Preservation

Key messages

- Many middle-income countries have a shortage of talent, a key ingredient for bolstering the forces of creation. Yet the forces of preservation prevent talent from developing as well as waste the existing talent.
- Talent matters more in middle-income countries than in low-income countries because in middle-income countries skilled workers have become increasingly key to their economic, structural, and technological transformation.
- The opportunities for social mobility in middle-income countries are few due to three main forces of preservation: networks, neighborhoods, and norms.
- Networks, such as elite pacts, facilitate the formation of groups that can determine access to jobs, services, and policy making. As a result, they tend to keep in-groups in and out-groups out, devalue talent and merit, perpetuate inequities of opportunity, and depress expectations for upward mobility in middle-income countries.
- Neighborhoods shape the access of those who were born, grew up, and lived there to opportunities and aspirations. In many middle-income countries, neighborhoods keep people stuck in place, impede migration, hinder productive agglomeration, slow knowledge diffusion, and block the pathways to scale that efficient small enterprises need to become large productive and innovative firms.
- Norms—particularly patriarchal social norms—can hold back women and other marginalized communities from entering the labor force, as well as from benefiting from educational opportunities. In this way, norms prevent the development and growth of talent among half the population of middle-income countries.

Preservation is an antagonist of creation because it is also an antagonist of destruction

In 2005, the government of Indonesia attempted to implement reforms that would heighten students’ achievement in elementary and lower secondary schools. One such reform included a rigorous teacher certification requirement in exchange for doubling teachers’ salaries. Although the certification process was supposed to include high-quality external assessments of teachers’ subject knowledge and pedagogical practice, the issue became highly politicized.
Consequently the intended competency tests were replaced with weak certification requirements, and the reform amounted to a 100 percent salary hike for all teachers. Despite its very high fiscal price tag, the reform yielded no improvement in student achievement, although such a systemic improvement of teacher requirement may take a longer time to have a systemwide impact on learning.

As enterprises in middle-income countries infuse global technologies, they will need technical workers and specialized professionals to adopt and use technology as well as managers to run modern firms. Middle-income countries have a shortage of such talent, which is a key ingredient of efforts to bolster the forces of creation (see chapter 4). Yet the forces of preservation keep talent from developing as well as waste the existing talent, therefore reducing the incentives for many individuals to invest in developing their human capital. In many middle-income countries, access to opportunities is not based on merit, resulting in high income inequality and few opportunities for social mobility, thereby perpetuating “social immobility.” The roots of social immobility can be traced to networks, neighborhoods, and norms:

- **Networks** keep in-groups in and out-groups out, devalue talent and merit, perpetuate inequities of opportunity, and depress expectations for upward mobility, all for the sake of preserving social elites—and, with them, inefficient incumbent firms.
- **Neighborhoods** keep people stuck in place, impeding migration, hindering productive agglomeration, slowing knowledge diffusion, and blocking the pathways to scale that efficient small enterprises need to become large productive firms—and to become the innovative incumbents of the future.
- **Norms** keep women and marginalized communities out of the labor force, out of education, out of skills, out of luck, and out of hope.

The first two forces of preservation emerge from elite pacts, keeping out-groups out. The third is a consequence of patriarchal social norms and a system of attitudes and beliefs. The result is that women have unequal access to resources and power, thereby holding back a large proportion of the population. To be sure, all three factors can be helpful in filling the gaps left by missing markets and missing services, but they also become sources of preservation when they restrict and ration access based on social status.

This chapter highlights how social immobility preserves the status quo, exacerbating the stunting and waste of talent in middle-income countries. Although the forces of preservation discussed here focus on talent for a growing middle-income economy, the principles broadly apply to enterprise and energy as well. For example, obstructions posed by incumbents, including state-owned enterprises, hobble the drive for a quick lower-carbon transition, mainly led by young firms in the private sector. Incumbents can cause significant delays by refusing network connection on shared assets (“deep connection”). Incumbents can also “curtail” the distribution of power generated by wind and solar energy—a persistent problem for renewable energy developers in several middle-income countries, despite a “must-run” assurance in regulations to deliver reliable energy supplies.

This chapter examines three questions:

- **How harmful are the forces of preservation in middle-income countries?** As countries transition from low-income to middle-income status, the demand for skilled workers such as technicians, professionals, and managers increases substantially. As income per capita increases, the share of workers employed in small firms declines, and the share of those employed in medium and
large firms steadily increases. Countries with greater social mobility have more skills to draw on in the workforce. The forces of preservation, holding back social mobility, are much more harmful in middle-income countries than in low-income countries.

- **How do the economic and social “elite” preserve the status quo?** Although economic and social elites have the resources and the education to help accelerate growth through the infusion of global technologies, their dominance can also buy economic, social, and political power. By capturing political and social institutions, they have an outsize say in who studies where and what, who gets a sought-after job and what they are paid, and who gets to start a business. They also influence housing markets to determine who lives where and whether newcomers to a city or country are welcome. The status quo is preserved by keeping “others” out.

- **How does gender inequality hold back the potential of women?** In many middle-income countries, patriarchal gender norms hold back women from taking advantage of attractive opportunities in the labor market and for entrepreneurship. Discrimination, sexism, and misogyny occur in all walks of life, including the businesses women own, the jobs they get and the pay they receive; how much their families spend on educating them and for how long; and their ability to operate bank accounts. Unequal social norms and beliefs and the institutions that reinforce men’s status advantage and access to more resources and power hold back nearly half a country’s people, curtailing an economy’s growth. It is of particular concern in graying middle-income countries projected to face labor crunches.

