

Intergenerational mobility in a comparative perspective

illustrated at the article

„Do Poor Children Become Poor Adults? Lessons from a Cross Country Comparison of Generational Earnings Mobility“

by Miles Corak (2006)

- Speaker: Patrick Kaiser
- Seminar: Economics of Education
- Lecturer: Prof. Checchi

Objectives of the article

- Derive internationally comparable measures of the degree of generational mobility across rich countries and offer a framework for understanding the differences between the countries.
- Offer a framework for understanding the role of public policy in influencing these patterns.

Outline of the article

- Introduction
- Measurement of generational earnings mobility
- Meaning of generational earnings mobility
- Income transfer policies
- Investment Policies
- Conclusion

Measuring generational mobility in earnings or income

$$\ln Y_{i,t} = \alpha + \beta \ln Y_{i,t-1} + \varepsilon_{i,t}$$

$\ln Y_{i,t}$ adult income of the children of family i 's child
(natural logarithms)

α average adult income of the children of
generation t

$\beta \ln Y_{i,t-1}$ fraction of parental permanent income

$\varepsilon_{i,t}$ other influences not associated with parental
income

The meaning of β

- The income of an individual is related to the income of the parents
- The fraction of economic advantage that is on average transmitted across the generations
- Summarizes in a single number the degree of generational income mobility in a society
- Generational income elasticity
- The value of β is between zero and one

Intergenerational mobility in a comparative perspective

The effect of the value of β

- generational income elasticity \rightarrow economic advantage of a child from the higher income family compared to a child from the lower income family

β	0	0.2	0.4	0.6	0.8	1.0
Income Advantage	1.0	1.64	2.70	4.44	7.30	12.0

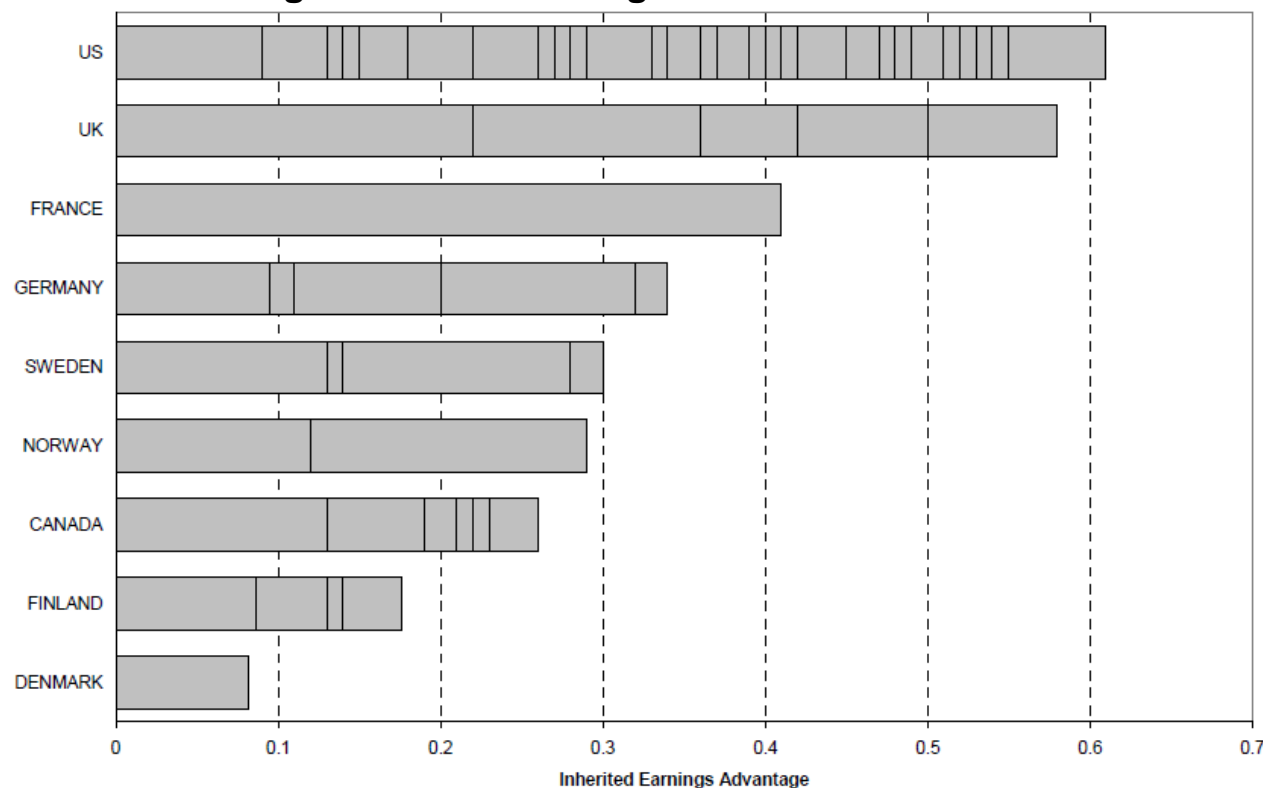
Intergenerational mobility in a comparative perspective

