

Intergenerational transmission of well-being

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In this article, we provide a brief overview of some established findings on intergenerational mobility as well as some new research directions.

Intergenerational correlations

When researchers describe social mobility from one generation to the next, they often focus on immobility; that is, whether one generation tends to look like the one that came before, on both economic and noneconomic measures. Income is a commonly used measure to investigate whether the children of poor parents also tend to become poor adults. Estimates of the correlation between parents' and children's income in the United States tend to be around 0.4.¹ Although there is a lot more nuance to the many findings generated in this broad field of research, the main story is that intergenerational income immobility is high, much higher in the United States than in comparable Western industrialized countries, and it has been quite stable across time.²

There are other measures of socioeconomic inequality, of course, such as how likely children are to attain the same level of education as their parents, or to have the same occupation. The story for intergenerational correlations in education is very similar to that for income; some studies also place the estimate at around 0.4. Again, the United States demonstrates less mobility in education than comparable countries and this correlation has also been stable over time.³ For occupation-based measures, in contrast, although the intergenerational correlation may also be in the 0.4 range of estimates, the United States is average in mobility compared to other countries. Mobility in occupation has been increasing slowly over time until recently; over the last few decades, children have become somewhat less likely to hold an occupation in the same category as their parents.⁴

Other important dimensions of economic inequality that are much less studied are inequalities in wealth and consumption. Wealth is a dimension of economic well-being that suffers from a particularly high degree of inequality, and a dramatic rise in inequality during the last few years.⁵ Although there has been much less research done in this area, estimates of the intergenerational correlation in wealth for the contem-

porary United States are again around 0.4.⁶ However, this prior research measured the wealth of the second generation when they were still relatively young, before many would have received any inheritance or accumulated substantial assets. Some ongoing research shows that tracking this generation further in their lifetime reveals considerably higher intergenerational wealth correlations.⁷

Another important area that has received little research attention is the intergenerational correlation in consumption despite the fact that some may consider consumption a better indicator of economic well-being than income or wealth. Figure 1 shows some new data on the probability of moving up in the consumption distribution for children whose parents were in the bottom quartile of consumption. The probability of moving up substantially is low: 44 percent of children remain in the bottom quartile, while only 12 percent move up to the top quartile. The figure also shows the corresponding probabilities for family income; the patterns are quite similar for both measures.

Noneconomic dimensions of mobility

Though we cannot delve into its detailed findings here, work has also been done on intergenerational correlations in noneconomic dimensions, such as health, personality type, and psychological well-being.⁸ The correlations for these noneconomic characteristics tend to be much lower than those for the socioeconomic characteristics discussed above. That is, a child's longevity, happiness, or degree of extraversion tend to be much less related to the same parental traits than is the case for the child's similarity to its parents in terms of socioeconomic well-being.

Multiple generations

In addition to the study of intergenerational correlations between parents and children, there are good reasons to also look beyond just two generations. Robert Mare recently suggested that relying exclusively on two-generational models for mobility analyses means that "it is likely that we have overstated intergenerational mobility [. . .] or, at the very least, have misunderstood the pathways through which it occurs."⁹ Recent research in this area has, for example, shown that grandparents' income may have direct effects on grandchildren's high school attainment, even after controlling for parents' income and other parental characteristics.¹⁰

Another approach to study the degree of inequality in opportunity is to look horizontally, within generations, rather than vertically, between generations. Within the two-generational

