



GINI

“On the relationship between income inequality and intergenerational mobility”

Timothy M. Smeeding

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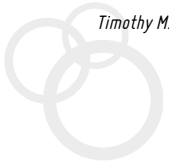
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Abstract

Of all the potential consequences of rising economic inequality, none is more worrisome, or more difficult to study, than the possibility that rising inequality will have the long-run effect of reducing equality of opportunity and intergenerational mobility (IGM). Most studies of IGM look backward over the past 45/50 years measuring the mobility of those 40 years of age or younger in the early 2000s by their incomes or earnings, compared to their parental income or earnings status in the late 1960's. The problem is, of course, that these children grew up in a period of relative equality and stronger and more equal growth in real incomes. In contrast, those who will come of age in the coming decades of this century will have grown up in very different and much more unequal circumstances than their predecessors. Hence we must trace the steps that precede the final analyses of mobility based on the traditional measures of IGM, which can only serve as a starting point.

As financial resources have become more unequal in most European and Anglo Saxon countries over the last three decades, the difference in the capacities of rich and poor families to invest in their children also has become more unequal. This change is occurring in a period where relatively more educational investment is needed to meet ongoing labor market changes. It follows that unless these inequities are offset by public policies designed to moderate their effects, the children of the rich will have an increasingly better chance of staying rich in the future, and the children of the poor will have less chance of escaping poverty or low socioeconomic status (SES).

This short paper briefly summarizes the status of the relationship between inequality and mobility across several European and four non-European nations. It begins by discussing the concept of an investment in children and summarizing the relationship between social equality and equal opportunities over time and at present, and introducing the concept of IGM to assess the dynamic processes of social development and equality of opportunities and how they differ across nations. The role of parents and the tradeoffs that policy faces in this role is stressed. The paper will also mention some of the differences in outcomes we find according to parental education.

We finish with some policies to increase the paths of autonomy and self-administration, privileges, and protective status rights. In the end we must strike a balance between parents' ability to do as best they can for their children and social institutions and their processes that might provide more equal chances to those less well off, especially children from lower SES backgrounds.

1. Introduction

Of all the potential consequences of rising economic inequality, none is more worrisome, or more difficult to study, than the possibility that rising inequality will have the long-run effect of reducing equality of opportunity and intergenerational mobility (IGM). Most studies of IGM look backward over the past 45/50 years measuring the mobility of those 40 years of age or younger in the early 2000s by their incomes or earnings, compared to their parental income or earnings status in the late 1960s. The problem is, of course, that these children grew up in a period of relative equality and stronger and more equal growth in real incomes. In contrast, those who will come of age in the coming decades of this century will have grown up in very different and much more unequal circumstances than their predecessors. Hence we must trace the steps that precede the final analyses of mobility based on the traditional measures of IGM, which can only serve as a starting point.

We begin with the extant literature on IGM and inequality across rich countries as compiled by sociologists and economists. These data show a largely unchanging pattern of IGM, but with big differences across nations. Next we turn to a different strategy, examining younger children and their life course and the concept of investments in children and summarizing the relationship between social equality and equal opportunities over time and at present, to assess the dynamic processes of social development and equality of opportunities and how they differ across nations. The role of parents and the tradeoffs that policy faces in this role is stressed. The paper will also mention some of the differences in outcomes we find according to parental education. We finish with some policies to increase the paths of autonomy and self-administration, privileges, and protective status rights. In the end we must strike a balance between parents' ability to do as best they can for their children and social institutions and their processes that might provide more equal chances to those less well off, especially children from lower SES backgrounds.

As financial resources have become more unequal in most European and Anglo Saxon countries over the last three decades, the difference in the capacities of rich and poor families to invest in their children also has become more unequal. This change is occurring in a period where relatively more educational investment is needed to meet ongoing labor market changes. It follows that unless these inequities are offset by public policies designed to moderate their effects, the

children of the rich will have an increasingly better chance of staying rich in the future, and the children of the poor will have less chance of escaping poverty or low socioeconomic status (SES).