### Talent drives economic progress, but social immobility holds back the development of talent

**Fostering talent is a priority for middle-income countries**

As economies grow, their production processes become more complex; they rely on a growing division of labor, and the need for new talents emerges. Agrarian societies need few skills, whereas high-income countries need many more for their high-end, sophisticated services. The share of skilled workers among the workforce is very low in low-income countries, but it increases steadily as countries move from lower-middle-income to upper-middle-income to high-income status (see chapter 2, figure 2.3). Pakistan would need to double its share of skilled workers to reach the level of Chile, and China would also need to increase its share substantially. In general, as middle-income countries grow—particularly as they approach high-income status and must innovate rather than simply adopt technologies—they require increasingly sophisticated talent. Such transformations in the economy make the development and efficient allocation of talent particularly important for middle-income countries and place social mobility and equitable access to opportunities at the forefront of policies to promote growth and social welfare.

**Skilled workers are key to economic, structural, and technological transformation**

Firms grow as skilled workers, such as managers and professionals, become more abundant. In lower-income countries with gross domestic product (GDP) per capita under US$3,000, most workers are unskilled and employed in small firms with fewer than 10 employees (figure 5.1). As GDP per capita increases, the share of workers employed in small firms declines, and the share of those employed in medium and large
As economies transition to higher-income status, the demand for skilled workers such as technicians, professionals, and managers increases substantially. In turn, more educated managers are more likely to adopt technology for general and sector-specific business functions, thereby raising not only the productivity of their firm but also contributing to creation and economic progress for the economy as a whole (box 5.1).

**Improving social mobility is a priority for middle-income countries**

How do societies select who has access to education, employment, and finance? What prevents talent from being nurtured? A better-educated and wealthier parent has a greater capacity to finance investments and make better investment decisions, has better connections for job searches and placements, and can serve as a role model in terms of education and professional work. In a self-reinforcing cycle, greater investments—and better investment choices—yield increasing benefits to parental background: that is, they create increasing returns.\(^2\) In particular, greater investments by parents in early childhood increase the returns on later investments.\(^3\) This approach can lead to higher inequality and the development of a “human capital elite,” where there is considerable mobility within a class boundary but not across classes.\(^4\) A striking example is the intergenerational persistence among political elites (where the social and economic status of family members between generations stays the same). In many low-income and middle-income countries, the descendants of political elites also tend to be involved in and consolidate power and resources through politics.\(^5\)

Countries characterized by higher income inequality are often those in which a significant portion of economic advantage is transmitted from parents to their children. The association between income inequality and intergenerational immobility—often referred to as the “Great Gatsby Curve”—is positive as more unequal countries are more socially immobile (figure 5.2).\(^6\) This association is much stronger for middle-income countries than for high-income countries.

At one end of the income equality scale is Finland, where schooling is largely free at all levels and is of very high quality by international standards. There, 80 percent of children attain a level of social mobility that is not dependent on their parents’ social status.\(^7\) By contrast, in middle-income countries on average, intergenerational persistence is much higher (40 percent). Specifically, the share of individuals whose social and economic status is the same as that of the previous generation is more than twice as large as in Finland. Closing even a fraction of this gap means a great boost to acquisition and allocation of talent and to growth.
**Box 5.1 Firms with better-educated managers adopt more technology**

If technology is available, why don’t more firms adopt it? Data from the World Bank’s Firm-level Adoption of Technology (FAT) survey of 12,000 firms in 11 developing countries reveal that the average firm has adopted an intermediate level of technology, scoring 2.4 on the technology adoption index out of a possible 5. The education level of managers is an important factor in the adoption of technology because better-educated managers are more likely to adopt technology (figure B5.1.1). A manager’s education is particularly important to the adoption of advanced technologies such as enterprise resource planning for business administration, software-based statistical control or automated systems for quality control, and robots or additive manufacturing for advanced manufacturing.

The process may also work two ways: firms that adopt more technology hire more educated managers. But a considerable share of firms (more than 30 percent in Georgia, Ghana, India, Kenya, and Senegal) view the lack of capabilities—including managers’ and workers’ skills—as an important barrier to technology adoption, suggesting that having better-educated managers may be a prerequisite for greater technology adoption.

**Figure B5.1.1 Better-educated managers are more likely to adopt technology in middle-income countries**

![Bar chart showing regression coefficient of technology adoption by education level and business function](image)

*Source: WDR 2024 team based on data from the Firm-level Adoption of Technology (FAT) survey. Note: The figure shows coefficients from regressing a technology adoption index (extensive index, 1–5) on the independent variables shown in the figure, controlling for fixed effects by country, sector, and firm size (small/medium/large). The figure covers the following middle-income countries: Bangladesh, Brazil, Cambodia, Georgia, Ghana, India, Kenya, Senegal, and Viet Nam. BA = bachelor’s degree.*

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a. The World Bank–administered FAT survey provides firm-level data on the adoption of more than 300 technologies across approximately 50 business functions. These include general business functions that are common to all firms and sectors, such as business administration, operations planning, sales, and quality control. They also include sector-specific business functions that vary across sectors. For food processing, for example, functions include input testing; mixing, blending, and cooking; antibacterial procedures; packaging; and storage. For further information, see Cirera, Comin, and Cruz (2022).
Social mobility is key to enabling growth, particularly more equitable and inclusive growth. Countries with greater social mobility have more skilled workforces. Data reveal that if two countries have the same income per capita but one has more social mobility than the other from one generation to the next (intergenerational mobility), the country with greater intergenerational mobility has a higher share of skilled workers. This positive association between the share of skilled workers and social mobility arises because a country with higher mobility is able not only to produce more talent but also to generate more skilled jobs. More advanced economies are also better able to ensure that more individuals, regardless of their parents’ circumstances, have better opportunities to become skilled workers. And social mobility matters much more in middle-income countries than in low-income countries simply because the former need more skilled workers to invest, infuse, innovate, and grow (figure 5.3).
Elite pacts perpetuate social immobility and preserve the status quo

Creative destruction requires talent; individuals, in turn, need opportunities to develop their talents and an expectation that investing in such talent will improve their lives. In the early twentieth century, a high school or college degree held the greatest potential for fostering inventions. However, in today’s world marked by ever-advancing and complex technologies, the focus on innovation has moved toward even more specialized education, exemplified by the pursuit of advanced degrees such as PhDs. When deciding how much to invest in their own human capital—or that of their children—individuals weigh the expected returns of those investments against their costs, largely based on societal norms and rules that determine an individual’s access to the relevant markets and services.