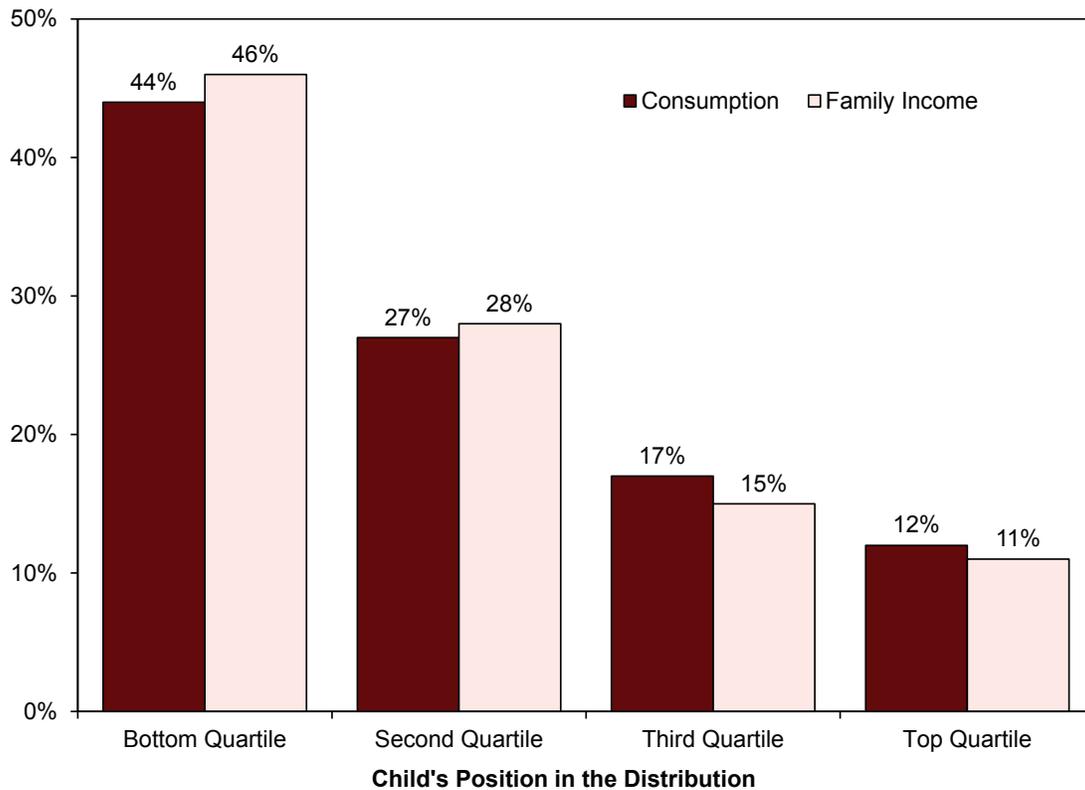


Figure 1. Probability of moving up the distribution, for children whose parents were in the bottom quartile.

Source: K. Charles, S. Danziger, G. Li, and R. Schoeni, “The Intergenerational Correlation of Consumption Expenditures,” *American Economic Review: Papers and Proceedings* (May 2014): 136–140.

perspective, researchers often study sibling correlations. The degree to which siblings are more similar to each other than to nonrelated members of the population indicates how much their parental background and other shared factors determine their success. The factors taken into account in this type of analysis include not just parental characteristics, but also neighborhoods, genes, and culture, and any other shared environments between siblings. A horizontal analysis can also be applied within the multi-generational perspective by looking at correlations between cousins, that is, individuals who share grandparents but not parents. Ongoing analyses of data from the Panel Study of Income Dynamics reveal considerable cousin correlations across a range of socioeconomic indicators; preliminary estimates of these of cousin correlations are 0.23 for education, 0.19 for occupation, and 0.13 for family income.¹¹ To put these results in context, Jaeger found a similar correlation of 0.26 for education using data from the National Longitudinal Survey of Youth.¹² Another study from Sweden found somewhat lower cousin correlations, of 0.15 for education and 0.11 for occupation.¹³

Where do these correlations come from?

The finding that intergenerational correlations tend to be stable across various dimensions of economic well-being and across time does not necessarily imply that there is a single mechanism driving all of them. Here we offer two broad pathways—neither complete nor mutually exclu-

sive—through which parental resources may facilitate success: purchasing and insuring.¹⁴

Purchasing success

The first pathway is the purchasing function; parents’ resources could be used to purchase access to valuable goods such as education. Figure 2 shows the economic assistance that young adults received from their parents, by quartile of parental income. While the most widely cited estimates of the cost of raising a child usually end at age 18, a few studies also look at amounts that parents provided to their children from age 18 to 34. These amounts are substantial, and, unsurprisingly, vary widely by parental income.

The estimates shown in Figure 2 are somewhat dated, since the data on cash transfers in particular are from 1988, but we think the figure is still informative. Since the late 1980s, the average age of young adults living in their parents’ home has increased. Some more recent work provides consistent reports of parental cash assistance received by young adults over the past three decades. However, these data provide only qualitative estimates of the amount of assistance, not actual dollar amounts. Figure 3 shows the proportion of young adults receiving assistance in a given year by level of parental education, from 1980 through 2010. Young adults whose parents are more educated are more likely to receive assistance, and the proportion of students receiving assistance has increased by approximately 10 percentage points