We conclude that it is possible to provide more equal life chances than is the case today, in ways that do not violate family autonomy or the principle of merit in assigning 'income positions' (e.g., jobs) in society. We also conclude that there are also limits to such policies as parental influences are evident at every stage of the life course. And moreover, "selfish" parents have reason to fight against such policies, and so they will be difficult to sustain. In the end we must strike a balance between parents' ability to do as best they can for their children and social institutions and their processes that might provide more equal chances to those less well off, especially children from lower SES backgrounds.

2. The Usual Stuff

The literature on IGM concentrates mainly on how well off are children when they become adults and in contrast to their parents. The usual question is posed as follows: What is the relative or absolute economic status of children when they 'grow up' (ages 38–40) compared to how well off their parents were when these adults were children? The literature produces many different and often conflicting results, which have been summarized by Blanden (2009, 2013), and Björklund and Jäntti (2009). Some studies use indices of earnings, others family incomes. Most are limited by the definition of income or earnings available in the parents' generation data observed somewhere between the late 1950s and the late 1970s. Many studies only look at men's earnings. Others consider women as well but have to grapple with the fact that women's labor force attainment increased across generations. The longer-term datasets like the PSID in the United States where one can observe children as late as 2007 have found no change in overall trend of relative IGM (see Lee and Solon, 2009). Likewise Blanden's income mobility estimates for the 1980s and 1990s are very close (Blanden, 2013, Figure 6) and similar to those of Björklund and Jäntti (2009) which we use below (Figure 3). The only other data-intensive work using longitudinal birth cohort (or panel data) are those using the United Kingdom's 1958 and 1970 birth cohorts, where the trend in mobility is disputed, with economists arguing that IGM declined in the UK between the 1958 and 1970 cohorts, while sociologists think not (Blanden, Gregg, and McMillen, 2013 vs. Erickson, Goldthorpe, 2010).

Part of the problem may be measurement error. The individuals in the cohort born during the period of rising inequality are too young to provide reliable estimates of lifetime income. For instance, the problem may be that we observe 38–40 year olds in, say, 2009 or 2007, they were

born in the late 60s or early 70s—before inequality exploded in the early 80s in many nations, and even later in others. One research strategy is to wait 10–15 years and see if mobility becomes less entrenched at the bottom or the top of the distribution so that relative mobility increases. Indeed, recent research by Auten, Gee, and Turner (2013, Figure 7 and appendix figure 1) suggests that incomes do not peak until age 50 in the United States and so almost all existing estimations that are based on children’s incomes when they are 40 has underestimated IGM, especially for those who have higher levels of education, where the peaks are much steeper. This information is hardly of great use to policymakers who are worried about the current and future generations of youth. And so, we follow another strategy, and look at youth under age 30 today and ask how they have passed through their lives, and how likely they are to hit various success markers compared to younger cohorts.

The extant summary estimates of the betas (the coefficient linking parental generation economic outcomes to children’s outcomes when they become adults) are shown in appendix table 2. These beta estimates vary considerably across nations. Figure A-2 presents the preferred estimate of Blanden (2013) with estimates of error bounds for each country estimate. Error bounds vary by country, but there is a clear pattern of increase as we move from left to right in the picture. Clearly the U.S. estimates, including error bounds, are above many nations, but are within the same bounds as others like Germany and Australia.

3. Comparative Mobility Studies

The betas boil IGM down to one coefficient linking child outcomes to parental status, suggesting the “average” effect. Another related question is how does mobility differ between those born at the top vs. the bottom of the SES hierarchy? One way to measure this difference is to rank parents and adult children’s incomes by respective quintiles and compare where the adult child ended up compared to the parent. Almost all national studies also show less relative mobility from the bottom up or the top down compared to the middle quintiles, when comparing children to their parents’ generations. In other words, there is more stickiness at the ends. But these studies are not comparable for many reasons.

