

THE IMPORTANCE OF STRUCTURAL FACTORS

IN UNDERSTANDING ECONOMIC MOBILITY

By Gonzalo Schwarz



WHAT'S INSIDE

INTRODUCTION	1
STRUCTURAL FACTORS AND INTERNATIONAL COMPARISONS	2
THE GREAT GATSBY CURVE AND INTERNATIONAL COMPARISONS	3
RULE OF LAW, CORRUPTION, AND ECONOMIC MOBILITY	3
THE ENTREPRENEURIAL ECOSYSTEM	6
ECONOMIC MOBILITY IN THE UNITED STATES	9
CONCLUDING REMARKS	10

INTRODUCTION

Economic mobility and inequality remain at the forefront of public policy conversations and have influenced presidential campaign rhetoric and debates both in the United States and around the world. Popular understanding casts income inequality as a main deterrent to upward economic mobility. However, despite some research showing that inequality and mobility are correlated, a definitive causal relationship has not been established in the academic literature. Unfortunately, these terms continue to be used interchangeably in many of our policy discussions.¹

Mainstream policy debates are dominated by a focus on income inequality, poverty management, and band-aid solutions instead of policies that will more permanently increase upward economic mobility and reduce poverty across generations. With the focus trained primarily on mechanisms to reduce income inequality, much of the current academic research fails to consider potentially important structural

factors affecting both economic mobility and income inequality. Rather than interpreting the relationship between income inequality and economic mobility as causal, these two issues can be influenced by differences among countries related to structural and more fundamental variables. There are good reasons to believe that these more fundamental variables are as relevant in wealthier nations as they are in those that are developing. Factors such as the rule of law, prevalence of corruption, opportunities for innovation, and a dynamic ecosystem for entrepreneurship are associated with economic growth and development. This report establishes that several of these structural factors are associated with both inequality and mobility.

Factors such as the rule of law, prevalence of corruption, opportunities for innovation, and a dynamic ecosystem for entrepreneurship are associated with economic growth and development.

If these associations are causal, then that would suggest shifting attention from reducing inequality to addressing the structural factors in order to both reduce inequality and increase upward economic mobility.

STRUCTURAL FACTORS AND INTERNATIONAL COMPARISONS

In a seminal paper in the Handbook of Economic Growth (2005), Daron Acemoglu, Simon Johnson, and James Robinson distinguish between causes that are fundamental and causes that are proximate to long-term economic growth. They state:

[T]o develop more satisfactory answers to questions of why some countries are much richer than others and why some countries grow much faster than others, we need to look for potential fundamental causes, which may be underlying these proximate differences across countries. Only by understanding these fundamental causes we can develop a framework for making policy recommendations that go beyond platitudes (such as “improve your technology”) and also minimize the risk of unintended negative consequences.²

This distinction and framework are essential to making progress in the economic mobility and inequality conversation. Regrettably, many current proposals aimed at improving economic mobility focus on what could be thought of as proximate causes and solutions. With this mindset, policymakers typically seek to enhance people’s income in the short run, for example through reforming welfare programs, expanding the earned income tax credit (EITC), increasing the minimum wage, or mandating paid leave policies. But while it is worthwhile to improve living standards in the short term, policymakers should be cautious of negative long-term effects from short-term policies.

But while it is worthwhile to improve living standards in the short term, policymakers should be cautious of negative long-term effects from short-term policies.

For example, by mandating minimum wage increases or generous paid leave policies, the labor market becomes less flexible and it becomes more expensive for entrepreneurs and businesses to expand employment opportunities.³ As essential as a public safety net is to helping people get back on their feet after hard times, it should not generate dependency or a deceptive sense of economic security that could serve as barriers to pathways up the income ladder.

A holistic approach is needed, one that focuses on the causal barriers that hinder upward economic mobility on all rungs of the income ladder. Academics and policy scholars should take a step back and analyze the structural or fundamental factors (and their appropriate indicators) that could be the key to boosting upward economic mobility. This approach should model the one followed by Acemoglu and his coauthors in looking for the fundamental causes of economic growth. Such a shift will not be made easily. In this case, economic mobility is a much more multifaceted phenomenon and requires a multidisciplinary approach. While more in-depth research is needed to definitively identify structural or fundamental causes of upward economic mobility, there are several areas that stand out as prime candidates for potential research.

THE GREAT GATSBY CURVE AND INTERNATIONAL COMPARISONS

One of the most widely used measurements of economic mobility is the intergenerational elasticity (IGE). This measure, which usually ranges from 0 to 1 (but can be higher than 1 or lower than 0) can be thought of as: the change in the income gap between adults who grew up rich and poor. The closer an IGE is to 0, the smaller the income gaps between adults who grew up rich and poor. For example, for small differences in parental income, the IGE has a straightforward interpretation. If the IGE is 0.3, then two people whose parental income differed by 10% will tend to have adult incomes that differ by 3%. If the IGE is 0.45, their adult incomes will differ by 4.5%.

In his work on the relationship between economic mobility and income inequality, Miles Corak (2016) correlated income inequality, as measured by the Gini coefficient (a standard measurement of income inequality), and economic mobility, as measured by the IGE.⁴ Corak found that countries with low rates of economic mobility also tend to have higher rates of income inequality. That relationship was presented by Alan Krueger in a chart dubbed “The Great Gatsby Curve.” The curve shows that there is a statistical relationship between inequality and mobility. However, researchers still don’t know much about the extent to which that association reflects a causal relationship.⁵ Other fundamental or structural factors may affect both variables at the same time. So, despite the possibility of a causal relationship between the two, researchers should consider a scenario in which both of these variables are endogenous with respect to potentially the same set of variables.

There are very important differences across the countries shown in the Great Gatsby Curve. Some of the differences in mobility and inequality are not necessarily related to public policy, and it can be difficult to make an international comparison due to history, culture, or political processes. Such issues are clearly relevant and should not be discounted. Studying these areas more closely is an essential part of a holistic conversation around the potential determinants of economic mobility.

