



## Development of an intergenerational wealth mobility framework for Pakistan

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### ABSTRACT

The study is an endeavor to calculate the mobility of wealth across generations. The study is aimed to provide useful insights in the determinants of wealth linked in a manner that enables the calculation of wealth at single point in time (i.e. at the age of the eighteen and at the age of thirty).

Pakistan is a developing country with high unemployment rate, slow economic growth, inefficient Zakat system, and increasing poverty rate. Pakistan is facing different problem to achieve the sustainable development goals. The 21th century goals are to eradicate extreme poverty and hunger, insure environmental sustainability, reduce corruption rate, inclusive economy, concentration of wealth, equal distribution of wealth. The proposed framework of intergenerational wealth mobility will help to minimize the poverty, evasion of taxation system, effective and efficient Zakat system as well as reduces the level of money laundering and corruption rates in Pakistan. In a while examine by (Shehzadi, Mohammad and Shah 2012).

The significance of the study relates to development of the framework that measures the intergenerational wealth mobility in Pakistan.

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### 1. Introduction

Mobility has been described as the association between the parents' and child socio-economic standing, where higher association referred to more mobility. 'Intergenerational mobility' provides an exploration of the relationship between the parents' socio-economic status and that of their children as adults (Blanden 2009) Backer and Thomas' first introduce the concept of mobility in their articles. Very few studies have been conducted on mobility by taking a multifaceted approach including socio economic,

political and noneconomic factors. The proposed framework is an endeavor to bring forth the importance of objectivity, control and purpose innately as part of the record management pertaining to determination of intergenerational mobility.

Social mobility depends on occupations and social status (Grusky, David B & Robert M.Huser 1984).The degree and the manner in which they overlap or fit can be different due to the structure of the social positions (Weber and Mills 1946) Further there is a potential for multi-dimensional quality in a given social stratification framework. These aspects are sometimes independent variable in a given society that explains the differences in different time and places. The variables that contribute to dominant variables affect social class, status and inequality. These also include sex, gender, race, culture and age (Collins 1998).

Researchers, public policy analysts, and journalists have been mainly interested in whether or not the huge upward push in income inequality that has happened over the past century led to a decline in intergenerational mobility. The term Mobility in the same generation is called intra-generational, and between one or more generations is called intergenerational (Hazelrigg and E. 1970). The term intra generational growing mobility is much less discussed, that represents the trend from rages to riches. In our society intergenerational upward mobility is most common that the children of the parents and the grandchildren's of the grandparents are living in better economic conditions.

“A set of the economic assets or treasury, presents a cause of safety providing an access to meet emergencies of a household's capability, provide the means to live at ease or absorb economic shocks is called wealth”. Wealth is the accumulated income that reveals the transition of intergenerational and likely to saving and income (Cohen, 2008)

The predictors of the wealth attainment are income, age, family size, marital status, faith, schooling, and career. The wealth gap, like income inequality, may be very big within the U.S.A. educational inequality reveal in the results of inequalities of income and variations in potential that is a wealth gap which exist in our society. According to the author Thomas, variation exist in financial economy (because of exclusive rates of incomes),house market inequality and the elements of inheritance, shows the racial wealth gap.

Intergenerational mobility is to research the extent to which economic well-being is related across generations, and to attempt to recognize the underlying mechanisms (Piketty, 2000). In the examiner of Daniel P. McMorran, Isabel V. (Daniel, et al. 1996) established that mobility rates appear to be especially comparable across countries. Intergenerational mobility dynamics has long been confusing social scientists. A recent inclusive study (Grawe and D. 2004) who examine father-son income information starting with United States, united Kingdom, Pakistan, Peru, Nepal, Malaysia and Ecuador. Grawe reports considerable income earning immobility for developing countries. Ample amount of mainstream and academic interest toward the rate of intergenerational wealth mobility is present until recently there is insufficient proof that such mobility resides in ranks.