Only one classic study has taken the time and effort to compare IGM across five nations by harmonizing the longitudinal data necessary to accurately make such comparisons. Figure 1 is taken from Jäntti and colleagues (2006) and suggests that in all nations examined, there is stickiness in both the bottom and top of the IGM, but in some nations the degree of stickiness is much higher than in others. Indeed, the United States exhibits far greater stickiness at the bottom

of the distribution than the other five countries examined, while both the U.S. and U.K. are stickier at the top.

Lower intergenerational mobility in the United States in part reflects the fact that cross-sectional inequality is very high there (See OECD, 2013; Brandolini and Smeeding, 2009). And, therefore, the rungs of the income ladder separating quintiles are very far apart, especially compared to the Nordic and Scandinavian nations with low inequality. If so, it is much harder to climb to the top of the ladder (or to fall from the top) in the United States compared to the more egalitarian northern European nations. When the rungs are closer together, as they are in the Nordic and Scandinavian countries, the mobility ladder is easier to climb, both up and down.

But here again, we are observing adult child generations that grew up in families before the inequality explosion of the 1980s and 1990s, and now the 2000s, and it is these children whom policy may be able to help.

3. Another approach

A different procedure is to examine how parental SES (education or income differences) affects various levels and patterns of child development for children observed in recent times, in terms of the ingredients we know are predictive of later life success. In other words, how do patterns across the early- and middle-childhood life course compare now to those of 30 years ago in terms of what it takes to reach a middle class or above lifestyle?

We might begin with the lifecycle stage markers which the Brookings "Social Genome" project (a dynamic microsimulation model of the process of moving from birth to adulthood) uses to measure whether or not one achieves the 'American dream' of having a "middle class" life (Sawhill, Winship, and Grannis, 2012). These markers are:

1. Born at normal birth weight to a non-poor, married mother with at least a HS diploma
2. Acceptable preschool reading and math skills and generally school-appropriate behavior when formal schooling begins
3. "Basic" learned skills: reading and math and socio-emotional skills are at acceptable levels in middle and secondary school
4. Graduate from high school with a 2.5 GPA and not be convicted of a crime
5. Reaches "middle class" or better: living independently, with a college degree or with family income above 250/300 percent poverty level (just above median income if measured by after tax and benefit income, adjusted for work related costs and out of pocket health care costs, with adjustments for family size).

If this were a U.S. exercise, one could show exactly how they are slipping behind at each stage of this process (Smeeding, 2013). But such information is not readily available in comparable form for other OECD or EU nations.

Some comparable indicators suggest that IGM may have declined, for instance out of wedlock births have steadily risen in almost all western nations over the past four decades, thus creating situations of instability for many children. But single parenthood means different things in different countries (and so it is even hard to generalize on this point, see Moynihan, Rainwater and Smeeding, 2004). But luckily we have been able to investigate several comparable cross-national datasets with comparable child outcomes and comparable measures of adult SES at various stages of the lifecourse in 11 countries, where these same success markers are available for two or more nations.

4. Investments, Inequality, and IGM

Investment in children is a broad topic. An “investment” is a diversion of current resources, such as time or money, from use for immediate consumption of goods and services we value, to activities that pay off in the future in terms of additional resources, including those that benefit our children. A prime example is, of course, education, but many activities that parents carry out on behalf of their children are investments in a similar sense. Some of them may involve a low monetary cost, but require an investment of time, such as undertaking many different types of activities with children (e.g., teaching them to swim, teaching them self-discipline, and reading to them). In engaging in such activities, parents increase their own enjoyment and current well-being as well as benefitting their children in later life. Other child-related activities can be quite costly, such as paying university tuition. And some activities may benefit children in a different dimension than the initial investment. For example, in addition to aiding their cognitive development, parents and schools help socialize children, teach them to behave courteously, provide motivation, and work in a variety of ways to aid their socio-emotional development. These traits may not only pay off in the social and behavioral dimension, but ready them for school so that their cognitive development is enhanced as well. Social and behavioral traits may also be more important for future earnings and jobs as employers may highly value such traits. In economic parlance, there is complementarity between investments in the social (socio-emotional) and cognitive dimensions.

