families or "dynasties." Societies differ in the extent of their intergenerational mobility—the extent to which parents' (and grandparents' and so on) place in the income or other ranking of their generation determines the place of their children (and grandchildren and so on). At one time, land ownership or bloodline mattered. With the global turn to the market, it appears that it is education that matters, and thus some combination of parents' investments in children and of public policy determines intergenerational mobility.21

21. There is a considerable literature on this subject. For detail and references, see chapters 2 and 6.
Lifetime income mobility is likely to be influenced by business cycle volatility, and intergenerational mobility by such structural changes in economies as the opening of trade markets and divestiture of state-owned enterprises. In the longer term, patterns of mobility are also influenced by broader trends in the global economy, in particular the transition to growth led by high technology. In the nineteenth century's embrace of industrialization, economic opportunities and rewards were largely determined by a capital-labor divide with by far the largest rewards going to those who owned capital rather than to those who provided manual labor. With the turn to high technology growth, a similar divide exists between educated and uneducated workers, increasing the opportunities and rewards of the educated and decreasing the returns to the labor of the uneducated.

Crossing Regional Boundaries

The issues involving equality, opportunity, and mobility cut across developed and developing countries. Although there are obviously differences, especially that most developed economies have not faced economic

22. See chapter 2 for a useful discussion of the problems of measuring lifetime mobility.
crises as severe as the developing countries have nor have had to implement such extensive policy reforms, many of the core issues remain the same. Questions about the role of parents’ occupation and education in determining the opportunities of children are central in both contexts, as are those about differential returns to skilled and unskilled labor.

In this book we explore mobility and economic change in various settings. The United States, for example, is often cited as the land of opportunity, where high and increasing levels of inequality are tolerated because of the abundance of opportunity. In recent work, Isabel Sawhill notes that high mobility in the United States, defined as the extent to which children end up economically better off than their parents, has been in large part associated historically with faster average income growth than in, for example, Europe. Differences between the United States and Europe in the extent of social mobility—the extent to which children's relative social and economic status is related to their parents' relative status—are not that great. She notes that the differences across families in children's future opportunities in the United States are more and more a function of access to college education, and that with spiraling private costs of higher education, parents' income and education are increasingly important in determining who goes to college.23

Latin America, meanwhile, leads the developing world in introducing extensive market reforms.24 The region's traditionally high levels of inequality appear to be destructive, based on the unequal distribution of such crucial assets as land and education as well as on policy distortions that have favored the rich and discriminated against the poor. Thus the distribution of opportunity as well as income has been especially unequal. In this book we explore whether recent reforms are improving opportunities for low-income groups and how those groups perceive the changes that have occurred. We analyze the limited empirical data that exist on mobility trends as well as some new data that document public perceptions about those trends.

In the former communist economies of eastern Europe and the former Soviet Union, a very different situation predated reform: one of destructive equality, in which there were insufficient incentives for productivity and innovation, and opportunities were rationed according to political and other noneconomic criteria. Reforms have increased inequality but at the same

23. For detail, see chapter 2; and McMurrer and Sawhill (1998).
time have generally improved the manner in which opportunities are allocated. In most cases, market principles such as greater returns to higher education coexist with older patterns such as greater opportunities for the nomenklatura and their children. Not surprisingly, changing patterns of income distribution coupled with very visible differences among winners and losers from market policies have had significant effects on the public’s perceptions about how markets work in those regions. In this book we explore the empirical data on mobility since reforms began in a number of countries in eastern Europe as well as data that detail people’s perceptions about their own mobility patterns vis-à-vis the rest of society.

Eclectic Methods

The economic literature on income distribution and economic growth has expanded substantially in the past decade in both theory and empirical work. Important contributions on developing countries have been made possible by the development of better and more consistent data.²⁵ Contributions have also come from the increasing use of household panel data by economists concerned with economic policy questions.

Meanwhile, studies of social mobility have been primarily the domain of sociologists. They have focused mainly on developed countries and have not directly addressed relations among economic growth, economic policy, and mobility.²⁶ With a few exceptions, economists have until recently been less concerned with social mobility and the conceptual and measurement problems surrounding it. Angus Deaton and Christina Paxson have studied questions pertaining to mobility within generations in the United States, largely through the exploration of short panels, focusing on the role of education and other variables in determining income mobility.²⁷ Sawhill in this volume, among others, has studied intergenerational mobility, com-

