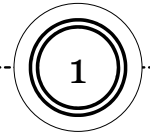
Do Poor Children Become Poor Adults? Lessons from a Cross Country Comparison of Generational Earnings Mobility



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Aim of the paper

1. The paper wants to derive an internationally comparable measure of generational income mobility and to offer a framework for understanding the differences between countries

2. Furthermore, the author stresses the attention on the very meaning of the results and gives a guideline for public policy

Structure of the paper

1. Measuring generational earnings mobility: results and challenges

2. The meaning of generational earnings mobility: equality of opportunity and underlying causal process

3. A framework for policy

1. Measures (1)

- Usually economic analysis uses a simple model to capture generational income mobility:

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

β is the fraction of parental income transmitted to the next generation, quantity also known as generational income elasticity

In all empirical studies $0 < \beta < 1$

1. Measures (2)

Data sources used to estimate β:

- Longidutinal datasets
- Administrative sources
- Datasets containing retrospective information

Problems concerned in estimating β:

- How to measure $Y_{i,t-1}$
- Age at which parental income is collected

1. Measures (3)

Generational earnings elasticities for cross country comparisons

Country	Estimates for cross country comparisons		
	Preferred	Lower Bound	Upper Bound
Denmark	0.15	0.13	0.16
Norway	0.17	0.15	0.19
Finland	0.18	0.16	0.21
Canada	0.19	0.16	0.21
Sweden	0.27	0.23	0.30
Germany	0.32	0.27	0.35
France	0.41	0.35	0.45
United States	0.47	0.40	0.52
United Kingdom	0.50	0.43	0.55

2. The meaning of generational earnings mobility

What does this statistic mean?

Can it be used either as a tool or as a goal for public policy?