Further, all such investments take place in institutional contexts that provide leeway for parents and governments to influence how effective such investments may be. For instance, universal

early childhood education for all children might be especially beneficial for the lowest SES children if all such programs had comparable resources. However, to the extent that the quality of preschools and teachers is subject to neighborhood effects, as in elementary and secondary schooling in many nations, low-SES children are likely to be excluded from the best preschools and thereby lessen the equalizing effect of early childhood education. Other childhood investments may also be subject to institutional constraints: nepotism, ability to pay, and co-funding, including home purchases and tuition for colleges and universities. Although there is evidence that parental investments in children have become more unequal over the past 30 years in some countries, analysis of the best multi-generational data available in the United States (from the Panel Study of Income Dynamics) does not show a clear decline in IGM between children born in the 1950s and those born in the late 1970s, just before inequality began to rise (Lee and Solon, 2009) .

In any case, estimates of IGM are measured in terms of persistence between parental and child rank in societies. Hence, the more mobile societies are the ones with the lowest correlations between parental status and child status once that child becomes an adult. Indeed, most measures of mobility are actually measures of persistence of the younger generation's place in the order of outcomes compared to their parents. So when elasticities (or betas) are high, the parent-adult child relationship is strongest.

Inequality measures also suggest that inequality is rising in most western nations since the mid-1990s. But there are still clear country rankings with the United States and Canada being highest throughout and the United Kingdom drawing close. Germany clearly has lower inequality than these three, but for most periods the northern European and Scandinavian nations have had the lowest inequality (Figure 2). Most countries investigated here have higher inequality now than at any time since the mid-1980s but the rank order of countries by levels of income inequality, with the exception of the recent rise in inequality in Sweden, is about the same now as it was for prior generations.

Of course, it is also possible that the prediction that high inequality leads to low mobility is simply wrong. But one compelling reason to doubt this is the recent discovery that the predicted relationship does show up in cross-national comparisons. Figure 3 portrays the relationship between income inequality (measured by the Gini coefficient for the parents' generation) and IGM. This plot includes eleven industrialized countries where both inequality and IGM measures are now available and demonstrates wide variance in intergenerational mobility across those countries.

As Figure 3 shows, the relationship between inequality and intergenerational elasticity is moderately positive (and also in Miles Corak's (2012) most recent Gatsby Curve, appendix 3). The IGM estimates in figure 3 are taken from Björklund and Jäntti (2009) and are specifically chosen to be most comparable across the 11 nations we study. Indeed, they are fairly close to the estimates by Blanden in Figure A-2. According to Figure 3 then, higher levels of inequality are clearly associated with lower rates of mobility--the rank order correlation is 0.62. Although we can't lean too heavily on a regression based on only eleven data points, there are multiple estimates of both inequality and mobility rates in most of these nations, adding credence to the estimates shown in Figure 3. What is most interesting here is that these countries seem to vary a great deal in the degree to which they manage to attenuate the estimated relationship between inequality and intergenerational mobility. Some countries lie alongside the least squares regression line indicating levels of mobility close to what their levels of inequality might predict (for example, Norway, Germany, and the United Kingdom). Sweden and Finland are low-inequality countries that lie slightly above the regression line, with slightly less mobility than their levels of inequality predict. Denmark shows intermediate levels of inequality but stands out with much higher rates of mobility than expected. Canada and Australia tend to fall between intermediate and high levels of inequality but, like Denmark, also show higher levels of mobility than expected. A final group of countries (Italy, the United States, and France) generally have high levels of inequality and lower levels of intergenerational mobility than one would predict. These relationships are summarized in Figure 4.