Additionally, lower-income countries have structural problems that make comparisons more difficult. But it is precisely those structural problems in low-income

countries that might provide the most informative explanations about barriers to economic mobility and which have been overlooked in much of the most recent literature. Conducting a broader analysis of the relationship between structural factors and economic mobility can offer important clues to understanding why even some developed countries, such as the United States, are struggling to increase upward economic mobility.

Conducting a broader analysis of the relationship between structural factors and economic mobility can offer important clues to understanding why even some developed countries, such as the United States, are struggling to increase upward economic mobility.

Using the database of countries assembled by Corak (2016), this analysis focuses on how both economic mobility and income inequality are related to structural factors like the rule of law, business friendliness, and economic competitiveness. This analysis uses the aforementioned IGE, which is only one of many measures of economic mobility; a lower IGE means that there is more economic mobility. To measure income inequality, this analysis uses the Gini coefficient, where 1 means complete inequality, with one person receiving all the income within a country, and 0 means no inequality, with income distributed evenly among everyone in society. I compare those indicators of economic mobility and income inequality to various international indices of the rule of law, prevalence of corruption, ease of doing business, and general economic competitiveness.

RULE OF LAW, CORRUPTION, AND ECONOMIC MOBILITY

A well-documented economic finding is that excluding individuals from access to well-functioning political, economic, and legal institutions is detrimental to economic development. This point has been researched and confirmed by many leading scholars, such as Douglas North, Ronald Coase, Andrei Shleifer, and Daron Acemoglu.⁶ Those insights are no less relevant when it comes to analyzing the issues of economic mobility and income inequality.

Every nation has some level of income inequality, but the reason for that inequality matters just as much as the level, if not even more. The inequality of income resulting from disparities in effort and hard work are vastly more tolerated than when inequalities are perceived to be a result of unfairness.⁷ An international survey of 60 countries, conducted by the Archbridge Institute in 2017, confirms that most people in most countries believe that it is more important to ensure that people have a fair shot of climbing the income ladder rather than address income inequality.⁸ However, inequalities due to corruption, weak institutions, and

cronyism are detrimental for societal stability and foster further social and economic exclusion of those at the bottom of the income ladder.

However, inequalities due to corruption, weak institutions, and cronyism are detrimental for societal stability and foster further social and economic exclusion of those at the bottom of the income ladder.

Because rule of law and corruption are abstract concepts, there have been few attempts to measure them. One is the Rule of Law Index, calculated by the

FIGURE 1. Economic Mobility and Rule of Law

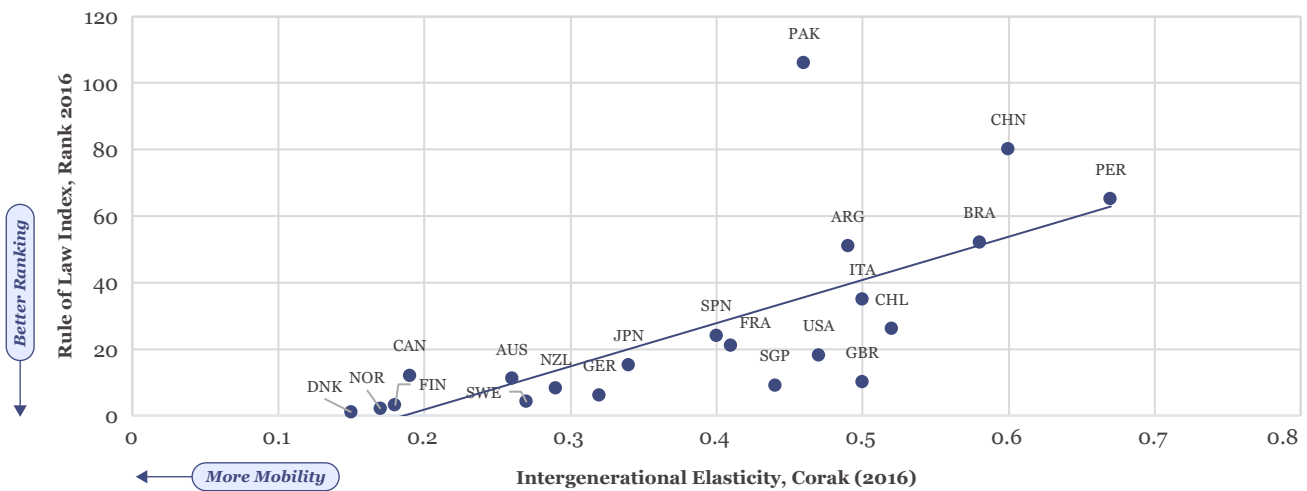
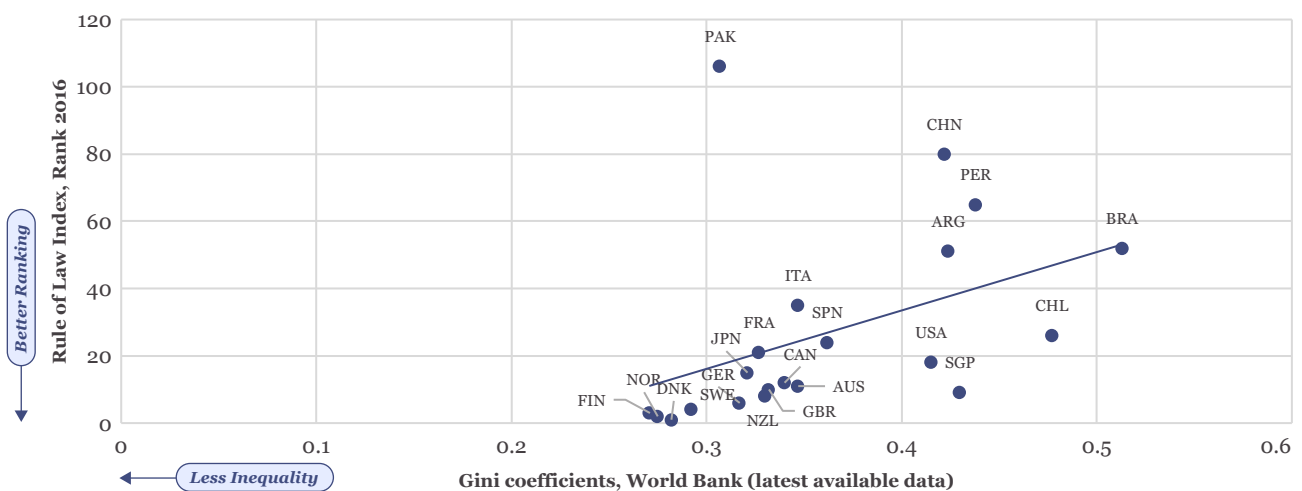