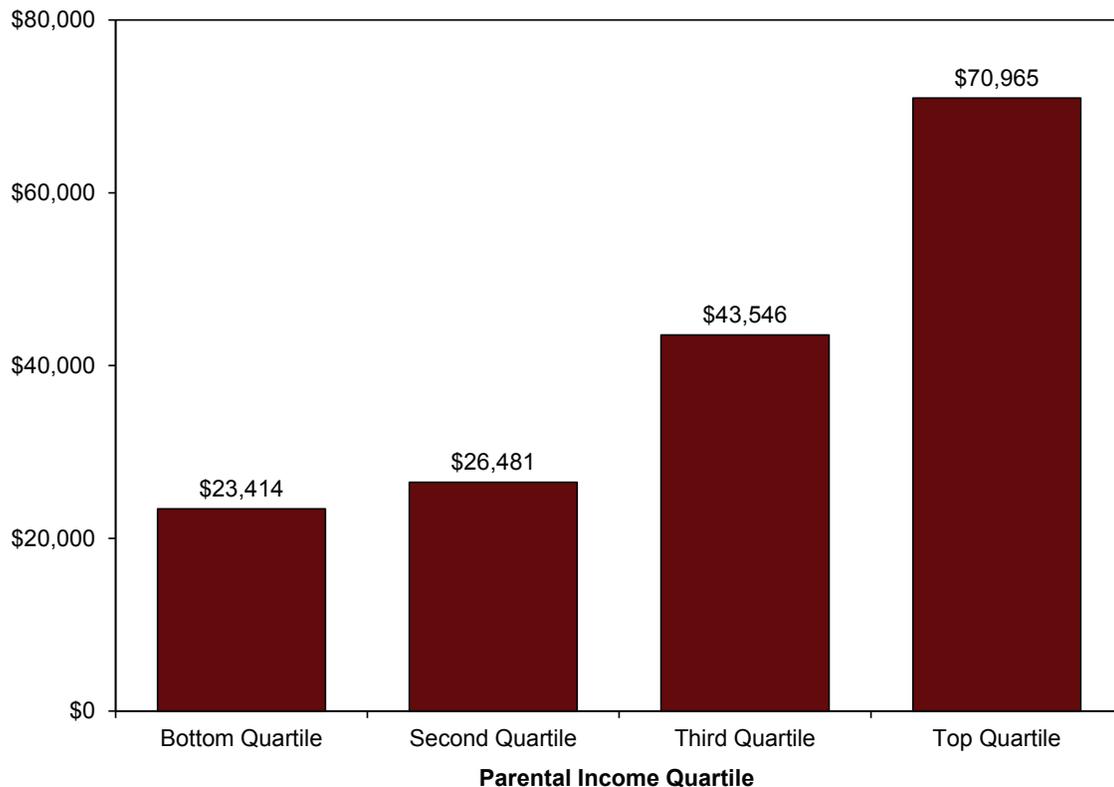


Figure 2. Economic assistance to young-adult children ages 18 to 34, by parental income quartile.

Source: R. F. Schoeni and K. E. Ross, "Material Assistance from Families during the Transition to Adulthood," in *On the Frontier of Adulthood*, eds. R. A. Settersten, F. F. Furstenberg, and R. G. Rumbaut (Chicago: University of Chicago Press, 2005).

over the three decades. Somewhat surprisingly, perhaps, the disparities in assistance between the two levels of parental education have not changed substantially over the period.

A final example of the purchasing function pathway is illustrated by examining the proportion of college students with loans by their parents' wealth. In this case, we find that the relationship is nonlinear, with student loan debt most likely to be held by students whose parents are in the middle of the wealth distribution.¹⁵ About half of students in the second and third quartiles have loans, compared to about 40 percent of students in the bottom quartile, and about one-quarter of students in the top quartile. Presumably, many of the young adults in the bottom quartile are receiving financial aid and attending lower quality, less expensive colleges, or both. Of course, some young adults may never enroll in postsecondary education because of limited parental wealth.

Insuring against failure

A second pathway through which parental resources may help those who have access to them, is insurance against failure. In this case, the beneficial effects of parental resources (in particular, parental wealth) may occur even in the absence of an actual transfer. In many cases, just knowing that parental resources would be available in the case of failure (such as dropping out of college) could alter a young adult's decisions. This type of private safety net may have behavioral effects wherever risk is involved, such as

in educational decision-making. For example, the relationship between parental wealth and educational attainment is just as strong in countries such as Sweden and Germany, which have tuition-free higher education and provide income transfers to students, as it is in the United States.¹⁶ While the intergenerational wealth effect in these countries cannot be explained as easily by the purchasing function, it is in line with the insurance explanation since even in these egalitarian countries students still risk failure and its negative consequences by choosing to enroll in higher education. Another piece of evidence to support this argument from ongoing research is that children from higher-wealth households choose college majors with higher earnings variance. Since earnings variance represents economic risk, this finding suggests that children from higher-wealth households may be more willing to incur that risk.