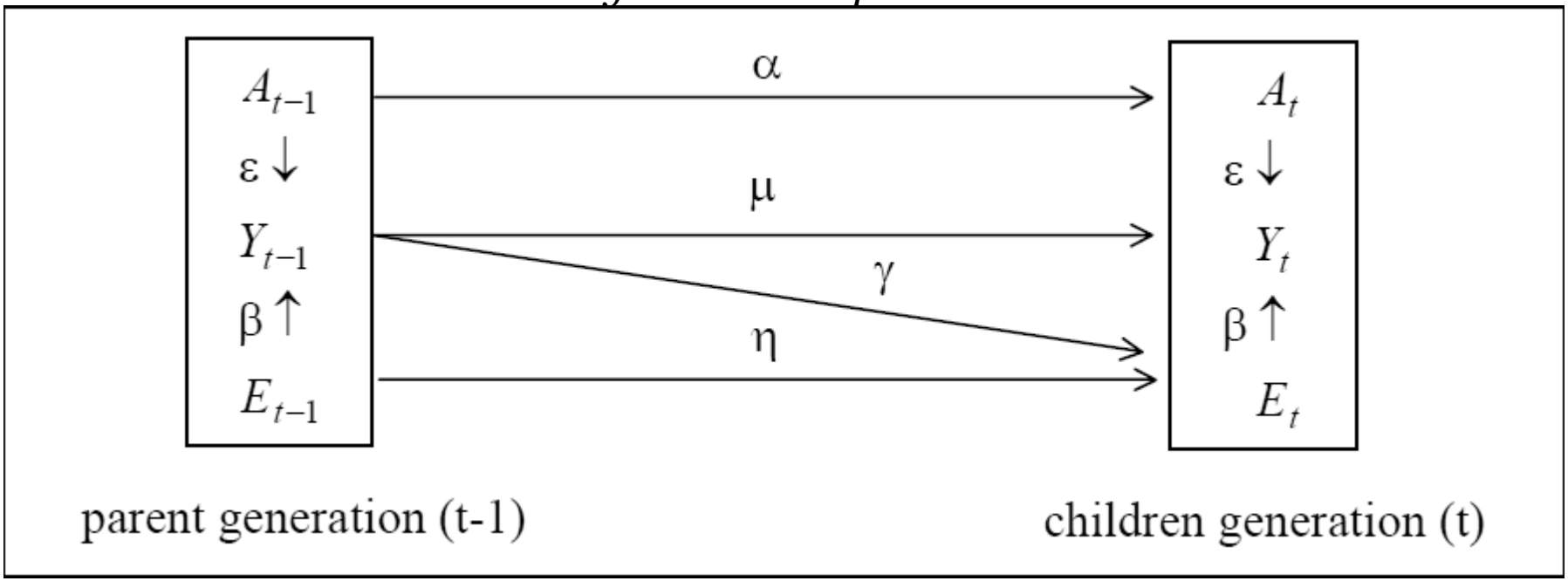
We need a clearer understanding of

- What equality of opportunity means
- The causal process that links parental with siblings income

2. Equality of opportunity

- Is it a target for public policy to put $\beta = 0$, that is no correlation between parent and child incomes?

Intergenerational persistence



2. Causes of generational income mobility (1)

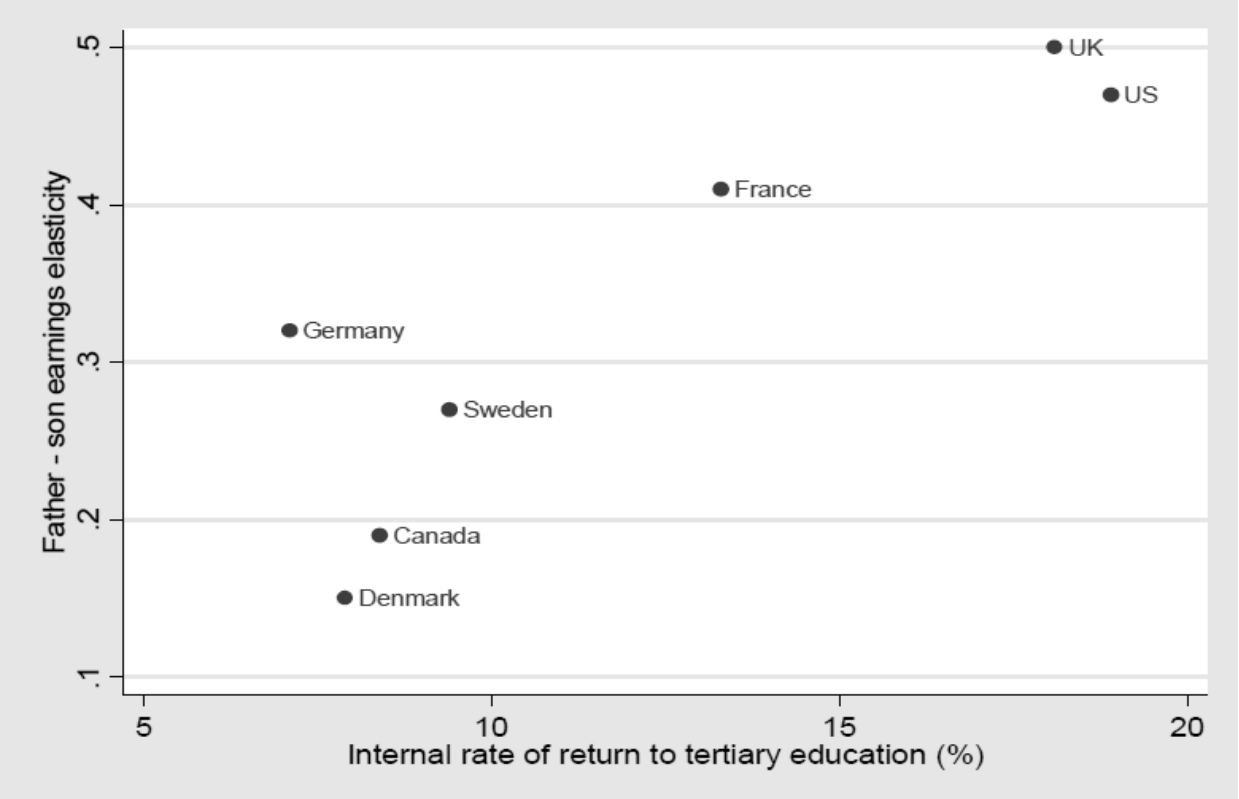
- β is seen as a general indicator of social inclusion, the starting point for further analysis. The choice is motivated by economic theory (Becker and Thomes model)