FIGURE 2. Inequality and Rule of Law



World Justice Project, which measures the rule of law through nine broad categories (each with its own sub-categories). These include absence of corruption, civil justice, criminal justice, regulatory enforcement, and many others. This analysis uses the latest available rankings of each index.

Figures 1 and 2 show the relationship between rule of law (as measured by the Rule of Law Index), economic mobility, and income inequality. A lower intergenerational income elasticity (IGE) signifies more economic mobility. A lower Gini coefficient means less

inequality. These figures clearly show that countries that rank better (closer to 1) in rule of law measurements also tend to have more economic mobility and less inequality.

These figures clearly show that countries that rank better (closer to 1) in rule of law measurements also tend to have more economic mobility and less inequality.

Interestingly, the top performers in the rule of law ranking are Denmark, Finland, Norway, and Sweden, countries that are also—according to the academic literature on economic mobility—the four countries that

FIGURE 3. Economic Mobility and Corruption

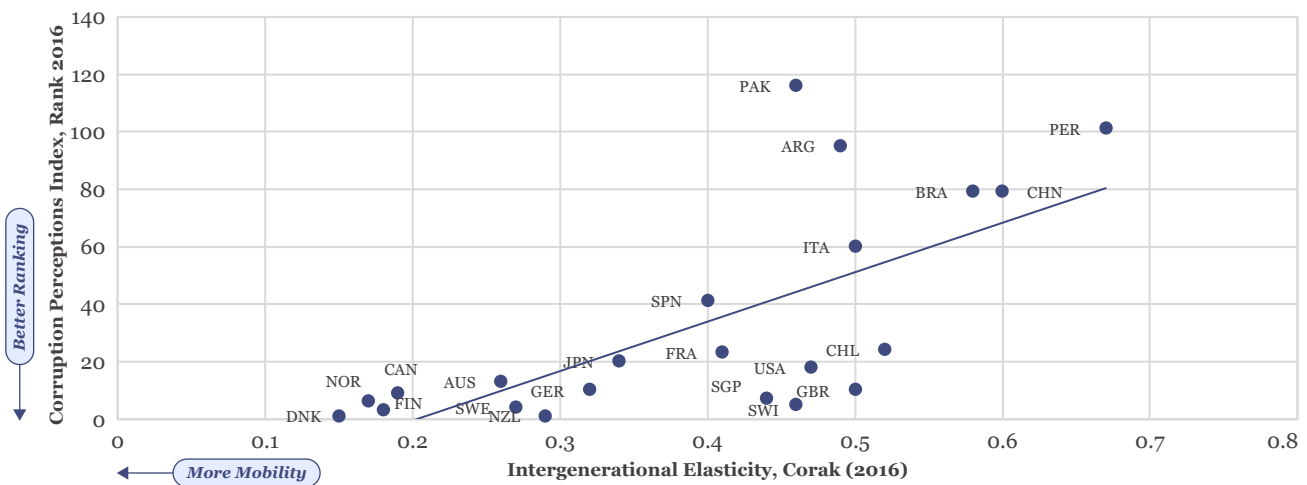
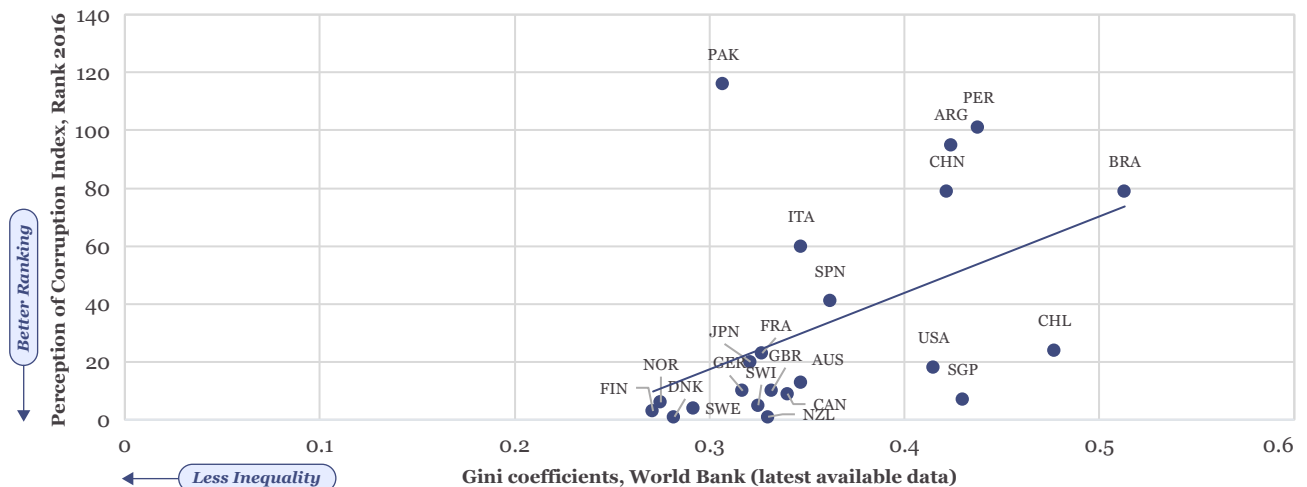


FIGURE 4. Inequality and Corruption



perform the best in terms of economic mobility and less income inequality.