Intergenerational mobility in society is visible as a degree of established equality if economic possibility or existence chances. The situations at some stage in childhood reflects in ones later life in different word it by distinctive feature of own skills, motivation and success. The easiest manner to decide is to see the

start and the statuses in which ends up. This will be proven by using a transition matrix displaying movements within the income distribution across generations.

The recent literature focuses on the evolution of wealth inequality and the foundation of wealth across the generation (Enrico Moretti, Gordon Hanson and Malmendier 2015). Like other results such as education income and health, wealth was less studied (Solon and Gary 2002) and (Sandra;E,Black;Paul,J;Devereux 2010). There were also different ways like self-perpetuating wealth inequality the top most distribution was intergenerational transmission of wealth (Piketty's 2014). Recent literature showed that there was higher income mobility in Denmark than in US (Chetty, et al. 2014).

Taking a brief look at the macroeconomic pointers of Pakistan as they uncover essential experiences to the problem of poverty, it is realized that the levels of poverty are dictated by exchange of unemployment, inflation and economic growth levels. These macroeconomic pointers have been compounding for Pakistan, further intensifying levels of poverty of the country.

The study of the present problem springs from a widespread concern about intergenerational mobility, and the unavailability of the framework to measure the simple intergenerational wealth mobility in Pakistan.

In developing countries as well as in developed countries economics "inequality" is the biggest challenge of 21st century. Inequality, we only mean economic inequality that occurs due to wealth. Several researchers have focused on social and economic inequality. In Pakistan, we lack a basic framework that can calculate the flow of wealth across generations. Inequality has increasingly been examined as a conventionalized problem facing a modern state in the twenty-first century. Another issue of the developing countries is sustainable development. Need to an organized principal that can meet the human development goals like reduce the poverty level, concentration of wealth, Kuznet phenomena and equal distribution of wealth. In developing countries, Poverty is of the major issue of our society. Poverty is the relation to the economic status of other members of the society. People are poor if they fall below prevailing standards of living in a given societal context. An important criticism concept is that they are largely concerned with income, wealth and consumption. Taxation system is also not efficient in developing countries.

Failures to pay, or evasion of or conflict to taxation, create a hurdle in sustainable development. There is no effective mechanism is available in Islamic society that can measure individual accumulated income i.e. wealth. With reference to the above information, the statement of the problem is to create a framework in order to measure the intergenerational wealth mobility in Pakistan.

### **Objective of the study**

- To understand the wealth mobility and its effects on socio economic growth
- To identify the key factors that will help in quantifying the intergenerational wealth mobility in Pakistan.
- To identify the problem related to existing zakat collection and evasion of taxation system, poverty and sustainable development in Pakistan
- To propose a framework measuring the intergenerational wealth mobility in Pakistan.
- To propose a framework that will helpful in effective Zakat collection and evasion of taxation system in Pakistan.

- To propose a framework that will helpful to reduce the poverty in Pakistan.
- To propose a framework that will helpful to achieve the sustainable development goals.

### **Insights on wealth mobility across generations**

In study of mobility, inequality is examined by the combining the classification of society. At the point of time within the society, inequality provided the clear picture of the distributed wealth and income, on the other side the follow of movement of individual or the family over time across the generation is the mobility concerned. As people hope to climb the ladder even if the rungs are farther apart, as this reduced the impact of rising inequality had been supposed to be the high degree of (upward) mobility. As the background study of “prospect of upward mobility”, (Corak 2013) indicated that countries across generations with inequality also experienced less earned mobility; there was a negative correlation that had been labeled in “The Great Gatsby Curve” by various authors (Chetty, et al. 2014). Positive examine that income inequality and income mobility was not the same sensitive parts of the income distributed.