- Altruistic parents in the model can influence the earning capacity of the siblings by investing in education, but not everything is beyond parental control: market luck, inherited ability and social institutions play a role in defining the differences in βs

- Generally, the greater the return to any investment, the greater the inheritability of family background, the greater the β

2. Causes of generational income mobility (2)

- Determinant of cross-national inequality: the return to higher education



- A more unequal society is associated with less generational mobility

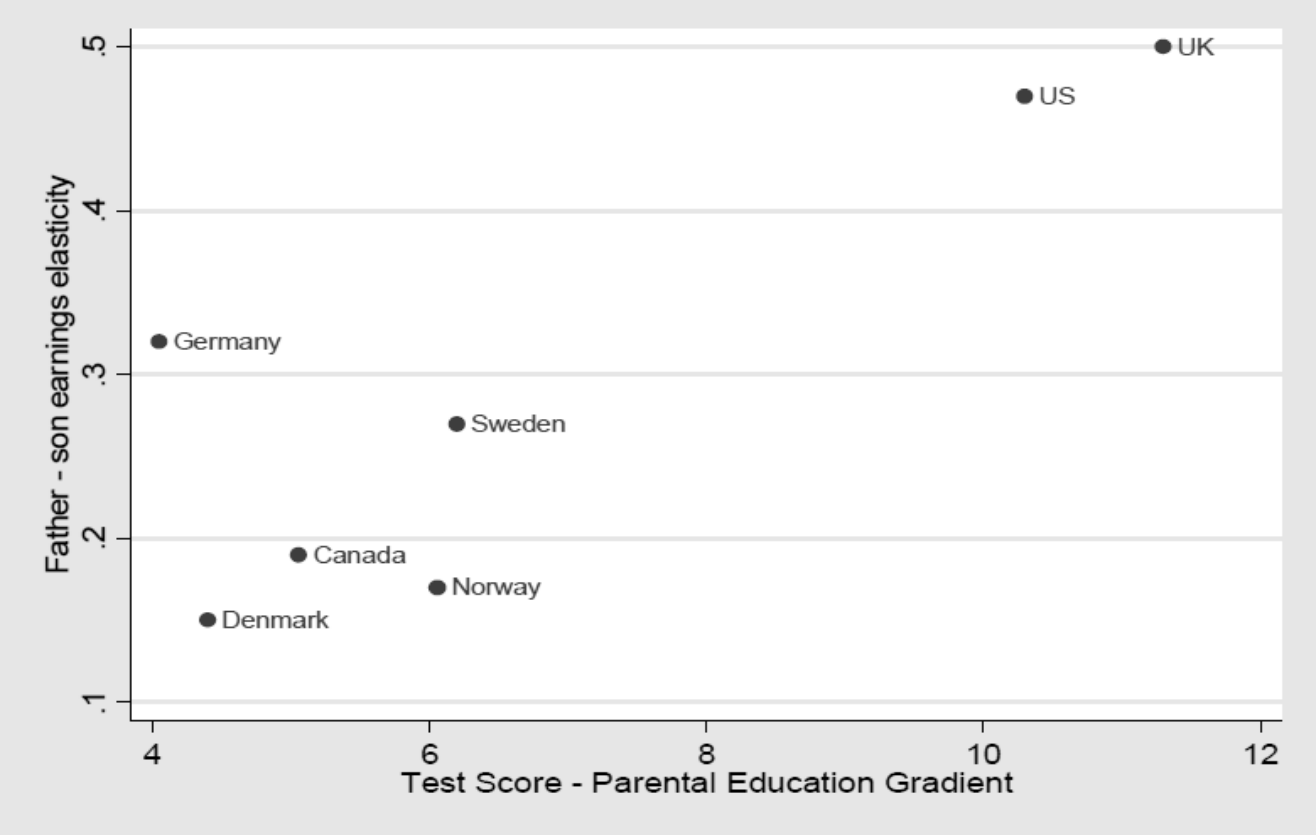
2. Causes of generational mobility (3)