Difficulties in measuring (I)

- Lack of appropriate data (ideal data sets for the study of long-term developments are rare)
- Estimation of β :

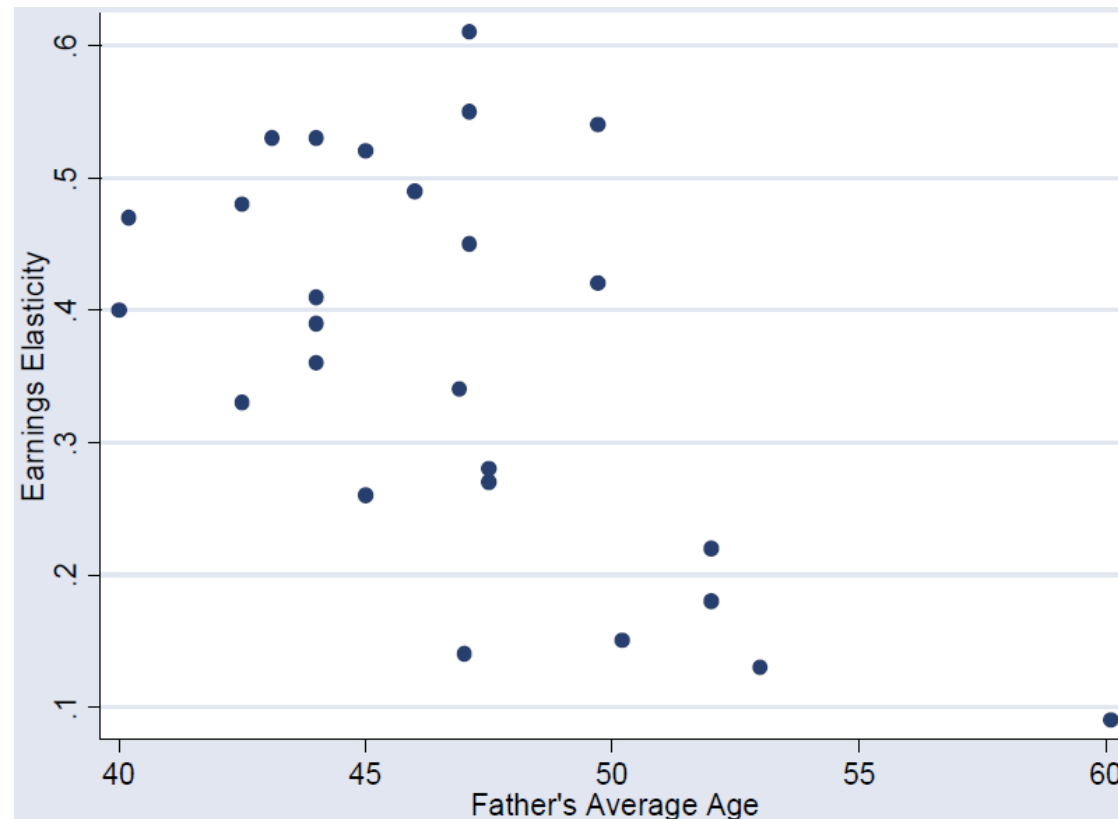


variations in generational earnings elasticities for fathers and sons



Difficulties in measuring (II)

