



# RESEARCH REPORT SNAPSHOT



## Research report snapshot – Generation Next: Unleashing youth aspiration and upward mobility

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### Introduction

- Growing concerns have been expressed in media commentary and policy circles about the economic fortunes of young Australians, especially Millennials and Gen Z'ers.
- In recent years, key issues affecting the wellbeing of younger generations have been identified, including:
  - the adverse effects of pandemic restrictions;
  - impacts of rising price inflation and cost-of-living pressures; and
  - a lack of housing affordability as incomes fail to keep pace with house prices.
- Many of the anxieties concerning the situation faced by young Australians appear to share a common theme: will they get to enjoy better living standards than previous generations?
- This report addresses key economic issues facing younger generations through the prism of intergenerational income mobility.

### Income mobility: Concepts and empirical evidence

- One of the key indicators in assessing the long-term economic wellbeing of younger generations is intergenerational income mobility — the extent to which young people's incomes earned over time exceed that of their parents.

- Higher rates of income mobility are widely seen as desirable; providing young people with higher earnings potential over their lifetimes compared with their parents, and realising their aspirations for a better life.
- This report assesses intergenerational income mobility both in relative terms (tracking movements of young people within the income distribution compared to their parents) and absolute terms (tracking extent of income growth for young people over time).
- A number of empirical studies have been produced to quantify the degree of intergenerational mobility in Australia. A summary of some of the key results are reproduced in the following table:

#### Australian intergenerational mobility estimates

Study	Elasticity estimate
Leigh (2007)	0.2
Mendolia and Siminski (2016)	0.35
Huang et al. (2016)	0.24-0.28
Fairbrother and Mahadevan (2016)	0.202
Murray et al. (2018)	0.409

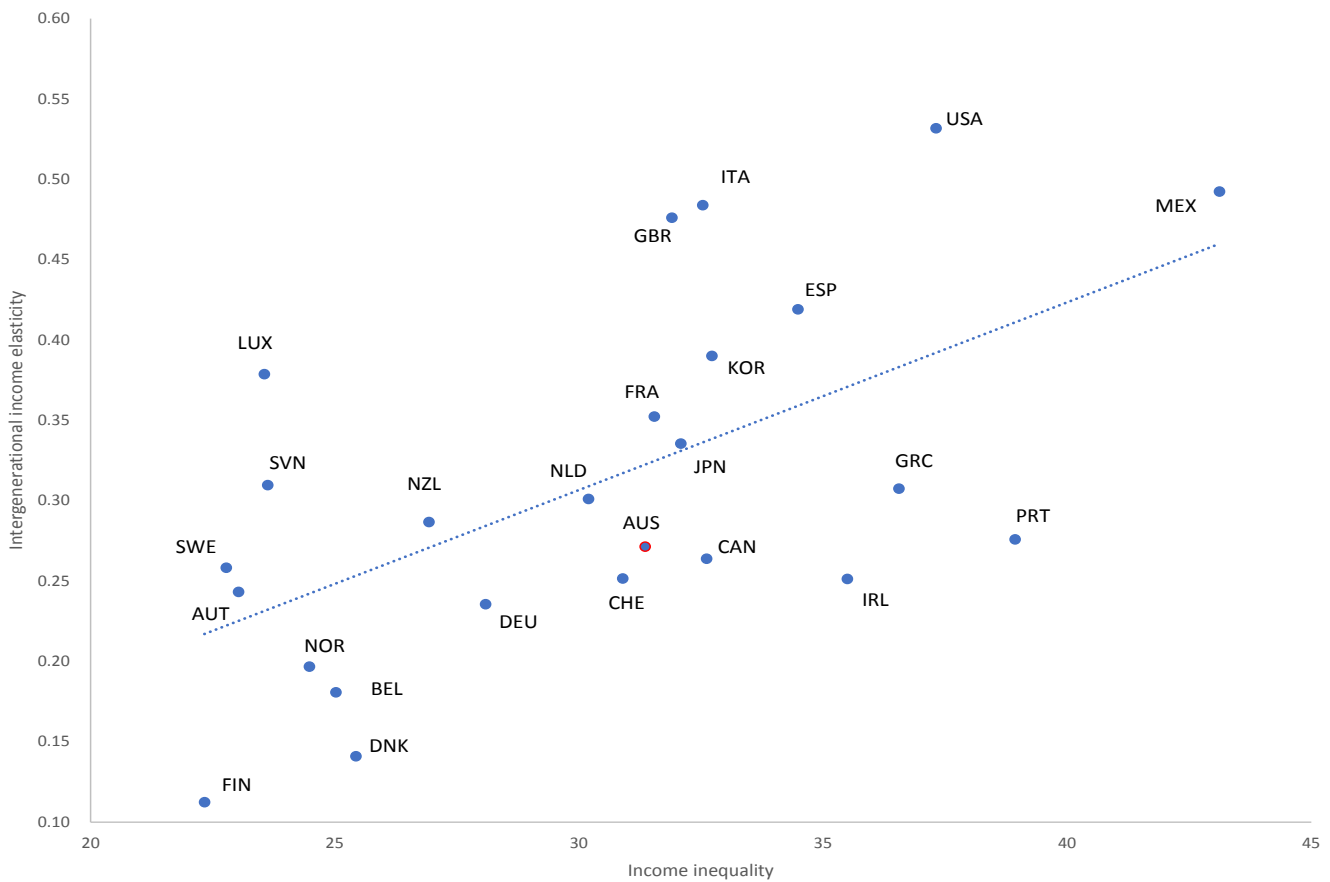
Notes: Table reports 'father-son' mobility elasticity values. Lower elasticity values indicate greater degrees of intergenerational mobility.

- Although findings vary from study to study, Australian intergenerational income mobility generally lies in the middle of a pack of OECD countries — lower than that of certain continental European countries, including

Scandinavian countries, but higher than that of the United States and United Kingdom.

- Economic studies indicate there exists a 'Great Gatsby' curve, showing a negative relationship between income inequality and intergenerational income mobility. The Great Gatsby curve is reproduced in the figure below:

### Great Gatsby curve



Notes: Lower values on x-axis indicate lower degrees of income inequality. Lower values on y-axis indicate greater degrees of intergenerational mobility.

### How institutions affect mobility

- The Great Gatsby curve has been taken by some to imply a causal relationship between inequality and mobility that justifies larger 'tax-and-spend' redistributive programs to bolster mobility for young people.
- Recent contributions to literature question the idea of a causal link between inequality and mobility, pointing to the role of institutions and policies in affecting rates of upward income mobility over time.
- Studies in recent years support the suggestion that poor quality economic institutions inhibit mobility outcomes across generations.
- Policy settings that do not respect private property rights, and restrict gains from entrepreneurship, education and training, and productive economic activity, are identified as key barriers to upward mobility, including for young people.
- Better institutions providing greater economic choices would empower young Australians in discovering their own, preferred pathways for upward mobility and material prosperity.

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**Mikayla Novak** is Senior Fellow at the F. A. Hayek Program for Advanced Study in Philosophy, Politics, and Economics at the Mercatus Center at George Mason University in Arlington, Virginia, United States. She has written two books, and over 20 peer-review academic journal articles. She has an academic and professional background in economics, with a doctorate in economics (RMIT University) and a First-Class Honours economics degree (University of Queensland). She also acquired extensive professional experience within the public sector, including with the Australian Treasury and Productivity Commission. Mikayla has over 25 years of active engagement in classical liberal ideas, and was an attendee at the second CIS Liberty & Society Conference in July 1996.