- So, the role of the market strenghten the tie between between parent and child incomes, while progressive public expenditure will loosen it (Solon, 2004)

- A second factor to explain cross national differences is the degree to which parent income has to do with differences in relative benefit of investment

2. Causes of generational income mobility (4)

- In X axis: gradient between cognitive ability of children and education of the parents



- More inequality in the investment among children: less degree of generational income mobility

3. Policy implications

- The explanation proposed give different hints for the implementation of public policy:

1. Income transfer policies: policies related to the structure of labor markets and the degree of inequality

2. Investment policies: policies related to the functioning of families and early childhood investment

3. Income transfer policies

Redistributive schemes, reducing inequality in the present, are also supposed to reduce the gap in the future

This is the general view but it requires two assumption on the causal interpretation of the equation

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

- Firstly, money is perfectly fungible
- Secondly, there is a linear relation between parents and children earnings across the entire income distribution

3. Income policies (2)

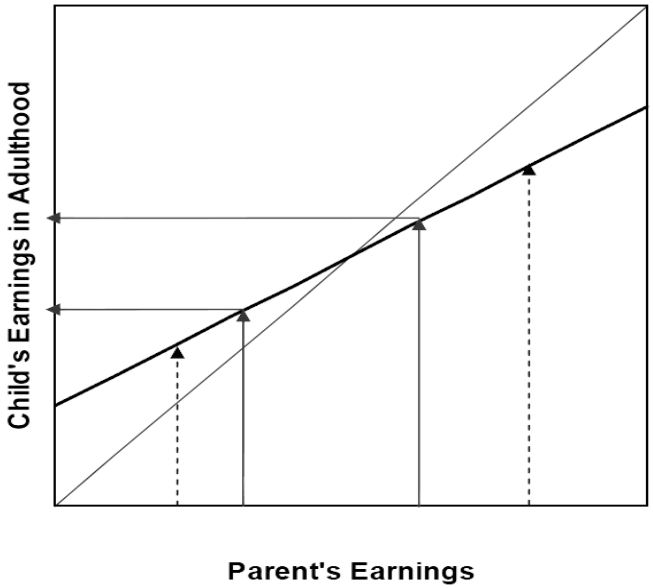
These two assumptions are not necessarily supported in literature:

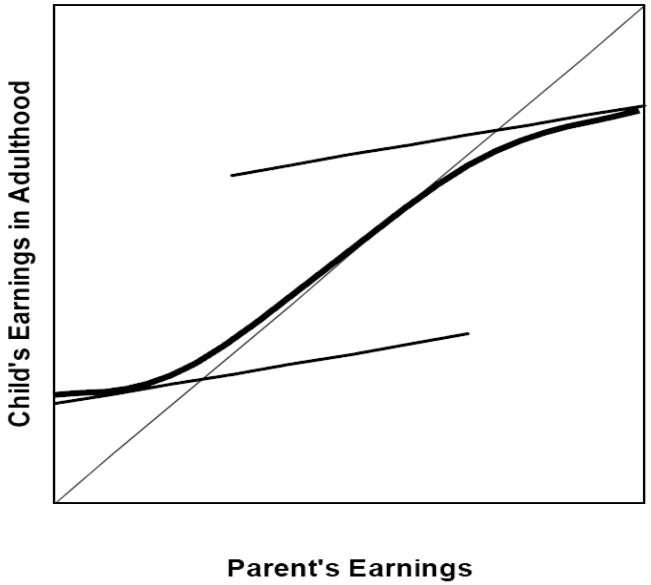
- Participation of parents in transfer programs is generally associated with lower adult earnings of children. Perpetuanig a poverty cycle: children will be less engaged in labor market as well

- In this case, policy makers must encourage children in active LM participation in shaping income transfer policies

3. Income policies (3)

Different implications of the choice of considering a single, stable, linear relationship between parent and children earnings across the entire income distribution