Conclusion

The literature on intergenerational mobility is broad and large, including studies of correlations in different non-economic as well as different economic dimensions of well-being. Many studies focus on a single dimension of socioeconomic standing to assess intergenerational associations. Although we cannot do justice to many of the nuances of this literature here, a very broad overview suggests that the intergenerational correlations in economic outcomes are of a similar size (and larger than the correlations in non-

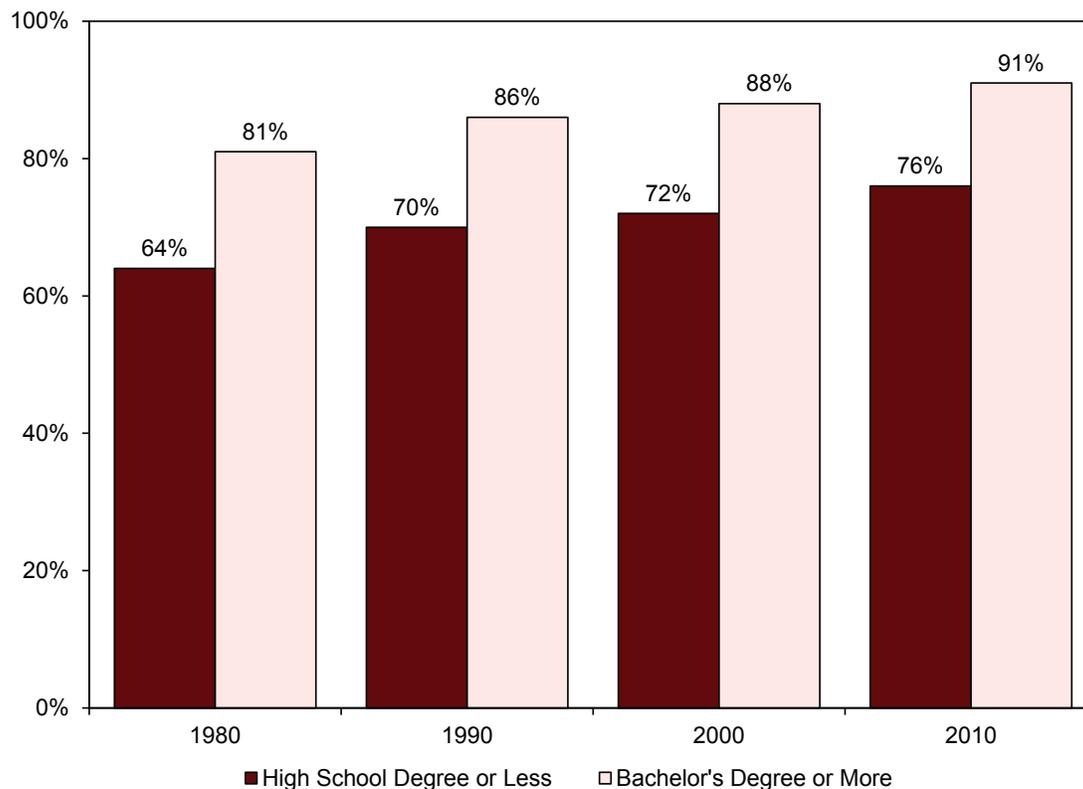


Figure 3. Trends in parents' economic assistance to young-adult children ages 19 to 22, by parental education.

Source: P. D. Wightman, M. E. Patrick, R. F. Schoeni, and J. E. Schulenberg, "Historical Trends in Parental Financial Support of Young Adults," working paper, Institute for Social Research, University of Michigan, 2013.

economic outcomes). Yet, taking this as evidence of a single mechanism or even a "law of mobility" being at work is unfounded.¹⁷ A range of different mechanisms may account for different intergenerational associations.