When these norms and rules are biased—for example, in favor of the wealthy and the elite—they restrict access to opportunity. Inequitable access to opportunity exacerbates social immobility, which preserves the existing social hierarchy, perpetuating inequality. Social immobility, in the aggregate, holds back the energies that drive the forces of creation.

Elite pacts hinder learning, employment, and entrepreneurship

Networks facilitate the formation of groups that can determine access to jobs, services, and policy making. Better-educated and wealthier parents have broader social networks to assist in their child’s job search. Networks also matter for entrepreneurship. Because better-educated and wealthier entrepreneurs have access to wider and better social networks than others, they have greater access to opportunities and credit.

Networks keep outsiders out

Networks and group memberships based on parental and family ties can secure access to jobs, public services, and political power for individuals from wealthy and close-knit groups. Such tight social groups are common in many countries. Although these social relationships are often instrumental in building trust and facilitating business transactions, they also create unequal playing fields, limiting opportunities for those outside the network. And they keep outsiders out. In fact, the majority of people in many countries believe that social connections, mostly through family, are a key to success, as opposed to personal effort, grit, or talent.

Figure 5.3 Intergenerational mobility of skilled workers matters more for middle-income countries than for low-income countries


Note: The figure plots regression coefficients of intergenerational mobility (which is equal to 1 minus the intergenerational relative mobility) for different country groups at the 95 percent confidence interval. The dependent variable in the regression is the share of skilled workers (“Legislators, sr. officials, managers”; “Professionals”; “Technicians and associate professionals”). The regression controls for the log of gross domestic product (GDP) per capita when the 1980s birth cohort was growing up. Intergenerational mobility estimates are for educational mobility of the 1980s cohort from the World Bank GDIM. HICs = high-income countries; LICs = low-income countries; LMICs = lower-middle-income countries; UMICs = upper-middle-income countries.
In the Middle East, an implicit social contract known as *wasta* obliges those within the group—typically a tribal group—to aid others from the group. The use of *wasta* is common when searching for a job, procuring a driver’s license or business license, gaining admission to a university, and performing many other day-to-day transactions. Compared with other individuals, those who have access to a *wasta* obtain more favorable rulings from agencies and courts, are more likely to obtain government contracts, and benefit more from government rules that limit competition. Other examples of such social contracts include *guanxixue* in China, *blat* in the Russian Federation, *compadrazgo* in Latin America, and the “old boys network” in Western countries.

A situation in which only well-connected individuals obtain rewarding jobs, irrespective of skills and talent, can have profound negative effects on the incentives for outsiders to attend school and even to perform well in school. Cronyism and corruption in education lead to lower academic achievement for a given level of public spending on education, thereby lowering the efficacy of such expenditures. Networks also facilitate the formation of interest groups, which block the entry of new actors. For example, in public school systems there is often a symbiotic relationship between teachers’ unions and political leaders, which can hamper children’s achievement. When in office, political leaders provide teachers with benefits such as higher salaries. Teachers then pay union fees from their salaries, and unions contribute a portion of this revenue to politicians’ campaigns. Although replacing the lowest-performing teachers with more effective ones would improve children’s achievement, the often politically powerful teachers’ unions typically block efforts aimed at improving education quality. This occurs in many middle-income countries, including Indonesia and Mexico.

**Connections in job recruitment and starting a business can worsen existing inequalities**

Job-seekers and firms alike rely on social networks for recruitment. Social networks provide job-seekers with information about job opportunities, access to hiring managers, and other support. When official credentials (such as degrees) convey little information about a job candidate’s skills and personal traits, recruitment through social networks helps employers lower the risk of choosing unqualified candidates. But because social networks are mostly defined by a person’s socio-economic background and where they grew up, they can worsen existing inequalities. Research shows that new technologies, particularly when introduced by entrants, can foster social mobility, although this effect diminishes in economies where incumbents spend more time and money on lobbying activities.

In lower- and middle-income countries, between 40 and 80 percent of workers find jobs through social networks. Hiring through social networks can lead to discrimination against individuals without access to high-quality networks. One reason is people’s tendency to associate with others of similar backgrounds or characteristics. In Malawi, for example, men systematically refer fewer women than men to jobs.

Social connections matter to entrepreneurial success—and the connections that matter most are often parents and extended families. Social and ethnic networks help the next generation of entrepreneurs by facilitating access to credit. They also help with enforcing contracts, providing operational support, and developing further connections. Because many entrepreneurs in developing countries lack a legal and institutional framework within which to operate, they rely instead on their kinship networks.

Developing social networks from scratch is costly for entrants to any circle, which strengthens the status quo—the forces of preservation—and leads to persistent social inequality. Furthermore, the persistence of social networks is resistant to shocks.

An inability to trust people and institutions beyond one’s own family and social network can limit firm growth and productivity. In developing countries, firm owners generally make major management decisions themselves because they fear the consequences of delegating to their managers. But because their time and talent are limited, owners are compelled to manage firms.
through their children. Consequently, the number of male children emerges as one of the best predictors of firm size, thereby impeding the growth and profitability of their firm. In India, for example, this factor underlies firms’ inability to grow. Its effect is sizable; poor delegation of managerial responsibilities could account for 11 percent of the difference in income per capita between India and the United States.

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**Insiders keep outsiders out of sight in distant and disadvantaged neighborhoods**

Where a person is born, grows up, and lives shapes that person’s access to opportunities and aspirations. In the United States, children of similar family incomes raised in nearby neighborhoods with different postal codes may have vastly different chances of succeeding as adults. This is equally true in middle-income countries, where social mobility is typically limited to only some geographic areas. Individuals who live in areas with high levels of poverty fare much worse than others on a wide range of economic, health, and educational outcomes.