While measuring the intergenerational mobility sociologists favor occupation while economist believe on focus on earning and income. That characteristic was not for disciplinary, nor for insignificant. The level of mobility in different countries and movement over time was differed depending on the measured use, was founded by the experiential research. On the other side in the dates back to 1960’s, the 1970’s - 1990’s were experienced as the golden years in the result analysis of class and status mobility, and in last two decades the economic mobility analysis had been growing. Amusingly, sociologist had researched for long time on different topics—e.g. in the mobility process education plays a mediating role, and by recent studies of economic mobility there was a difference between absolute and relative mobility –was being deal with from slightly different approaches (e. (Eide and Showalter 1999), (Samuel Bowles and Gintis 2002), (Jo Blanden, Gregg and Micmillan 2007).

According to sociologist, a substitute for socio-economic status was attached with social class or social status. According to them, in sociology occupation was primarily chosen as important sign of socio-economic status (Hout 1988). Different sociologists and many other social scientists, conversely, had proven the substantial empirical results on education, income, and occupation and different feature of children and parents (Blau and Duncan 1967). The effects of family background on the achievements of children were discussed in the dominant book “The American Occupational Structure”.

Income, age, gang size, marital status, religion, education, and occupation would every last bit predictors for the wealth achievement. In the United States the wealth gap, in income inequality may be extremely vast. The racial wealth gap exist in the society because of some degree will income inequalities or contrasts on accomplishments

### **Comparison of social mobility in selected countries**

According to “economists (Castells-Quintana and Royuela 2012) increasing inequality is harmful for economic growth. High and persistent unemployment, in which the inequality increases, has a negative result on subsequent long-run economic growth. Unemployment can harm the growth not only because it’s a waste of the resources, but also because it generates redistributive pressures and subsequent distortions, constrains liquidity limiting the labor mobility, drives people to poverty, and grind down self-esteem promoting social dislocation, unrests and conflicts”.

The economic inequality will be the distinction found different measures for monetary prosperity "around people in a group, "around bunches to a population, or "around the nations. The mobility of income, wealth and inequality focused by the economic mobility and its gap of wealth. Most of economists concentrate the most part of inequality over the 3 metrics that is wealth, income and utilization. This is one of the economic inequality identified the nation or countries of equality, and outcome of equality and the chance of equality. (Fletcher and Guttman 2013).

Tax evasion prospective required a difference between the statutory tax system and the effective tax system. Tax payer pay less taxes and between the statutory and the effective average taxes rate implied a fixed placed. "The regressive bias prediction states that this wedge was larger for high-income taxpayers than for low-income taxpayers even when the enforcement regime was revenue maximizing.

### **Theoretical framework**

This proposed framework is basically required to gather the records of different authorities on a single platform so that it will be helpful to calculate the wealth of the individuals.

Pakistan is one of the countries that is still working in a paper-based environment; eventually, move toward the computerized system. Still, the countless government does not realize the importance of the computerized system. Through the proper records of data or information countries should clearly state that how efficient records will offer to make government more open.

By developing the concept of E-Governance, Every citizen of the country has the right to get access to the official information or records from public sectors as a proof of policies, action, transactions, expenditure, precedents, rights and entitlements. The World Bank illustrated in their recent studies both the opportunities and the challenges of managing the records for E-governance in three countries, Estonia, Finland and Norway.

Managing the accurate records' system is able to show accountability and transparency by allowing the country citizen to use reliable records and information. The Nordic countries have beyond simply organizing or managing the advanced technology to managing the reliability and use of the information. People might bring assurance in the credibility, authenticity, and integrity of the information, Also public sector offices could use them adequately for arranging and observing programs, activities, and spending. It is possible to quickly trace, relate, and check policies, decisions, actions, and spending perfectly over a time period as a basis for an informed and socially just society (see appendix A,B and C ).

The secured accountability and transparency helps in an audit of any changes or illegitimate utilize of the records ultimately possible to find the corruption. The privacy right of the records could be protected and systematically records could be open to the public. There is any restriction suggested on opening record could be properly documented and reasonable (see appendix A,B and C ).