Sound institutions are clearly an important piece of this puzzle, and prevalence of and susceptibility to corruption are also key indicators of the health of institutions. In the latest edition of Transparency International's Corruption Perceptions Index, the impact of corruption on inequality and social exclusion is clearly demonstrated.⁹ Their more recent study concludes that "corruption leads to an unequal distribution of power in society which, in turn, translates into an unequal distribution of wealth and opportunity." Figures 3 and 4 show how corruption is linked to economic mobility and income inequality. Again, a higher ranking on the Corruption Perceptions Index (closer to 1, meaning less corruption) is related to higher levels of economic mobility (a low IGE) and less income inequality (a lower Gini coefficient).

THE ENTREPRENEURIAL ECOSYSTEM

One of the most often-overlooked structural issues in the economic mobility and inequality debate is the strength and prevalence of entrepreneurship and job creation, which enable more upward economic mobility. It is undeniable that entrepreneurship leads to more opportunities for upward economic mobility. This is true both because, as research points out, entrepreneurs whose businesses survive for more than five years have higher incomes than their peers who are wage earners, but more importantly, because entrepreneurship spurs job creation and a wider array of opportunities for people to climb the income ladder.¹⁰ At the end of the day, the best way to climb the income ladder is through a job.

At the end of the day, the best way to climb the income ladder is through a job.

Among the most damaging forms of exclusion is being excluded from the market economy and from networks of productivity. The pioneering work of Peruvian economist Hernando de Soto has been tremendously influential in uncovering the harmful effects of excluding the poor from formal markets. His research, which started with *The Other Path* and, later on, *The Mystery of Capital*, led to the development

of many groundbreaking studies. That research ultimately inspired the creation of the influential Doing Business Index, produced by the World Bank.¹¹

It persuasively demonstrated how barriers to business creation and entrepreneurship lead to more informality, corruption, and the exclusion of people from the opportunity to improve their lives through economic participation.

It persuasively demonstrated how barriers to business creation and entrepreneurship lead to more informality, corruption, and the exclusion of people from the opportunity to improve their lives through economic participation.

Extensive research from other authors such as Nobel Laureate James Heckman and IDB economist Carmen Pages has also shown how more regulation and a more inflexible labor market lead to more inequality.¹²

To assess a country's ecosystem of entrepreneurship, two indices are used in this analysis. The first is the Doing Business Index ranking. Through this index, the World Bank has assembled a vast amount of academic literature on the impact of each variable included in the index on poverty, economic growth, and productivity—all essential variables in improving upward economic mobility.¹³

Figures 5 and 6 show a significant relationship between better economic mobility and a higher ranking (closer to 1) in the Doing Business Index.

A more detailed analysis of this relationship reveals that countries such as Denmark, Norway, and Sweden (the best performers in terms of economic mobility) are also in the top 10 of this index, with Denmark being the third best country in the world for doing business. These countries are also leading the pack in such sub-indicators as ease of starting a business, ease of paying taxes, and ease of trading across borders. Other countries that have high mobility rates also excel in this index or in its subcategories. This is the case for New Zealand, the top ranked economy in the index. Similarly, Canada and Australia are top performers in measurements of ease of starting a business, obtaining building permits, and contract enforcement.

The second index used to analyze the ecosystem for

FIGURE 5. Economic Mobility and Doing Business

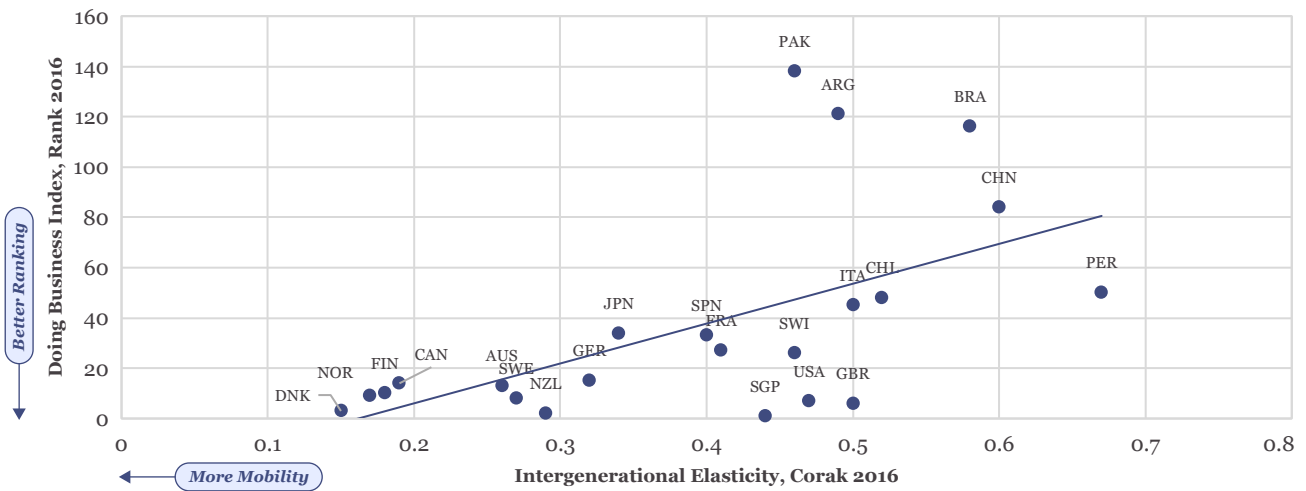
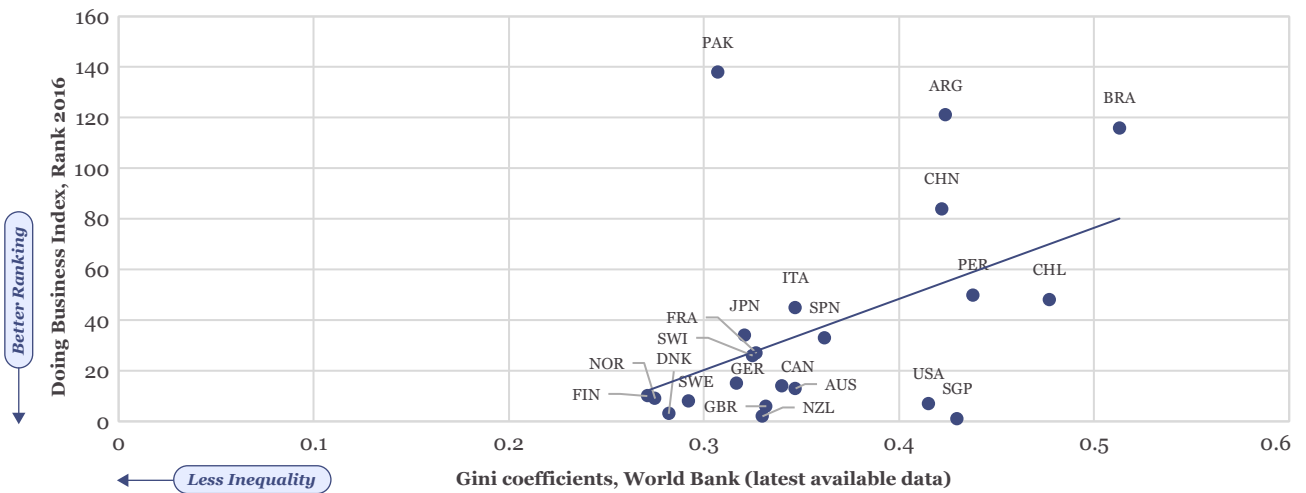