In middle-income countries, income inequality is typically higher in urban areas than in rural areas because cities attract both highly skilled and unskilled workers. But cities also have higher social mobility because they offer more opportunities to develop talent than rural areas. For example, since 1950 social mobility in Latin American cities has been higher for larger cities, although not for all cities. In Brazil, dynamic cities such as São Paulo and Rio de Janeiro offer scant opportunities to poor children. In India, social mobility has improved greatly in urban areas in recent decades, and has delivered larger gains for the disadvantaged than in rural areas during the period following India’s economic liberalization.

Cities can be formidable engines of social mobility, but cities in middle-income countries are less socially mobile than cities in high-income countries. Further, they have greater inequality (figure 5.4). For example, inequality between urban neighborhoods is high in Cape Town, and overall in South Africa, and mobility between generations is quite low. Cities where consumption is more unequal across neighborhoods—due, for example, to income differences across neighborhoods—are located in countries with fewer opportunities for social mobility.

By shaping the laws, regulations, and rules determining who lives where, the social elite keep outsiders out—relegated to rural areas or disadvantaged neighborhoods. A dominant mechanism is setting urban planning standards that are unaffordable for outsiders. When the US city of Philadelphia was settled, for example, city authorities set a minimum lot size of about 30 square meters. By contrast, minimum lot sizes in Ethiopia range from 75 to 300 square meters.

Even in accessing finance for housing, there is a long history of discrimination. In the United States, the Home Owners Loan Corporation (HOLC) drew maps in the 1930s for more than 200 cities as part of its City Survey Program to document the relative riskiness of lending in neighborhoods. Risk factors included race, ethnicity, and immigration status. The lowest-rated neighborhoods, most of whose residents were African American, were drawn in red. Borrowers from these "redlined" neighborhoods were denied access to credit due to the demographic composition of their neighborhoods. For more than two decades, the redlining in effect barred African Americans from buying homes in attractive neighborhoods, even when they could afford them, and kept their home values low.

Although this discriminatory practice was banned by the Fair Housing Act in 1968, the effects still linger today. Neighborhoods that were formerly redlined fare worse in terms of housing value, homeownership rates, racial composition, and exposure to pollutants. The inability to own a home prevented those discriminated against from generating home equity, the main source of wealth for most American households and the major source of inherited (intergenerational) wealth.
Living in a disadvantaged neighborhood affects adults’ outcomes and children’s trajectories because residential segregation impairs schooling, health outcomes, intergenerational mobility, and the formation of social capital.

Children who grow up in better neighborhoods have improved outcomes in their education and in the labor market. These outcomes could result from being born into a family that would choose to live in these better neighborhoods (sorting) or could be attributable to the neighborhood itself. In developing countries, about one-third of these outcomes stem from the neighborhood itself (that is, living in certain neighborhoods). The benefits of moving to a better neighborhood are larger for younger children because they are exposed to beneficial effects for a longer period.

Neighborhoods matter for children’s life outcomes. First, richer neighborhoods tend to have higher school quality, a major determinant of upward social mobility. Differences in neighborhood-level school quality can arise when schools are financed locally, which is more common in higher-income countries. In middle-income countries, central governments are responsible for the large part of the public expenditure on
education, although in many countries provincial governments also contribute. In South Africa, for example, more school funding is allocated to poorer neighborhoods. Yet the quality of schools is lower in poorer neighborhoods in cities and in more remote rural areas, where schools struggle to attract and retain high-quality teachers, doctors, and other service providers because of poorer infrastructure, services, and amenities. Having high-quality teachers not only improves test scores but also can influence important noncognitive and behavioral attributes in positive ways. The absence of high-quality teachers contributes to the poor performance of schools in disadvantaged neighborhoods.\(^{35}\)

Second, children find their peers and role models in their neighborhoods and form the social networks that can help them in their future job search. Better neighborhoods help in all these aspects.\(^ {36}\) For example, the probability of dropping out of school or committing crimes is similar among children who attend the same school or grow up in the same neighborhood (and are presumably peers). Similarly, children in poor neighborhoods may have strong ties with friends and neighbors, but these are of little use in searching for a job because they do not include contacts with people outside the community.\(^ {37}\)

Third, poor neighborhoods typically have poor infrastructure and services. Lack of sanitation and greater exposure to pollution are common in urban slums. As a result, children growing up in slums are more susceptible to diseases. All these factors have negative impacts on early-life health, human capital, and labor market outcomes.\(^ {38}\)

Fourth, poorer neighborhoods tend to have a high incidence of crime and violence. For example, young children growing up in one of the numerous slums (favelas) in Rio de Janeiro affected by conflicts between drug gangs perform significantly worse at school.\(^ {39}\) Between 2003 and 2009, at least one favela was in a drug-related conflict in Rio de Janeiro during four of those six years. Living in such poor neighborhoods in middle-income countries can carry a social stigma that affects life outcomes for the residents (box 5.2).

In addition, violence may disrupt school routines, increase teacher and student absenteeism, and cause major psychological distress that can lower test scores for students exposed to violence. In the United States, children who move to a county with lower crime rates, lower concentration of poverty, less income inequality, stronger schools, and a greater share of two-parent households experience better outcomes. For example, moving a child out of public housing in the United States to an area with a low poverty level when the child is young using a subsidized voucher has been estimated to increase the child’s total lifetime earnings by about US$302,000.\(^ {40}\)

**In disadvantaged neighborhoods, occupational choices are limited**

Nearly one in six people around the world lives in urban slums, areas characterized by inadequate infrastructure and property status. The largest slums—Khayelitsha in Cape Town, Kibera in Nairobi, Dharavi in Mumbai, Ciudad Neza in Mexico City, and Orangi Town in Pakistan—are located in some of the largest cities in middle-income countries and form their own towns. Many migrants settle in slums in search of better economic opportunities and intend to stay there temporarily, yet often remain there for decades.\(^ {41}\) For some individuals, slums are a “social elevator”—a temporary stop before finding regular housing.\(^ {42}\) For others, slums are a poverty trap they cannot escape. Slum dwellers face risks from criminal gangs, contagious diseases, and pollution, and often struggle with long commutes and relatively high housing costs.