Marriages are registered in union council through Qazi system and NADRA through certificates. NADRA stands for National Database and Registration Authority. This authority maintains the data of individuals who are living in Pakistan as well as overseas Pakistani through unique identification. It maintains the data of marriages, birth, and death records. This data is gathered and compiled from union councils and

Tahsil Council respectively. At the end, NADRA is responsible for the marriage, birth and death records of the Pakistani citizen. In Pakistan, every individual has their Computerized National Identity Card (CNIC). It's a unique identity for every individual. National Database & Registration Authority (NADRA) has gained international recognition for its success in providing solutions for identification, e-governance and secure documents that deliver multi-pronged goals of mitigating identity theft, safe-guarding the interests of our clients and facilitating the public. (see appendix C ).

Moving on to the next tier of our proposed framework is the maintenance of educational records of Pakistani citizen. Maintenance of educational records in our proposed framework will serve various purposes i.e. we can later check income elasticity due to change in education. Education records of Pakistani citizen are maintained in following ways.

- Madarisa Education “ regulated by Wafaq ul Madaris and ministry of interior”
- School Education “ private, Semi-government or Federal government school”

The next tier of proposed framework is to records the wealth of Pakistani citizen both home and abroad. Wealth is the accumulated form of income. There are different sources of income, which contribute to measures an individual's wealth. They are as following

- Employed
- Self-employed
- Inheritance (agriculture or property),
- owner of inter-vivos
- Gift
- Bequest (jewelry, stock, and cash)
- In-law transfers
- Foreign remittance and in country Remittance

These accumulated sources of income create the wealth of an individual.

Inheritance is another form of income; this is the practice of passing on property upon the death. Inheritance is the wealth which is transferred from parent to their children after the death of the parent. Inheritance is classified into two categories i.e. agricultural land and property (commercial and residential).

Agricultural property is registered in Tahsil council. All the information related to Agricultural Property is recorded in tahsil Council through Patwari system. Some of the property classifications of agricultural land are as follows, under these data is recorded at Tahsil councils:

- farmer /non farmer,
- land owned or rented out (rabbi o Kharif ),
- orchard production,
- canal irrigated (6 shumai, annual) or not,
- inside or outside the city,
- national G.T road or highway linked,
- A crop of production (wheat, cotton,seeds, fruits or vegetables ).

Zari Tarakiyati banks (ZTBL) and other commercial and consumer banks could tell us about the status of the property, whether a property is mortgaged or pledged. Patwari mal could tell us the classification and ownership(s) of the Agri\_property.

Remittance is another source of income and contributes the part in wealth. People got income from remittance in the form of inside or outside the country. It could be identifiable from the bank transaction. Banks maintains their balance statement in which all the transaction with account numbers is recorded. The Account number is a unique identification of an individual's. If the citizen is outside the country then all the information about of foreign affairs records, government identifications, foreign portfolios, are consolidated in Ministry of Foreign Affairs (MFA). Ministry of Foreign Affairs (MFA) is the Government of Pakistan's federal executive level ministry responsible for the foreign relations and foreign policy of Pakistan. It gathered all the information and data of Pakistani citizen regarding their marriages or nationality(see Appendix, C ).

Bequest is another type of income. Money is the income that is handling through banks. Banks is financial institution that accepts the deposits and lends it to others. Money is deposit and lend against the unique account numbers. All the information or data are recorded against their unique account numbers.

Inter-vivos, gift and in-law transfers are another form of income. Inter-vivos is a legal Latin word that refers to a transfer wealth (inheritance, bequest,) during lifetime, as opposed to testamentary transfer (a gift that takes effect on death). A Gift is present or item that someone has given to you from outside the family. Gift is a valuable assets that contributes in wealth. Different form of gifts could be given to someone i.e. inheritance; bequest. In law transfer is a form of income driven from the dowry. After marriage girl takes her part of heir-ship from ancestor. Heir-ship is distributes in different form i.e. agricultural property, property, stocks, jewelry and money.