FIGURE 6. Inequality and Doing Business



entrepreneurship is the Global Competitiveness Index (GCI) produced by the World Economic Forum. This index seeks to capture the long-term factors and institutions that determine economic growth. The GCI is comprised of three principal categories (sub-indexes) and twelve policy domains (pillars).

Figures 7 and 8 show that a higher ranking in the Global Competitiveness Index (closer to 1) also means more economic mobility and less income inequality. Importantly, countries that fare better on economic mobility also show high ranking in the subcategory of institutions in the GCI. This category measures “the

legal and administrative framework within which individuals, firms, and governments interact.” According to the study’s authors, this framework determines the quality of the public institutions of a country and has a strong bearing on competitiveness and growth. It influences investment decisions and the organization of production and plays a key role in the ways in which societies distribute the benefits and bear the costs of development strategies and policies.

Some of the sub-indicators in this category that are relevant for further exploration as they relate to economic mobility include property rights, ethics,

FIGURE 7. Economic Mobility and Competitiveness

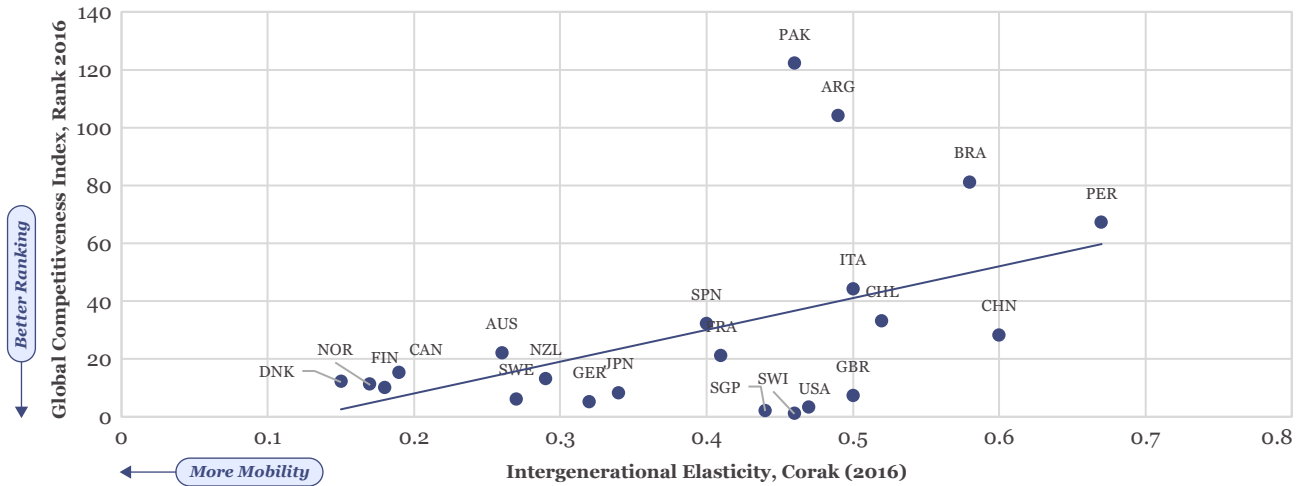
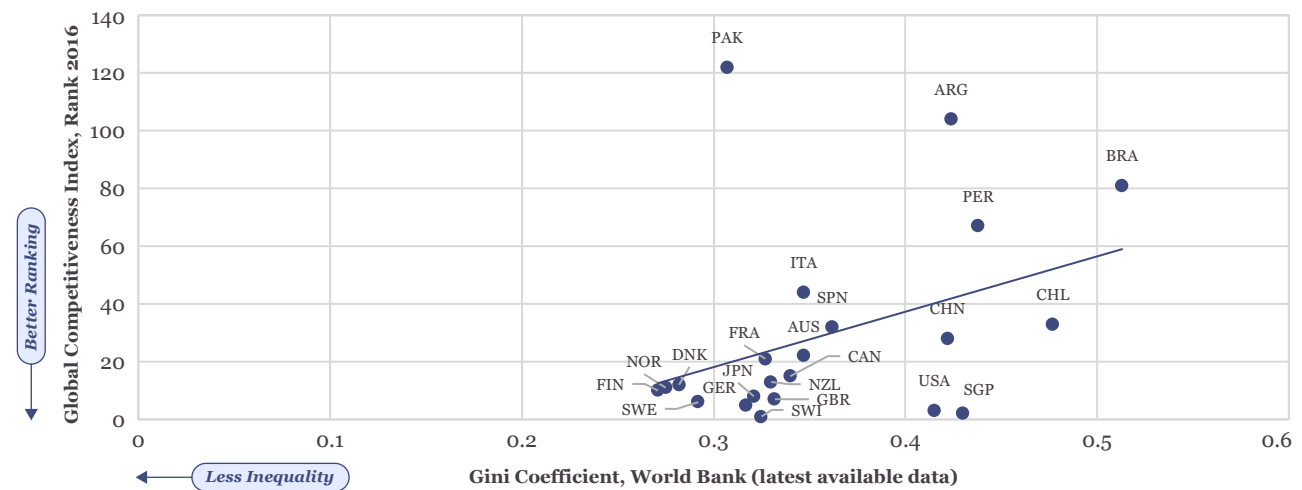