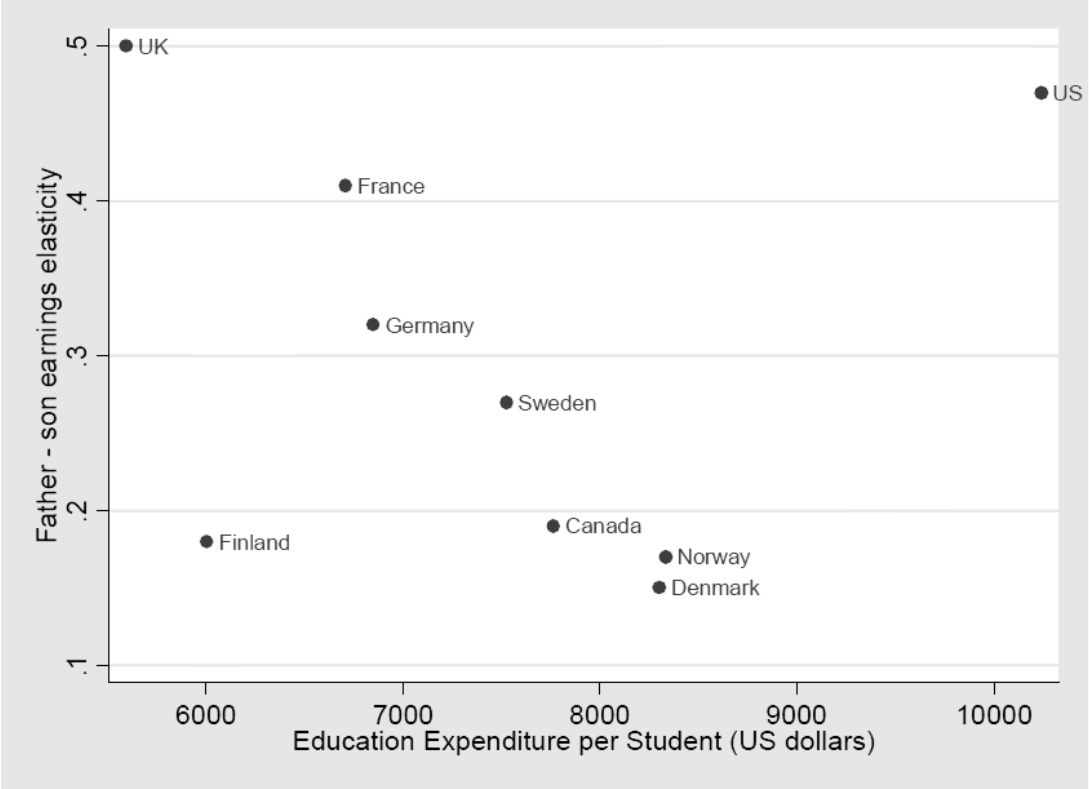


Policy makers must be cautios in adopting income transfer policies: even if they fight child poverty in the present, they may not break the poverty cycle

3. Investment policies (1)

Esping-Andersen propose to re-shape welfare state not only according to new set of risks but also to focus it on promoting generational mobility.

Cross-country earning elasticity vs per-student spending



3. Investment policies (2)

The scatterplot show how the structure of the system and the development of cognitive skills matter for generational mobility.

For what concerns the development of cognitive ability among children, recent research pointed out how this is important in educational and work opportunities: stimulating the brain in the early years of life leads to better cognitive abilities in the long run.

If the point is to block a circle of disadvantaged initial conditions, then WS must turn to the families

Concluding remarks – Policy implications

- The return to education and the opportunity for children to obtain required skills are two important factors in the explanation of generational mobility and cross-national differences
- Post-war policies aimed at equalizing opportunities have loosen the connection between fathers and sons' income, but for some countries they have reached the limit
- Structural differences in educational system and non-monetary factors also influence generational mobility, such as the development of cognitive skills and the way in which this is linked with family background
- Investing in children seem to be the most effective way to reduce inequality, but before re-orienting WS strongly in this direction we need further research on this