- Age at which incomes are obtained for the parents



Variations in reported generational earnings elasticities in the United States for fathers and sons

Findings

- Variation across rich countries in view of fathers' earnings advantage being passed on to sons
 - Examples:
 - UK and US: 40 to 50% earnings advantage (least mobile)
 - Germany and Sweden: ca. 30% earnings advantage (intermediate)
 - Denmark, Norway, Finland, Canada: 15 to 20% earnings advantage (most mobile)
- But: broader measure of parental resources leads to higher values of β

Meaning of generational earnings mobility

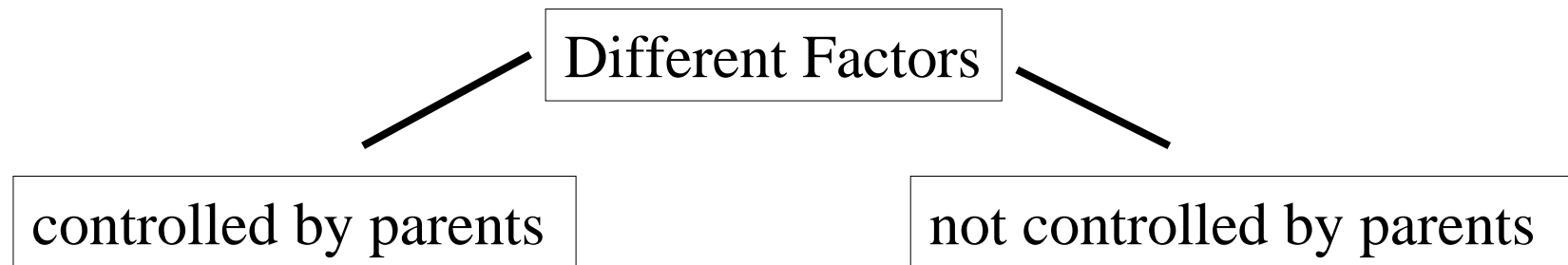
- From the perspective of a child: this statistic offers an overall indicator of social inclusion and can influence discussions of social policy
- But it can not be used as a goal or tool for policy makers because it is not clear...
 - What equality of opportunity exactly means **and**
 - What the causal processes are that influence the success of the children in the labour market

Equality of opportunity

- Children have equal options in life regardless of their family background
- How can it be measured?
- Generational mobility elasticity = 0 → more factors have an influence of the child's labour market success (e.g. family culture, genetic ability)
- Intervention in families needed to achieve $\beta = 0$
- Also possible: more equality of opportunity → higher β
- Reforms in educational system can have unintended effects: income advantage of rich children raises

The reasons for generational income mobility

- Income mobility across generations and inequality within generations is determined by the parents who want and are able to influence the earnings capacity of their children → current consumption vs. investing in the child's human capital



Intergenerational mobility in a comparative perspective

Influences on generational earnings elasticities (I)