FIGURE 8. Inequality and Competitiveness



corruption, protection of investors, and judicial independence.

Both the GCI and the Doing Business Index include many variables that can have various impacts on economic mobility.

Taken together, these relationships strongly suggest that a friendly ecosystem for entrepreneurship and innovation is an important part of achieving more upward economic mobility.

These relationships and institutions translate into higher levels of labor force participation, lower unemployment rates, and higher youth employment rates in the more

economically mobile countries of Sweden, Denmark, and Canada.¹⁴

Further specific research on the relationship between economic mobility and many of the sub-indicators used in these entrepreneurship-related indices would be helpful in better understanding how they are connected. Better yet, research examining both causality and the impact that specific categories have on economic mobility could help policymakers address the fundamental factors regarding economic mobility. Such specific research falls outside of the scope of this analysis, but research on these topics should play a much bigger role in the economic mobility literature.

ECONOMIC MOBILITY IN THE UNITED STATES

The United States is a compelling case because it illustrates the potential importance of structural factors in increasing upward economic mobility, even for developed economies, as a nation that has been under the spotlight for its lackluster economic mobility in recent decades. Using a database on tax records, the pioneering work of Raj Chetty and his team at the Equality of Opportunity Project has shown a decline of absolute intergenerational economic mobility in recent decades.¹⁵ Other studies from scholars focusing on the current state of economic mobility in the United States show a less alarming (but nonetheless serious) picture of stagnated economic mobility.¹⁶ Even though the situation may not be as dire as once thought, there is still plenty of room for improvement.

In their previous research, Chetty and his coauthors find that a lack of economic mobility was closely associated with inequality, family structure, segregation, strength of social networks, and quality of public schools.¹⁷ Unfortunately, other factors that bear consideration as potentially related to better understanding economic mobility (such as the structural factors analyzed in previous sections) remain uncovered by Chetty et.al.

Data related to entrepreneurship in the United States does not suggest a healthy ecosystem for entrepreneurship. There has been a steep decline in the rates of business dynamism in the United States, as documented by economist John Haltiwanger and his coauthors.¹⁸ In their own research across metropolitan areas, Robert Litan and Iain Hathaway show similar trends.¹⁹ Furthermore, as research from the Kauffman Foundation confirms, startup density—the number of startup firms per 1,000 firm population—has declined from 165 startups in 1977 to just 85 in 2016.²⁰

Setting aside the many possible reasons why this is happening, this trend is clearly relevant in the economic mobility discussion. As research from the Economic Innovation Group (EIG) shows, “new businesses are responsible for nearly all the net new jobs in the U.S. economy.” According to their research, these businesses added 2.9 million net new jobs on average every year between 1992 and 2014, while incumbent companies older than one year “actually shed more workers than they hire in most years.”²¹ Job creation generated by startups provides more new jobs by

introducing much needed dynamism to the economy. Additionally, increased levels of new business formation offer more and diverse opportunities for people to climb the income ladder.

Additionally, increased levels of new business formation offer more and diverse opportunities for people to climb the income ladder.

Other research from the EIG explored the link between the economic mobility data from the Chetty et al. studies to their own Distressed Communities Index. This index includes several variables, two of which (change in business establishments and change in employment) are directly related to entrepreneurship and job creation. Their index is fairly strongly correlated with mobility.²²

Research from Haltiwanger et al. shows that the regulatory burden on would-be entrepreneurs have increased, including increased government regulations and the proliferation of occupational licensing.²³ Research on occupational licensing requirements conducted by the Institute for Justice and President Obama’s administration confirms the case against occupational licensing.²⁴

Approximately one in three occupations currently requires a license today, compared to just one in 20 during the 1950s. Using the data from Chetty and his co-authors, our own research, conducted by Dr. Ed Timmons and his team at St. Francis University, has recently confirmed a significant relationship between lower rates of economic mobility and the growth in occupational licensing at the state level.²⁵ Growth in state licensing laws is associated with between a 1.7% and 6.7% reduction in absolute economic mobility at the county level and an increase in county level Gini coefficients ranging from 3.9% to 15.4% in the United States.

Growth in state licensing laws is associated with between a 1.7% and 6.7% reduction in absolute economic mobility at the county level and an increase in county level Gini coefficients ranging from 3.9% to 15.4% in the United States.

As it relates to the indices discussed in this analysis, the World Bank’s Doing Business Index ranks the

United States in fifty-first place in the ease of starting a business category, despite its seventh-place overall ranking in the index. According to the World Bank's own report, the ease of starting a business category is the second most important variable that correlates with a country's position in the rankings.

The World Justice Project's Rule of Law Index ranks the United States eighteenth in the world. The Perceptions of Corruption Index from Transparency International ranks the United States in the twentieth position. Some of the broad categories where the United States underperforms many of its developed peer nations are in the areas of civil justice and criminal justice. One of the worst sub-indicator rankings of the United States is in access and affordability of civil justice—a state of affairs which certainly stacks the deck against those at the bottom of the income ladder.