In urban slums in middle-income countries, children can often access education opportunities, but still have limited job opportunities. In the slums in Bangalore, India, parents’ top priority has been investing in their children’s education, which has led the children to have higher education levels than their parents.\(^ {43}\) Although most families experience gains in income and assets over time, longer-term residents (extending to a fourth generation) have not been able to move out. In the slums in Jakarta, Indonesia, intergenerational
Box 5.2 Living in favelas makes it more difficult to get a job

In her book *Favela: Four Decades of Living on the Edge in Rio de Janeiro*, Janice Perlman documented the experiences of families living in Brazilian slums (*favelas*) for more than 30 years. The respondents were interviewed in 1969 and again in 2001, when the original interviewees and their children and grandchildren were asked for their perceptions about why they were the targets of discrimination. The reasons most frequently mentioned by the original interviewees and their children for not getting a job were their residence in *favelas*, followed by skin color, their appearance, and being a migrant (figure B5.2.1). Grandchildren, on the other hand, perceived less discrimination than their grandparents based on skin color or migrant status, although they perceived living in *favelas* and their own appearance as major impediments to obtaining jobs.

**Figure B5.2.1** Slum residents in Rio de Janeiro identified their residence in a *favela* as the largest impediment to getting a job

- **Birthplace outside Rio de Janeiro**
- **Appearance**
- **Skin color**
- **Residence in favela**

<table>
<thead>
<tr>
<th>Impediments to employment</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
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<td>Birthplace outside Rio de Janeiro</td>
<td>60</td>
</tr>
<tr>
<td>Appearance</td>
<td>70</td>
</tr>
<tr>
<td>Skin color</td>
<td>75</td>
</tr>
<tr>
<td>Residence in favela</td>
<td>80</td>
</tr>
</tbody>
</table>

*Source:* Perlman 2010.

*Note:* The figure shows the responses of residents of *favelas* in Rio de Janeiro surveyed in 1969 and 2001.

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mobility is higher among younger children than older children because they have benefitted from recent improvements in educational mobility. Educational mobility is also relatively high in *favelas* in Rio de Janeiro, Brazil. However, educational mobility does not translate into higher occupational mobility in any of these three cities.

Most slum residents—particularly women—work in the slums and cannot obtain formal jobs because of their lack of access to job networks and their isolation from city centers. Moreover, slum residents are highly vulnerable to adverse events such as spells of bad health. Overall, residents in the Bangalore, Jakarta, and Rio de Janeiro slums
are neither stuck in poverty traps nor are they on a steady trajectory toward the middle class. Their main constraint is securing a better job, particularly outside of their own neighborhoods.

**Keeping migrants out misallocates talent**

Internal migration allows individuals to meet and learn from more productive people, sell their ideas in better markets, and expand job opportunities, thereby contributing to a more efficient allocation of workers across an economy. By contrast, barriers to internal migration are costly for growth. The low internal migration rate in some middle-income countries suggests the presence of high mobility barriers, even among highly educated individuals (figure 5.5).

The lack of information or social networks in the destination, as well as market or policy distortions, can limit migration opportunities. Migration barriers can include caste boundaries in India; government regulations such as hukou in China and propiska in Central Asia; and welfare schemes tied to residence. In China, the hukou system has historically imposed large costs on working and living outside of one’s hukou location, primarily through restricted access to social services and limited employment rights. In 2000, the average cost of moving from rural to urban areas within a Chinese province was equivalent to reducing one’s real income by a factor of nearly 3; moves between provinces were even costlier. Between 2000 and 2005, following a reform of the hukou system, migration costs declined by 18 percent on average and by about 40 percent for moves between provinces.

Location preferences or discrimination can also limit migration opportunities. On average, individuals with a tertiary education (university or beyond) face much lower migration costs

**Figure 5.5** In many middle-income countries, movement of workers from one part of the country to another is more limited than in high-income countries such as France and the United States

![Figure 5.5](image)

*Source: WDR 2024 team based on data of IPUMS International (Integrated Public Use Microdata Series, Harmonized International Census Data for Social Science and Health Research) (dashboard), Minnesota Population Center, University of Minnesota, Minneapolis, https://international.ipums.org/international/.

*Note:* The sample includes China (2000), Brazil (2000), Spain (2001), the Arab Republic of Egypt (2006), Colombia (2005), Indonesia (2010), Argentina (2001), Mexico (2000), Chile (2002), South Africa (2001), France (1999), and the United States (2000). Internal lifetime migration is defined as current residence different from residence at birth within the same country. Tertiary education refers to schooling at the university level or beyond.
than individuals with less education (figure 5.6). For example, on average, migrants with a tertiary education in China need a 39.5 percent wage increase to compensate for their moving costs, while migrants who lack a tertiary education need a 45.1 percent wage increase.

**A missing opportunity: Education**

Although norms, networks, and neighborhoods contribute to preserving the status quo, policy can disrupt them and unleash creation and social mobility. A critical policy is expanding quality education, as it represents for many the best—and perhaps the only—hope to climb the social ladder. Education systems that promote human capital accumulation are therefore key to disrupting the status quo, and yet middle-income countries have largely failed at building those systems.