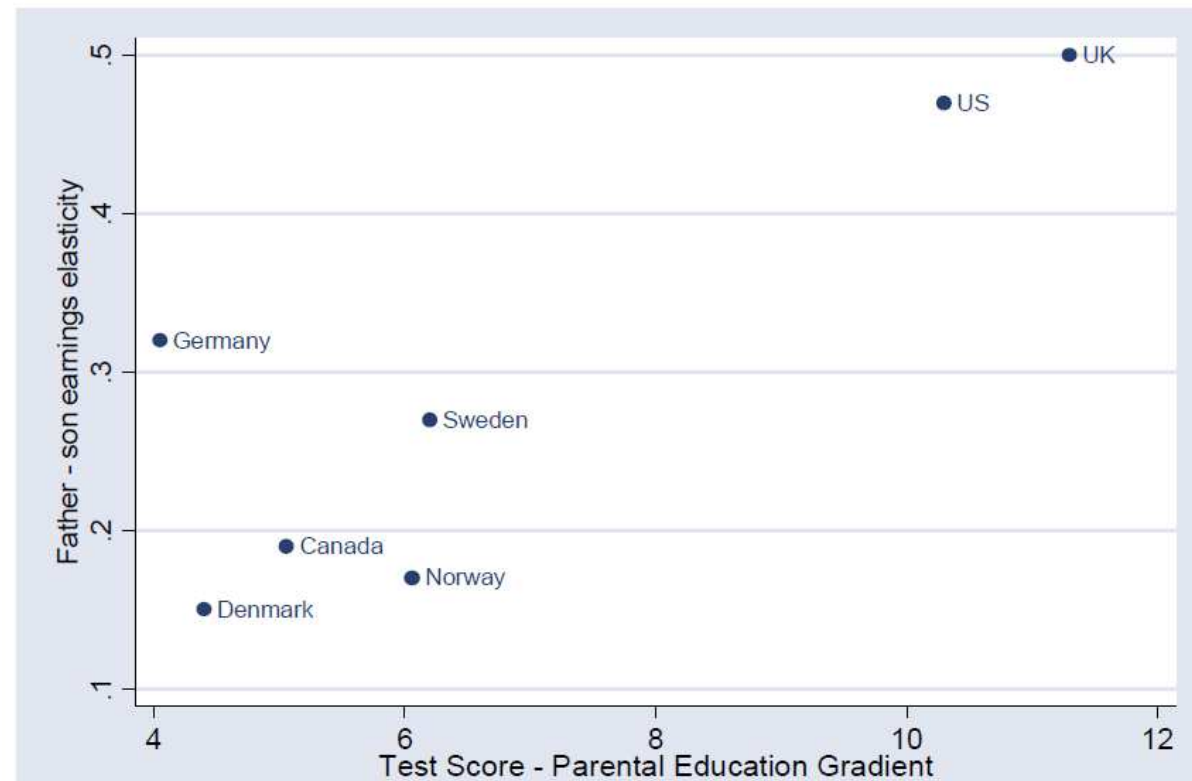
Country	Father – Son earnings elasticity	Private internal rate of return to tertiary education (%)
Denmark	0.15	7.9
Norway	0.17	...
Finland	0.18	...
Canada	0.19	8.4
Sweden	0.27	9.4
Germany	0.32	7.1
France	0.41	13.3
United States	0.47	18.9
United Kingdom	0.50	18.1
Correlation with earnings elasticity		0.882

The more unequal the society → the higher generational persistence

Influences on generational earnings elasticities (II)

- The more unequal the investment in children → the higher the generational persistence