²⁵. Deininger and Squire (1996), for example.
²⁶. There are some exceptions for the developing countries. One for Brazil is Pastore and Zylberstajn (1997). We refer here primarily to the economics literature. There is a rich body of sociology literature that addresses issues of social status and social structure as well as of income mobility. It also provides occupational categories as a means to measure social mobility. These issues are, for the most part, beyond the scope of our study. See, for example, the works of Erikson and Goldthorpe (1985); Duncan, Featherman, and Duncan (1972); and Ganzeboom, Treiman, and Ultee (1991).
²⁷. Deaton and Paxson (1994) have looked at trends in Taiwan as well as in the United States. For a comparison of U.S. and European data and approaches to earnings mobility, see Atkinson, Bourguignon, and Morrisson (1992).
paring income and other characteristics of parents and their grown children in the developed economies.28

With the nearly universal turn to the market in the former communist countries and in the developing world has come new interest in understanding mobility in rapidly changing environments. Taking advantage of the wave of market reforms, the authors in this volume link mobility to traditional economic concerns about growth and efficiency, combine these new concerns with the literature on the politics of economic reform, exploit a variety of different methodologies, and provide case studies from several regions. Our methods are exploratory: we rely on new conceptual approaches to issues of inequality and opportunity, take novel approaches to exploiting the empirical data that exist, and report in several chapters on new data sets we have developed.

Absolute versus Relative Mobility

Whether one measures a lot or a little mobility depends in part on exactly what is being measured. Confusion about absolute versus relative mobility is at the heart of confusion about whether certain societies really are mobile. Absolute mobility is defined as movement of individuals across a fixed income threshold established in a base year for the population as a whole. By this definition, a large number of people will be considered mobile, regardless of their relative position within a distribution. Factors such as economic growth and the natural tendency of incomes to increase with a person's age tend to ensure high absolute mobility.29 Relative mobility is defined as individuals' mobility relative to others, normally for a given age, and will reflect the influence of factors such as education, inheritance, and luck. Both absolute and relative mobility will of course look different in different economies and within economies over time as a function of policy changes, societal differences in age distribution, and so forth.

We are interested in both kinds of mobility. For many countries, the extent of absolute mobility is an important issue for the period under study, which covers years of severe economic crisis, extensive macroeconomic adjustments, and the subsequent resumption of economic growth. As a starting point, we establish absolute mobility rates in a number of coun-

tries in Latin America and explore how or if they have been affected by market reforms. We are also concerned with relative mobility and thus the differential effects of market reforms on different groups, defined, for example, by education.

Critical Variables

Another departure from standard approaches to the study of mobility is our focus on the effects of structural economic changes on mobility. A major question in Latin America and in the former communist economies, for example, is the extent to which the demand for labor has changed because of market reforms. The relative weights of variables that determined mobility rates in the pre-reform economies, such as education and occupational skills, may have changed, and the change may differ from country to country. Few studies assess the effects of economywide changes across countries and over time on patterns of mobility. In this book we make an initial attempt to do so by presenting the state of the art in mobility studies in each regional context, exploiting a series of cross-sections of countries and bringing new data to bear in a few case studies.

An emphasis on education emerges, not only as a contributor to mobility patterns but as a result of them. Both the sociological and economics studies on mobility have focused on education as a key variable. Yet these studies have for the most part treated education as an exogenous variable. Nancy Birdsall and Juan Luis Londoño suggest why the distribution of education is in fact as likely to be an outcome of past inequality.\(^3\) Thus for some groups in the region, education or lack of education reflects lost opportunities in the past rather than serving as a vehicle for change.\(^3\) We treat education as both a contributor to and an outcome of inequality and mobility patterns.

Political Economy and Public Perceptions

This book also departs from the established literature in incorporating political economy and institutions-based approaches. As mentioned ear-

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31. Münner and Sawhill (1998), meanwhile, find that in the United States access to good quality education, which is very important in determining mobility rates, is increasingly correlated with distribution of income patterns, which is becoming more unequal.
lier, public perceptions and expectations about mobility are as important as objective trends in determining voter behavior and therefore the sustainability of market policies. The last section of this volume explores the conceptual and methodological challenges involved in measuring public perceptions about objective mobility trends and presents initial results of surveys taken in Latin America and eastern Europe.

Related to this political economy approach is the role of institutions in creating equal opportunities. Throughout this volume the authors explore the influence of public education, credit markets, and political and other institutions on trends in mobility. It is clear from the results presented here that institutions can be critical in creating equal opportunity or in stacking the deck against the poor, resulting in destructive inequality.

Contents of the Volume

The first section of the book sets out the conceptual issues involved in the study of the economics of opportunity. Isabel Sawhill focuses on mobility as a measure of access to opportunity, explores recent trends in the United States, and lays out the resulting policy choices, with a particular emphasis on the role of education. Joseph Stiglitz examines the trade-offs among social justice, economic efficiency, and individual responsibility, and how different societies' resolutions of these trade-offs affect their equality of opportunity and level of mobility.