Learning poverty is alarmingly high in middle-income countries. In the median lower-middle-income country and upper-middle-income country, only 31 and 63 percent of children ages 10 or younger, respectively, are able to understand a text relative to 94 percent in the median high-income country. Among 15-year-olds, only half of high school students are proficient in math, reading, and science in the median upper-middle-income country and 30 percent in the median lower-middle-income country, relative to 80 percent in the median high-income country. Low shares of young people are enrolled in higher education (18 percent and 45 percent in the median lower-middle-income country and upper-middle-income country, respectively, relative to 70 percent in the median high-income country). And even lower shares have graduated.
from higher education: 12 percent in the median lower-middle-income country, 28 percent in the median upper-middle-income country, and 43 percent in the median high-income country.57

The education system failures are particularly acute for disadvantaged students. Gender, location, and wealth create large and worrisome access and completion gaps in elementary and secondary education.58 In higher education, the poorest students and those in rural areas are much less likely than others to complete at least two years of higher education.59 These gaps are so large that the percentage of individuals who have completed at least two years would rise by about 30–40 percent if location gaps were eliminated and would double if wealth-related gaps were eliminated.60

Furthermore, higher education contributes to social mobility only if it provides skills that are effectively rewarded in the labor market. Educational institutions can identify and fulfill the skill needs of the economy by connecting with enterprises and the labor market, and yet this link is often broken in middle-income countries. In a World Economic Forum executive survey, when companies are asked to rank the skills of higher education graduates relative to their needs (on a scale of 1–7), the average score is 4.13 in the median middle-income country, well below 5.03 in the median high-income country. Moreover, higher education in middle-income countries produces relatively few graduates in fields typically supportive of infusion and innovation—engineering, information and communication technology, science, and health. Similarly, a low share of higher education students (15 percent in the median middle-income country) are enrolled in short-cycle programs (two or three years long), which provide the technical skills needed to engage in midlevel knowledge-intensive occupations.61

**Patriarchal gender norms hold back a large proportion of the population**

Norms are the unwritten rules and shared expectations that govern human behavior within societies. Patriarchal social norms perpetuate gender inequality. They hold back women—out of the labor force, out of education, out of skills, out of luck, and out of hope. Men, who benefit from more access to resources and opportunities, have the most incentives to protect the status quo. Other norms keep marginalized groups down—and are shaped by the social elite.

These unequal norms and beliefs can be deeply ingrained in a nation’s social fabric and exert a powerful influence on individual actions. Norms can strongly influence the behaviors and choices of caregivers and parents—often not treating their daughters on a par with their sons. These norms define a child’s access to education, liberty, employment, and entrepreneurship. Furthermore, parents pass on cultural norms to their children, perpetuating and reinforcing inequality, whether based on gender, race, ethnicity, or religion. These norms hold back a country’s growth and development.

**Girls: Starting to show up in school**

Improving women’s educational attainment ensures that economies can expand their talent pool. Therefore, expanding the middle class requires providing the needed skills and competencies to all members of society.

In the area of ensuring access to basic education, remarkable progress across the world during the past two decades has reduced (and in some countries, even eliminated) gender gaps in enrollment and educational attainment. In some countries, the higher educational attainment of women has resulted in an improvement in mobility from one generation to the next (intergenerational mobility)—that is, daughters can move up the educational ladder even if their mothers or parents were lower down that ladder.62 Despite this improvement, in many countries higher educational attainment for successive generations is still lower for women and disadvantaged groups (figure 5.7),63 although not in Sub-Saharan Africa and Latin America and the Caribbean.64
Women: Missing at work

Female labor force participation is low in several middle-income countries, particularly in the Middle East and North Africa and in South Asia (figure 5.8). By contrast, female labor force participation has increased in many countries over the last decades (figure 5.9). In 1990, the Republic of Korea had the same level of GDP per capita (in terms of purchasing power parity, PPP) as India in 2020. However, the female labor force participation rate in Korea was about 51 percent in 1990, while India’s was 30 percent in 2020 but has improved in recent years. In the Arab Republic of Egypt, India, and Türkiye, female labor force participation is well below what would be expected given their levels of income per capita, whereas the rates are much higher in Indonesia and Malaysia.

Even when women are employed, they are more likely to work in lower-paid jobs or be self-employed (and thus have unpredictable incomes) than men in these types of jobs. They are much less likely than men to work in higher-paid jobs such as professional, managerial, and technical positions, which have high returns to talent, education, and experience. Compounding the problem, fewer higher-skilled jobs are available in middle-income countries—for men and for women—than in high-income countries, and women in middle-income countries have relatively less access to them than women in high-income countries. However, in some middle-income countries such as Indonesia, the share of women in professional occupations has grown rapidly in recent decades (figure 5.10). In some lower-middle-income countries, such as Egypt, the share has grown as well but remains low, indicating a large talent misallocation.

In high-income countries and middle-income countries alike, women are less likely than men to enroll in science, technology, engineering, and mathematics (STEM) fields. The share of women among STEM graduates is on average higher in India compared with even developed countries, and yet women’s representation in prestigious colleges lags behind. In 2016, for example, only

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**Figure 5.7** There is a substantial gap between low- and high-income countries in female educational attainment

![Bar chart showing the share of women age 25+ with at least upper-secondary education in LICs, LMICs, UMICs, and HICs.]

*Source:* WDR 2024 team.

*Note:* The figure illustrates educational attainment of women 25+ years of age for at least upper-secondary education. The data cover 141 countries. HICs = high-income countries; LICs = low-income countries; LMICs = lower-middle-income countries; UMICs = upper-middle-income countries.

**Figure 5.8** Female labor force participation is low in the Middle East and North Africa and in South Asia

![Line chart showing female labor participation, ages 15−64 (%), from 1960 to 2020, for different regions.]


*Note:* Data are averages of national estimates for middle-income countries in each region.
about 8 percent of students admitted to India’s prestigious Indian Institutes of Technology (IITs) were women, compared to 46 percent admitted to the Massachusetts Institute of Technology (MIT) in the United States. The IITs went on to establish a female enrollment target of 20 percent, which was achieved in the 2023 cohort.

Some middle-income countries educate relatively more females in STEM fields than high-income countries, and yet they employ relatively fewer. Why would women pursue STEM fields but not work in them? Recent evidence suggests a possible driver: higher returns to a STEM education in the marriage market. In Pakistan, female physicians are considered “trophy brides” in the marriage market. More than 70 percent of graduates of medical school are women in Pakistan, and yet only 23 percent of them practice their profession after they graduate. Similarly, in Egypt returns to higher education—not just in STEM fields—are much higher in marriage markets than in labor markets.