Even though rule of law and corruption play an important role in economic development, researchers should further explore whether and how they directly impact economic mobility. Broadening the scope of what classifies as “corruption” and focusing on issues that might be called codified or “legal” corruption to include concepts like rent-seeking, cronyism, and distortionary market practices will be crucial in improving this debate. Although much academic and policy research has yet to include these concepts in the economic mobility discussion, the concepts themselves are gaining prominence—not least from a spate of recently released books that discuss these issues from various perspectives. These books include Richard Reeves' *Dream Hoarders*, William Mellor and Dick Carpenter's *Bottleneckers* and the most recent book by Brink Lindsay and Steven Teles, *The Captured Economy*.²⁶

These books have focused on the policy barriers put into place that restrict entry to markets and create unfair competitive practices. Topics covered in these publications include land use regulations, occupational licensing, regulatory capture, and manipulation of laws and regulations to unfairly redistribute income upwards while also holding back economic growth.

Most of these practices might not be considered outright corruption in the same sense as when a law is broken, but they represent what William Baumol defined as “unproductive entrepreneurship.”²⁷ This is a

helpful reminder that the exercise of entrepreneurship can sometimes be unproductive or even destructive, and this depends heavily on the structure of payoffs and incentives at play within an economy—which are defined by the rules of the game. Baumol's definition can be synthesized with recent research as the “enterprising use of the legal system for rent-seeking purposes.”²⁸

All of these concepts point to instances where rent-seeking and rigging the rules of the game generates unfair inequalities and further raises barriers to upward economic mobility. Many of the barriers are not easily overcome, especially by those at the bottom of the income ladder. But such barriers can be identified and confronted by people with access to power and wealth. Building on this line of work in the future will be an essential step toward uncovering the links between the rule of law, corruption, and economic mobility.

While these institutional issues can be found in many other countries around the world, these examples serve as reminders that even developed countries like the United States are not immune to these problems.

Despite this evidence, current policy discussions on economic mobility still focus more on increasing minimum wages, mandating paid leave policies, or even implementing a universal basic income. Yet, it is unclear whether these solutions would improve economic mobility in the United States, especially in the long run. Many of these policies create more barriers for entrepreneurs to work around and will likely reduce business dynamism. It's important to acknowledge the relevant tradeoffs when pursuing policy solutions. Occasionally, solutions that appear to be in the best interest of one group of people at a certain point in time can unintentionally hurt those same people at the very bottom of the ladder.

CONCLUDING REMARKS

This analysis highlights the importance of key structural factors in assessing economic mobility and income inequality across the globe, even for developed economies such as the United States. Although this analysis presents some interesting correlations, it raises more questions than answers. Future research should

also explore how each individual country's structural factors are affected by local and cultural circumstances. There is a need to delve deeper into each of these broad categories of structural factors and have a more nuanced debate on which of these variables might be important to explore in the context of economic mobility.

The data confirms that countries with better institutions and ecosystems for entrepreneurship have higher rates of upward economic mobility and less economic inequality.

Causal mechanisms are still far from being agreed upon, but it seems likely that these factors are affecting both economic mobility and income inequality. This suggests that research should focus at least as much on those issues as on the relationship between mobility and inequality.

Focusing on solutions to reduce inequality such as higher taxation for redistribution (both on a corporate and individual level), higher minimum wages, or specific paid leave mandates ignores the tradeoff or the unintended consequences that such policies are likely to have on entrepreneurship, business dynamism, and labor market flexibility. Pursuing such policies in the name of reducing income inequality can end up destroying the opportunity for upward economic mobility for those at the very bottom of the income ladder or even create more inequality.

Expanding opportunities to climb the income ladder, particularly for those at the bottom, should be the main focus of the inequality/mobility debate.

ENDNOTES

- ¹ Reeves, Richard V. “Inequality, Immobility and Living Standards Are Not the Same Things.” Brookings. December 18, 2013. <https://www.brookings.edu/blog/social-mobility-memos/2013/12/18/inequality-immobility-and-living-standards-are-not-the-same-things/>.
- ² Acemoglu, Daron, Simon Johnson, and James A. Robinson. “Chapter 6: Institutions as a Fundamental Cause of Long-Run Growth” in *Handbook of Economic Growth*, ed. by Steven Durlauf and Philippe Aghion, 2005, 385–472. DOI:10.1016/s1574-0684(05)01006-3.
- ³ <https://www.urban.org/sites/default/files/publication/31191/1001163-labor-market-institutions-and-economic-mobility.pdf>.
- ⁴ Corak, Miles, “Inequality from Generation to Generation: The United States in Comparison,” IZA Discussion Paper No. 9929, May 2016, <https://www.iza.org/publications/dp/9929/inequality-from-generation-to-generation-the-united-states-in-comparison>.
- ⁵ Winship, Scott. “The Great Gatsby Curve: All Heat, no Light.” Brookings. July 20, 2015. <https://www.brookings.edu/blog/social-mobility-memos/2015/05/20/the-great-gatsby-curve-all-heat-no-light/>.
- ⁶ Acemoglu, Daron, Simon Johnson, and James A. Robinson. “Chapter 6: Institutions as a Fundamental Cause of Long-Run Growth” in *Handbook of Economic Growth*, 2005, 385–472. doi:10.1016/s1574-0684(05)01006-3; “Rule of Law Research Consortium.” World Justice Project. Accessed February 06, 2018. <https://worldjusticeproject.org/our-work/research-scholarship/rule-law-research-consortium>.
- ⁷ Alesina, Alberto, Stefanie Stantcheva, and Edoardo Teso. “Intergenerational Mobility and Support for Redistribution.” NBER Working Paper No. 23027, January 2017. <http://www.nber.org/papers/w23027>.
- ⁸ Schwarz, Gonzalo. “Want to help people? Focus on economic mobility, not inequality.” The Hill. August 7, 2017. <http://thehill.com/blogs/pundits-blog/economy-budget/345094-want-to-help-people-focus-on-economic-mobility-not>.
- ⁹ E.V., Transparency International. “Corruption and Inequality: How Populists Mislead People.” January 25, 2017. http://www.transparency.org/news/feature/corruption_and_inequality_how_populists_mislead_people.
- ¹⁰ Butler, Stuart, William Beach, and Paul Winfree. “Pathways to Economic Mobility.” Economic Mobility Project, Pew Research Trusts, 2008. <http://www.pewtrusts.org/en/research-and-analysis/reports/0001/01/01/pathways-to-economic-mobility>.
- ¹¹ Djankov, Simeon. “The Doing Business Project: How It Started: Correspondence.” *Journal of Economic Perspectives*, 30 (1): 247–48 (2016). DOI: 10.1257/jep.30.1.247.
- ¹² Heckman, James J. and Carmen Pages. “Law and Employment: Lessons from Latin American and the Caribbean,” NBER Books, National Bureau of Economic Research, Inc, number heck04-1, 6. 2004.
- ¹³ World Bank Group. *Doing Business and Related Research*. <http://www.doingbusiness.org/research>.
- ¹⁴ OECD, Labor Statistics, <http://www.oecd.org/employment/labour-stats/>.
- ¹⁵ Chetty, Raj, David Grusky, Maximilian Hell, Nathaniel Hendren, Robert Manduca, and Jimmy Narang. “The Fading American Dream: Trends in Absolute Income Mobility Since 1940.” *Science* 356(6336): 398-406, 2017. <http://science.sciencemag.org/content/356/6336/398>.
- ¹⁶ Winship, Scott. “Economic Mobility in America.” Archbridge Institute. March 2017. <https://www.archbridgeinstitute.org/2017/03/20/economic-mobility-in-america/>.
- ¹⁷ Chetty, Raj, Nathaniel Hendren, Patrick Kline, and Emmanuel Saez. “Where is the Land of Opportunity? The Geography of Intergenerational Mobility in the United States.” *Quarterly Journal of Economics* 129(4) (2014): 1553–623. DOI: 10.3386/w19843.