One promising explanatory approach reviewed here considers intergenerational transfers and risk in intergenerational mobility processes to help explain mobility patterns. An explanatory approach that assumes both "purchasing" and "insurance" pathways may explain how parental wealth affects children's attainment, and help orient future work on the intergenerational effects of wealth and other economic resources. However, it is likely a much less promising perspective to make sense of intergenerational correlations in other dimensions, such as the correlation between parents' and offspring's education. ■

¹⁷The correlations reported in this brief overview mostly come from research that estimates intergenerational elasticities (i.e. OLS regressions of children's status on parents' status). Recent detailed reviews of the vast literature on intergenerational income mobility and the different estimates it has produced can be found in S. E. Black and P. J. Devereux, "Recent Developments in Intergenerational Mobility," in *Handbook of Labor Economics*, Vol. 4, eds. O. Ashenfelter and D. Card (Oxford: Elsevier, 2011), pp. 1487–1541; and M. Jäntti and S. P. Jenkins, "Income Mobility," in *Handbook of Income Distribution*, Vol. 2, eds. A. B. Atkinson and F. Bourguignon. (Oxford: Elsevier, Forthcoming).

¹⁸See, for example, M. Corak, "Inequality from Generation to Generation. The United States in Comparison," in *The Economics of Inequality, Poverty,*

and Discrimination in the 21st Century, ed. R. Rycroft (Santa Barbara: ABC-CLIO, 2012).

¹⁹See, for example, F. T. Pfeffer, "Persistent Inequality in Educational Attainment and its Institutional Context," *European Sociological Review* 24, No. 5 (2008): 543–565.

²⁰See, for example, R. M. Hauser, "Intergenerational Economic Mobility in the United States: Measures, Differentials, and Trends," Center for Demography and Ecology. Working Paper No. 98-12, Madison: University of Wisconsin, 2010.

²¹See, for example, F. T. Pfeffer, S. H. Danziger, and R. F. Schoeni, "Wealth Disparities Before and After the Great Recession," *Annals of the American Academy of Political and Social Science* 650, No. 1 (2013): 98–123.

²²See, for example, K. K. Charles and E. Hurst, "The Correlation of Wealth across Generations," *Journal of Political Economy* 111, No. 6 (2003): 1155–1182.

²³F. T. Pfeffer and A. Killewald, "Inter- and Multigenerational Correlations in Wealth," unpublished manuscript, 2014.

²⁴See, for example, J. C. Loehlin, "Resemblance in Personality and Attitudes between Parents and Their Children," in *Unequal Chances. Family Background and Economic Success*, eds. S. Bowles, H. Gintis, and M. O. Groves (New York: Russell Sage Foundation, 2005).

²⁵R. D. Mare, "A Multigenerational View of Inequality," *Demography* 48, No. 1 (2011): 1–23.

²⁶P. Wightman and S. Danziger, "Multi-Generational Income Disadvantage and the Educational Attainment of Young Adults," *Research in Social Stratification and Mobility* 35 (March 2014): 53–69; a review of other recent evidence on multigenerational associations can be found in F. T. Pfeffer, ed., *Inequality Across Multiple Generations*, Special Issue of *Research in Social Stratification and Mobility* 35 (March 2014).

¹¹F. T. Pfeffer, “Three-Generational Associations in Socio-Economic Outcomes. New Evidence from the Panel Study of Income Dynamics,” paper presented at the Annual Meeting of the Population Association of America, May, 2014.

¹²M. M. Jaeger, “The Extended Family and Children’s Educational Success,” *American Sociological Review* 77, No. 6 (2012): 903–922.

¹³M. Hällsten, “Inequality across Three and Four Generations in Egalitarian Sweden: 1st and 2nd Cousin Correlations in Socio-Economic Outcomes,” *Research in Social Stratification and Mobility* 35 (March 2014): 19–33.

¹⁴F. T. Pfeffer, “Status Attainment and Wealth in the United States and Germany,” in *Persistence, Privilege, and Parenting*, eds. T. M. Smeeding, R. Erikson, and M. Jäntti (New York: Russell Sage Foundation, 2011), pp. 109–137.

¹⁵See also J. N. Houle, “Disparities in Debt. Parents’ Socioeconomic Resources and Young Adult Student Loan Debt,” *Sociology of Education* 87, No. 1 (2014): 53–69 for a similar non-linearity finding in the association between parental income and student debt.

¹⁶F. T. Pfeffer and M. Hällsten, *Mobility Regimes and Parental Wealth: The United States, Germany, and Sweden in Comparison*, Population Studies Center Research Report 12-766. University of Michigan, 2012.

¹⁷See G. Clark, *The Son Also Rises. Surnames and the History of Social Mobility* (Princeton, NJ: Princeton University Press, 2014), for an examination of the “law of mobility.”

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