Women: Missing independence in owning property, opening financial accounts, and running businesses

The gender gap extends to formal entrepreneurship. Women are more likely than men to work as subsistence microentrepreneurs and earn lower profits than male microentrepreneurs. Furthermore, women are less likely than men to work in formal firms. Globally, only 23 percent of businesses are female-owned, with large variation across sectors (figure 5.11). Female-owned businesses are more egalitarian employers: although male-owned firms employ few female employees (25 percent) and even fewer female managers (6 percent), female-owned firms tend to employ males and females equally.
The gender gap in access to financial accounts (such as formal and mobile banking) is also still very large (figure 5.12). Even in countries such as Bangladesh and Nigeria, where mobile phone and mobile banking penetration have been impressive, there are still large gender gaps in financial inclusion. In Morocco, the gap is more than 25 percentage points, whereas the gap does not exist in Sweden.

Indeed, a 10 percent or higher gender gap in account ownership persists in 41 countries, and women are 37 percent less likely than men to have an account in fragile and conflict-affected situation countries. Women are also less likely than men to own a debit or credit card, have borrowed from a formal financial institution, or have borrowed to support a farm or business. It is thus not surprising that women-led businesses are more likely to identify access to finance as a major obstacle, and that there is an estimated US$1.7 trillion global financing gap.

One barrier to women gaining expanded access to finance is the continued restrictions they face in asset ownership. The property rights of women and disadvantaged groups—manifested, for example, through property and inheritance laws—also vary. Across the world, 40 percent of economies still constrain women’s property rights, denying them equal access to essential resources for financial security and economic independence. Among middle-income economies, 14 percent do not grant women equal ownership of immovable property such as real estate or land; 24 percent have unequal inheritance rights that favor sons over daughters; 25 percent do not grant equal inheritance rights to male and female surviving spouses, further marginalizing women’s and girls’ economic empowerment and autonomy; and 34 percent still do not recognize...
nonmonetary contributions, including caring for minor children or taking care of the family home, undermining women’s crucial roles in caregiving and domestic responsibilities.\textsuperscript{74}

Gender inequality is a major barrier to socio-economic mobility and a growing middle class. Box 5.3 outlines a program of research to examine the economic growth lost to gendered barriers.

The cost of social immobility and preservation: Holding back the energies that drive creation

Elite pacts and patriarchal gender norms maintain the status quo, stunting and misallocating talent. These are costly missteps. In the United States, for example, the reduction of gender and racial barriers in educational and occupational choices between 1960 and 2010 explains 20–40 percent of the observed economic growth over that period.\textsuperscript{75} However, there is still room for progress: if the chance of becoming an innovator in the United States today were as high for women, minorities, and children from low-income families as for men from high-income families, innovation in the US economy would increase fourfold.\textsuperscript{76}

The forgone growth in some middle-income countries is likely much larger than in the United States. For example, removing barriers to entrepreneurship for women in India would double female labor force participation and raise real income by 40 percent.\textsuperscript{77} And globally, closing the gender gap in employment and entrepreneurship could raise the global GDP by more than 20 percent.\textsuperscript{78} Eliminating the gender gap over the next decade would essentially double the current global economic growth rate. High migration costs prevent workers from locating where they are most productive. In Indonesia, reducing migration costs to levels similar to those in the United States would lead to a 7.1 percent boost in productivity.\textsuperscript{79} The reform of the Chinese \textit{hukou} system in 2003 led to a 5 percent

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure5.12.png}
\caption{Women lag behind men in having financial accounts}
\end{figure}


\textit{Note:} The figure shows the absolute difference (in percentage points) in 157 countries between the share of men with a financial account and the share of women with a financial account. Accounts include those in financial institutions and mobile accounts. GDP = gross domestic product; PPP = purchasing power parity.
Box 5.3 Global Gender Distortions Index: Measuring economic growth lost to gendered barriers

In the United States, policies that reduced labor market barriers and other forms of discrimination against women and African Americans contributed up to 30 percent of post–World War II economic growth. How can today’s middle-income countries evaluate the economic dividends of progress toward equal opportunity and improved talent allocation? How can policy makers identify specific barriers within their labor markets that need to be addressed and given priority?

Researchers at Yale University’s Economic Growth Center, working under the Gender and Growth Gaps project, are developing a Global Gender Distortions Index (GGDI) to measure the losses in global economic growth stemming from gender gaps in the labor market. The GGDI links changes in gender gaps in the labor market to productivity growth through improvements in the allocation of women’s talent. Specifically, this index measures by how much the gross domestic product (GDP) of a country (or subnational unit) has grown, or could grow, from improvements in women’s labor market opportunities.

The index highlights that women often do not choose the occupation in which they have a comparative advantage because of (1) labor demand distortions that lead to a wedge between wages and marginal products and (2) differences in occupational preferences that capture factors such as social norms and other labor supply distortions. The GGDI is computed by using observed differences in women’s wages, labor supply, and employment across job type (formal versus informal) to derive an estimate of economywide productivity losses or gains. By quantifying growth losses stemming from gender inequality and distilling them into a single measure, the GGDI allows comparisons across time and locations that can inform policy decisions. It can also complement the World Bank’s Women, Business and the Law (WBL) index by measuring the aggregate consequences of de facto labor market barriers, whereas the WBL measures de jure barriers.¹

In a proof-of-concept exercise, the GGDI team uses a cross-sectional analysis across Indian states for 2018 and finds that labor demand distortions are negatively related to state-level economic development.² Poorer states such as Bihar gain 10 percent in state GDP from removal of labor demand distortions, whereas richer states such as Kerala gain 4 percent in GDP. By contrast, labor supply distortions are not related to state-level GDP.