The proposed framework 'intergenerational wealth mobility' explains mobility in two different parts. One is the intergenerational part and second is the wealth mobility. Intergenerational part is based on the educational background and their ancestral wealth, benefits and alimony from marriages and death.

Wealth is the second part of this proposed framework. Basically wealth is an accumulated form of income. There are several forms of income all over the world. Different authorities are registered to record the information concerning the income of individuals. In Pakistan board of Revenue, Federal Board of Revenue, Employee old age Benefits and Security Exchange commission of Pakistan are the authorities that are maintaining the record and information as well as handle the registration. Tahsil and ZTBL and other banks that provide Agricultural loans are maintaining the data or information regarding the agricultural property.

### **Limitations of the Model**

The proposed framework has several limitations that need to be researched in future studies. The several limitations of the model are addressed below:

1. First marriage is considered as the main assumption of the model. However, Pakistan is Islamic Democratic Country where the constitution and the law is strictly in alignment with the Islamic Injunctions, that, allow the citizen of the country to marry four women at one time (subject to other Islamic and legal constraints that are not point of concern here).
2. Unregistered business should be registered to ensure legitimacy. When business is registered through Federal board of Revenue ,Federal board of Revenue will be issued the certificate of incorporation .The registered business have to submit their return file to Federal board Revenue in which all the data driven by the business is given on it which help the FBR services to find out the yearly income of the business .
3. The gold market has to be centralized and computerized so if a person or a buyer buys some jewelry against Computerized National Identity Card CNIC. This unique CNIC record the Jewelry and automatically update the individual wealth record because all the jewelry purchase by the Computerized National Identity Card (CNIC) and the CNIC holds all the purchases data in his wealth data base.
4. There is no coordination and lack of system among the higher institutes like federal board of revenue. FBR do not give access to their accumulated information disclosure to the some other institutes. When there is no proper coordination between institutes they will not exchange their data and information with each other. Thus data closure is not possible and much information could be still hiding from many organizations.
5. Another major limitation of the model is to consider the single marriage in laws transfer. In Pakistan people do marriages with the widow and divorces person. Those divorcee and widowers have their wealth from their 1st marriage. In our model 1st marriage in law transfer is considered to calculate the wealth of the person.
6. Foreign in-law transfer is excluded because this model is focused on domestic income of the person and excludes the foreign income. Foreign income that is from in-law transfer, no records are maintained in Pakistan.
7. Domestic property and land is included in this model, foreign property and land are not computed because no mechanism or system available that attached from the foreign property and land registering authorities.
8. At the age of 30, this framework is going to calculate the wealth of any individual again because at this stage a person is stable and in a condition to increase their wealth.

## **Conclusion**

Pakistan is a developing country and facing multifarious issues such as corruption and poverty, and is continuously failing in its endeavors to achieve the economic goals. This study highlighted those variables that are a part of income of any individual. The accumulated income is called wealth. Wealth has several forms and its status across multiple generations is driven by these variables directly from parent to their children. Intergenerational wealth mobility is a term of how wealth is transferred from parents to their



children and how much this contributes to individual wealth overall. While the voluminous empirical literatures on intergenerational mobility of income. (Solon and Gary 2002) And (Sandra,E,Black;Paul,J;Devereux 2010). "Intergenerational mobility provides an exploration of the relationship between the parents' socio-economic status and that of their children as adults" (Torche 2015).

The intergenerational mobility and inequality is feasible in a unified method which is recommended in the two current developments. The human capital model which suggests that inequality get end result from maximizing conduct lacking major self-assurance on good fortune and other stochastic forces.' According to the economic method to social interaction (Becker 1974), people are a representative part of their own family whose span is spread over several generations.

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