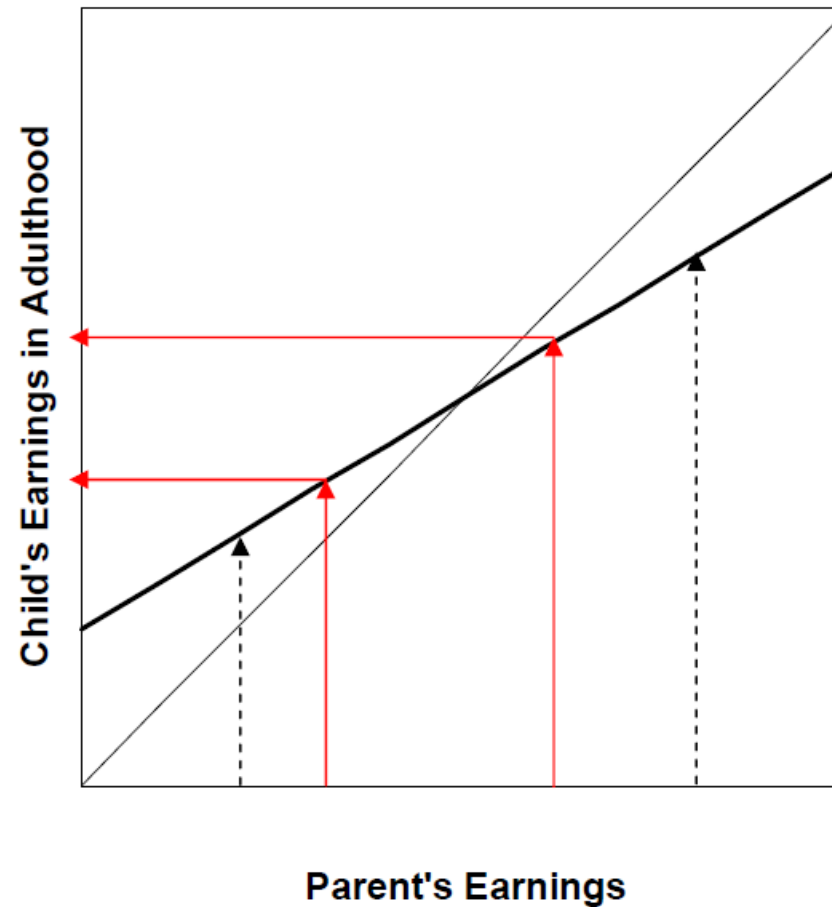
Cross country earnings elasticities for fathers and sons and the cognitive skills of children



Intergenerational mobility in a comparative perspective

Income transfer policies (I)

- target: more equal income distribution through transfers



Income transfer policies (II)

- Taxes (rich people) → social benefits (poor people)
- Transfer programmes provide...
 - In the present: reducing inequality and child poverty
 - In the future: preventing inequalities
- Generational consequences:
 - Traditional redistribution schemes
 - Insurance against income loss

Income transfer policies (III)

- Problems:
 - Negative effect of parental participation in transfer programmes: children could be less engaged in the labour market and could expect to get social benefits (generational cycle of poverty) → empirical findings support this thesis!
 - Social support should not be an incentive not to work

Investment policies

- The state „invests“ in the young citizens
- An important field is education
- Higher equality of opportunity in view of education
- High variation of public spending on education
- Cognitive skills are important for long-term success in the labour market
- Cognitive skills are related to „cultural capital“
- Young children have the best opportunities to develop high cognitive abilities

Conclusion of the article

- Rich countries have strong differences in view of the earnings mobility between fathers and sons
- Families, labour markets and public policies influence the earning success of children
- The generational mobility depends directly and indirectly on many factors
- The welfare state can raise the generational mobility by investing in children (education) and transfer policies
- The state can improve the present situation of children (child poverty) and the long-term earning success

Critical aspects to the article

- The framework for policy (action) is not very concrete → the author says that money is not enough and that there must be action in the fields of social policy and labour market policy, but this is very general
- The author says that many assumptions or results of the different studies which he has observed are not very safe. So, the question is, if it is really useful to give advice to politicians in view of the fact that it is not safe whether the advices are based on valid findings (e.g. it is not clear how the real interaction between several factors is; there are still [too] many open questions)

Do poor children become poor adults?

- No clear answer
- It depends on many aspects (e.g.):
 - The country (degree of equality and [generational) mobility)
 - The influences not associated with parental income ($\varepsilon_{i,t}$)

Literature

- Corak, Miles (2006): Do Poor Children Become Poor Adults? Lessons from a Cross Country Comparison of Generational Earnings Mobility. IZA Discussion Paper 1993.

Thank you for your attention!