If this pattern is real, and not just a matter of random variation around the plotted regression line, it suggests that there may be significant differences in the types and effectiveness of public and private investments and institutions that different countries deploy in their efforts to equalize opportunities across the income distribution. These differences may be due to institutional design. For example, some countries may intervene earlier in the lives of disadvantaged individuals, and early intervention may be particularly effective, as many believe. Or, countries may differ in the sheer size of their social welfare expenditures or in the distribution of expenditures across various areas of social welfare, such as health or education. This could make a difference if expenditures in some areas are more effective than others in promoting mobility. Finally, the effectiveness of institutions designed to promote mobility may depend in part on the amount of inequality they have to cope with. For example, a universal preschool program may be effective in countries where differences in the private resources available to families are modest. But where family differences are great, they may swamp even a well-designed, well-funded preschool program.



The amount of income available to high- and low-income families with children is also important in determining life chances as high child poverty means less parental economic resources and vice versa for high child incomes. For instance, income inequality is such that in the United States in 2000, a family at the 90th percentile has \$51,000 of disposable income per year to spend on each child, compared to \$8,900 per child at the 10th percentile of income (Rainwater and Smeeding, 2003). By 2010 these differences had widened to almost \$60,000 at the top compared to \$9000 at the bottom (these, and figures below for Germany, are derived from LIS key figures at <http://www.lisdatacenter.org/lis-ikf-webapp/app/search-ikf-figures>). In Germany, the differences are smaller but still large: parents at the 90th percentile in 2000 could spend \$40,000 (28,000 Euros) per child while at the 10th percentile only \$12,000 (8,400 Euros) is available annually for each child. And there is evidence for the United States that such income differences have multiplied expenditures on child enrichment at the top of the distribution by several times more than at the bottom (appendix Figure A-4). Of course in more advanced welfare states, public expenditures often level the playing field a bit more than in the United States, substituting public spending for private. However the relationship between the welfare state and IGM has yet to have been tested (see Nolan et al, 2011).

Child poverty rates for these countries in the most recent year generally follow the same patterns as do current measures of inequality, where low inequality nations in Scandinavia have low child poverty rates (5 percent or below at half the median income poverty level), Central Europe with middle rates (10 to 11 percent), Australia and the United Kingdom at about 14 percent and the highest rates in Canada, Italy, and the United States at 17 percent or above.

This makes it all the more interesting to know how countries like Canada with both above-average inequality and above-average child poverty rates do so well on mobility outcomes. If the ability to invest more in children increases among the rich and declines amongst the poor as inequalities increase, greater inequality may lead to even less mobility. If IGM is driven by cumulative forces of advantage and disadvantage over the life course, mobility outcomes may become worse for the current generation of children because of increasingly higher inequality.

These effects might come about in two ways. First, if the children of higher-SES parents do well in school, they are more likely to attend and graduate college, are better able to rely on parental help as they establish careers, and ultimately will earn more income as the wage distribution rewards higher-skilled workers with better earnings. This pattern of development is a form of 'cumulative advantage' where success begets more success within generations. But there is also the second possibility that greater inequality increases the SES gradient from one

generation to the next, and, if so, this process of cumulative advantage might make an even larger difference across generations. Patterns of cumulative advantage within generations can be established only if SES-related differences are followed across children's lives. To establish between-generation cumulative advantage requires observations from a minimum of three generations. These requirements are generally beyond currently available data, but offer an appealing framework for how one might expect growing economic inequality to affect intergenerational mobility.

5. Parents

In the research that underlies many of the comparisons in this paper, we find that the role of parents is important at each stage of the life course (Smeeding, Erikson, and Jäntti, 2011; Ermisch, Jäntti and Smeeding, 2012). Parents will do everything they can for their children, but some parents are more able than others. The role of policy vis-à-vis parents is a difficult one, as James Fishkin's (1983) trilemma suggests:

He argues that, ideally, society would like to operate according to three interrelated principles:

1) **Principle of merit:** There should be widespread procedural fairness in the evaluation of qualifications and competencies for positions in society (a true "meritocracy" free from nepotism and related unfair influences on jobs, school selection, and so on).