The GGDI, which will be computed for 30 countries over the next 24 months, can act as a dynamic barometer for countries and regions, providing researchers and policy makers with a valuable new resource.

a. World Bank (2024).
b. Goldberg et al. (2024).
increase in labor productivity. Furthermore, low mobility costs can mitigate the shocks inherent to creative destruction. During the nineteenth century, the US city of Detroit grew into a thriving hub of commerce and industry largely based on the auto industry. But when the industry contracted, low mobility costs allowed workers to relocate to other production hubs in the United States. In middle-income countries, in addition to high migration costs, the costs of ineffective education systems are high because they fail to develop talent and perpetuate existing inequalities.

The forces of preservation are holding middle-income countries back from creative destruction and growth. Creative destruction requires the development of talent, which individuals undertake when they expect economic returns and social mobility. Poor expectations of social mobility hamper talent development. Similarly, inequitable opportunities in markets and education hinder talent development and social mobility, producing a talent misallocation—a waste—with costly consequences for individuals and countries alike. These considerations suggest two main roles for policy in creative destruction: removing barriers to developing talent and actively promoting talent development (see chapter 8 for further details).

Notes
1. de Ree et al. (2018).
3. This is due to the dynamic complementarities studied by García, Heckman, and Ronda (2023). Also see, Schady et al. (2023).
4. The term “human capital elite” is from Becker et al. (2018).
6. Social immobility is measured by intergenerational correlation between children’s and parents’ years of schooling. The correlation is the slope coefficient in the regression of children’s schooling on parents’ years of schooling. This measure is also known as the intergenerational relative mobility. Other measures of intergenerational mobility are available such as absolute mobility, which indicates whether the distribution of children’s years of schooling moved relative to that of parents. A similar concept is upward mobility. These two measures relate to overall progress in schooling, not just whether a child’s status depends on that of parents. This Report uses the relative mobility measure instead of the absolute mobility measure. Relative mobility also provides a direct estimate of inequality of opportunity. Social mobility is measured by 1 minus the intergenerational correlation in schooling. The correlation in schooling is used because of the lack of data to estimate intergenerational income mobility in developing countries where a large fraction of the population is self-employed.
15. See, for example, de Ree et al. (2018); Schneider (2022).
17. Beaman and Magruder (2012); Caria, Franklin, and Witte (2022); Gatti et al. (2014); Mani and Riley (2021); Nicodemo and García (2015).
25. Lall et al. (2023).
27. Britto et al. (2022).
31. Acevedo-Garcia et al. (2003); Alexander and Currie (2017); Baum-Snow and Lutz (2011); Chetty, Hendren, and Katz (2016); Chetty et al. (2022); Granovetter (1973).
32. Chetty and Hendren (2018); Chetty, Hendren, and Katz (2016); Chyn (2018); Deutscher (2020); Laliberté (2021); Nakamura, Sigurdsson, and Steinsson (2022).
33. Alesina et al. (2021).
34. Britto et al. (2022); Chetty et al. (2014).
42. Glaeser (2011).
44. Bryan and Morten (2019).
45. Perlman (2010).
47. Rains and Krishna (2020).
49. Grover, Lall, and Maloney (2022); Selod and Shilpi (2021).
50. Hukou is a system of household registration used in China. Under the system, each citizen is required to register in only one place of permanent residence. An individual’s hukou status defines his or her rights and eligibility for social welfare and various services, including public education and housing, within a specific administrative unit.
54. Based on the Learning Poverty Index, calculated by World Bank and UNESCO.
55. Based on the 2018 Programme for International Student Assessment (PISA), a study administered by the Organisation for Economic Co-operation and Development (OECD), and the 2019 Trends in International Mathematic and Science Study (TIMSS) administered by the International Association for the Evaluation of Educational Achievement (IEA).
56. UIS.Stat (dashboard), Institute for Statistics, United Nations Educational, Scientific, and Cultural Organization, Montreal, http://data.uis.unesco.org/. These figures correspond to the higher education gross enrollment ratio, defined as the number of individuals enrolled in higher education relative to all age-relevant individuals (18–24 years of age).
57. UIS.Stat (dashboard), Institute for Statistics, United Nations Educational, Scientific, and Cultural Organization, Montreal, http://data.uis.unesco.org/. These figures correspond to the gross graduation ratio, defined as the ratio between the number of graduates from bachelor’s or graduate degree programs by the population of the theoretical graduation age of the most common bachelor’s program.
59. WDR 2024 team analysis using UNESCO Education Inequalities Database based on household surveys.
60. WDR 2024 team calculations based on UNESCO data.
61. Bianchi and Giorelli (2020) show that greater access to science, technology, engineering, and mathematics (STEM) and vocational and technical programs in Italy in the 1960s led to an increase in patenting. For Finland, Toivanen and Väänänen (2016) find large effects of greater access to engineering master’s programs on patenting.
63. Asher, Novosad, and Rafkin (2024); Emran and Shilpi (2015).
64. Alesina et al. (2021); Neidhöfer, Ciaschi, and Gasparini (2021).
66. Hammond et al. (2020).
67. Hammond et al. (2020).
68. Hammond et al. (2020).
69. In Egypt, it is common for the groom to transfer significant resources to the new household at the time of marriage. This is a direct and informative measure of the monetary gains women may obtain through the marriage market. Exploiting the staggered rollout of a school reform in Egypt that reduced the number of years required to complete primary education from six to five, Deng et al. (2023) find that the return to a bride’s compulsory education is about 100 percent for the marital transfer, about 14 percent for the husband’s wage at the time of marriage, and about 16 percent for a measure of the husband’s permanent income. These returns to education in the marriage market are much higher than the returns to education that Egyptian women experience in the labor market.
70. Demirgüç-Kunt et al. (2022).
71. Demirgüç-Kunt et al. (2022).
72. IFC (2017).
73. World Bank (2024).
74. World Bank (2024).
75. Hsieh et al. (2019).
76. Bell et al. (2019).
78. Pennings (2022).

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