- ¹⁸ Decker, Ryan A., John Haltiwanger, Ron S. Jarmin, and Javier Miranda. “Declining Business Dynamism: What We Know and the Way Forward.” *American Economic Review* 106, no. 5 (2016): 203–07. DOI: 10.1257/aer.p20161050.
- ¹⁹ Hathaway, Ian, and Robert E. Litan. “Declining Business Dynamism in the United States: A Look at States and Metros.” Brookings Institution. May 5, 2014. <https://www.brookings.edu/research/declining-business-dynamism-in-the-united-states-a-look-at-states-and-metros/>.
- ²⁰ “The Kauffman Index.” Kauffman Foundation. Accessed February 06, 2018. <http://www.kauffman.org/kauffman-index>.
- ²¹ Economic Innovation Group. “Dynamism in Retreat.” February 2017. <http://eig.org/dynamism>.
- ²² Ibid. “Is the American Dream Alive or Dead? It Depends on Where You Look.” 2017. <http://eig.org/dcieop>.
- ²³ Davis, Steven, and John Haltiwanger. “Labor Market Fluidity and Economic Performance.” NBER Working Paper No. 20479, September 2014. DOI:10.3386/w20479.
- ²⁴ Carpenter, Dick, Lisa Knepper, Angela C. Erickson, and John K. Ross. “License to Work.” Institute for Justice. May 2012. <http://ij.org/wp-content/uploads/2015/04/licensetowork1.pdf>; Department of the Treasury Office of Economic Policy, Council of Economic Advisers, and Department of Labor. “Occupational Licensing: A Framework for Policymakers.” The White House. July 2015. https://obamawhitehouse.archives.gov/sites/default/files/docs/licensing_report_final_nonembargo.pdf.
- ²⁵ Meehan, Brian, Edward Timmons, and Andrew Meehan. “Too Much License: A Closer Look at Occupational Licensing and Economic Mobility.” Archbridge Institute. April 10, 2018. <https://www.archbridgeinstitute.org/too-much-license/>.
- ²⁶ Reeves, Richard V. *Dream Hoarders* shows how the American upper-middle class is leaving everyone else in the dust, why that is a problem, and what to do about it. Washington, DC: Brookings Institution Press, 2017; Mellor, William H., and Dick M. Carpenter. *Bottlenecks: Gaming the Government for Power and Private Profit*. New York: Encounter Books, 2016; Lindsey, Brink, and Steven Michael Teles. *The Captured Economy: How the Powerful Enrich Themselves, Slow Down Growth, and Increase Inequality*. New York, NY, United States of America: Oxford University Press, 2017.
- ²⁷ William J. Baumol, “Entrepreneurship: Productive, Unproductive, and Destructive,” *Journal of Political Economy* 98, no. 5, Part 1 (Oct., 1990): 893-921.
- ²⁸ Ibid.

ABOUT THE AUTHOR



GONZALO SCHWARZ Growing up around the world in Uruguay, Israel, Ecuador, and Bolivia, Gonzalo saw poverty firsthand and wondered how to get individuals on the path to prosperity. After earning his bachelor's degree in economics at the Catholic University of Bolivia and his master's in economics from George Mason University, he began his life's work of reducing poverty. This led Gonzalo to found the Archbridge Institute, an organization dedicated to lifting barriers to human flourishing.

While forming the idea to start the Archbridge Institute, Gonzalo Schwarz was working as the Director of Strategic Initiatives at Atlas Network. In his free time, Gonzalo loves to spend time with his two kids, read, and watch his favorite fútbol, the appropriate name for soccer.



LIFTING BARRIERS. LIFTING LIVES.

The Archbridge Institute is a non-partisan, independent, 501(c)(3) public policy think tank. Our mission is to lift artificial and natural barriers to economic mobility, by producing and disseminating multidisciplinary academic and policy research, to empower individuals to thrive and strengthen civil society.