The second section explores measurement challenges involved in the study of mobility. Jere Behrman defines the concept of social mobility as movements between periods in socioeconomic status indicators for specific entities. He reviews the state of the art in approaches to the study of income mobility and explores the challenges involved in applying them to the limited data that exist for developing countries, Latin America in particular. Gary Fields unbundles the concept of income mobility into five aspects: time dependence, positional movement, share movement, symmetric income movement, and directional income movement. He explores how reliance on one or another of these leads to different conclusions about mobility. Both authors explore issues of relative versus absolute mobility and how they affect the definition and measurement of mobility.

32. For a discussion of how inequality can lead to "populist" voting, see Alesina and Perotti (1994). For a discussion of voting patterns and economic policies in Latin America, see Remmer (1993). For a discussion of social policies, voting, and market reforms, see Graham (1994).
The third section of the book provides some empirical evidence of mobility patterns and their causes in Latin America and eastern Europe. Nancy Birdsall, Jere Behrman, and Miguel Székely construct indexes of intergenerational mobility for countries of Latin America and use the indexes to explore the effects of economic policies, macroeconomic conditions, and education programs on that mobility. They find that the depth of financial markets and the emphasis on basic schooling in public spending increase intergenerational mobility. Although the immediate effects of market reforms and education policy reform on current income distribution have not been evident, longer-run effects on mobility seem likely.

Katherine Terrell examines worker mobility and winners and losers in the postcommunist economies. She defines winners and losers along two dimensions: changes in their relative earnings and in finding jobs and avoiding unemployment. She finds that the winners in the transition so far have been young, educated men whose skills have enabled them to exploit new opportunities in the private sector of the economy. The growth in women's returns to education has lagged behind men's returns, and the skills of older workers are now much less valued in the new market economies.

In a study of mobility trends in Chile, David Hojman focuses on what he calls “market-driven, medium-term mobility,” the changes in mobility trends that are driven by policy alteration. Chile's highly unequal income distribution remains very similar to what it was before the reforms, despite major strides in reducing absolute poverty. Though income has increased across the board, by far the largest increases have gone to managerial (skilled) personnel. Hojman develops a model in which increases in absolute income gaps may lead to consumption effects that reduce welfare—even if, as in Chile, income and consumption are increasing rapidly.

The fourth section of the book explores the issues of public perceptions and politics. Carol Graham analyzes how the existing studies on the political economy of reform fail to account for the effects of mobility trends—both upward and downward—on voting patterns. She reports the results of a regionwide survey of public opinion about markets and democracy in Latin America. One result was greater optimism among younger groups, probably reflecting their greater capacity to adapt to market changes and related demands for skilled labor. She also assesses the implications of the results of a pilot study of public perceptions versus objective mobility trends in Peru for the development of new political economy research on mobility, public perceptions, and the political sustainability of reform. She concludes that objective trends are usually poor predictors of subjective
assessments, in part because upwardly mobile groups tend to have initially higher expectations than do the very poor.

Richard Webb, who conducted the pilot study of perceptions versus objective trends in Peru, details the findings of the study in his chapter. The most striking is that the responses of the top 30 percent of the sample—people who did best in income terms—were more pessimistic in their individual self-assessments than were those of other groups in the sample. There are various explanations, including higher expectations among more educated urban groups, reluctance to make definitive statements among rural respondents, and difficulties in accurately assessing earnings and income trends among respondents, particularly the self-employed. Beyond informing the research on mobility and perceptions, these findings also introduce methodological questions for all surveys that compare responses of urban and rural residents.33

Finally, Petr Matejú compares objective mobility trends (occupational mobility) with perceptions in eastern Europe. Like Webb, he finds that there is often little correlation between objective trends and public perceptions of those trends. He also finds that subjective assessments rather than objective trends have the most influence on how people vote. This points to the importance of better understanding what determines people’s perceptions of their past mobility and future opportunities and the links of these perceptions to voting patterns.34

This volume must be viewed as an initial exploration into uncharted waters. The links between inequality, opportunity, and political behavior are far from established. There are also substantial problems with finding adequate data, particularly panel data, for the emerging market countries. Important major countries such as Russia, where resolving the problems of inequality and the opening of opportunity may be key to a very fragile political stability, are not covered in this volume, in large part due to data problems.35 We view ours as an initial effort to frame the issues and lay the foundation for cross-regional collaboration in a new line of research on the economics of opportunity. Thus what is missing may be as important as what we are able to report.

34. These issues and their linkage to the sustainability of market policies are the focus of Carol Graham’s ongoing research at the Brookings Institution.
35. Researchers from Russia attended an exploratory workshop sponsored by the Brookings Center on Social and Economic Dynamics in June 1998 that laid the foundations for this book. At that workshop, the basis for the future collection of the relevant data in Russia was established.
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