2) **Equality of life chances:** The prospects of children for eventual positions in society should not vary in any systematic and significant manner with their arbitrary native characteristics, including parental heritage.

3) **Autonomy of the family:** Consensual relations within a given family governing the development of its children should not be coercively interfered with except to ensure for the children the essential prerequisites for adult participation in society.

These three principles are in conflict as far as most public policies are concerned. It is likely impolitic and inefficient for society to try to limit parental autonomy. It is almost impossible for society to enforce the principle of merit when different SES parents have influence positively or negatively on key life choices. And promoting integrated schools with low- and high-SES children being instructed together might lead the rich to set up their own system of private and exclusive



schools as in the United Kingdom and, to a lesser extent, in the United States (see also Blanden, Havemen, Smeeding and Wilson, 2013) .

The parental SES gradient is observable at every childhood stage in every country we have studied, explicitly or implicitly, even when getting a job. The parental role is embedded in each gradient and it is unequal. In short, parents will do everything they can to give their children better outcomes—but not everyone is born to equally talented, equally educated, or equally well off and behaviorally cogent parents. It is therefore in the personal interest of high-SES parents to maintain the status quo, and to even enhance their children’s opportunities by making the gradient steeper at each life course stage.

6. Child Outcomes, Parental SES, and IGM

Below, we report the results of a coordinated set of mobility studies across 11 countries with different levels of inequality, looking mainly at child generations. The conceptual framework for making cross-national comparisons is based on a life-course approach, assessing child success at various stages of the life course: birth and pre-schooling, elementary and secondary educational achievement, tertiary schooling, and adult earnings. We expect that the life-course approach in a comparative perspective will allow us to see where divergences in outcomes between high- and low-SES children occur in the life cycle and how those differences are related to policies, processes and institutions operating at various life course stages.

One reason for these inquiries is that we know relatively little about how advantage is transmitted from parent to child, how that transmission varies across the life-course, whether it accumulates within generations, and what structural arrangements mediate that transmission. For instance, a major focus of discussion in the United States in recent years has been the discovery of differences in cognitive and socio-emotional (“non-cognitive”) outcomes during early childhood that are positively correlated with parents’ socioeconomic status. However, there is evidence from a number of other countries that intermediate outcomes after early childhood also have a steep socioeconomic gradient.

A conceptual model of IGM suggests the different life points in childhood and young adulthood that are crucial to understanding how advantage is transmitted from parents to their children. In Figure 5 we begin with parents’ socioeconomic status (PARENTAL SES). Each subsequent box refers to child outcomes at different stages over the child’s life-course: the birth year (ages 0–1, or C_0), early childhood (ages 2–6, or C_1), middle childhood (ages 7–11, or C_2), adolescence (ages 12–17, or C_3), early adulthood (ages 18–29, or C_4), and adulthood (ages 30+, or O_A).

In this model, it may turn out that some ages are particularly important in understanding how advantage is transmitted. One of these, for example, may be around age eleven in middle childhood, when children move from primary to secondary school in many countries. Another may be at age seventeen or eighteen, as adolescents make the transition to early adulthood. Throughout this model, a host of different ‘mobility-relevant’ skills, attributes, achievements, and outcomes are measured. These might include differences in outcomes as varied as birth weights or initial health status, cognitive abilities, educational achievement or attainments, or socio-emotional and behavioral outcomes.

Next, and displayed under PARENTAL SES in the model, “Investments_t and Institutions_t” refer to the various public and private investments and institutional contexts that may influence or contribute to differences at each life course stage at the time and age that the child moves through the life course (*t*). Investments might include public programs such as day care, universal early education, after-school or summer programs, or access to healthcare or health programs, among others. The institutional contexts might refer to processes such as how schools are organized, the presence of educational tracking, or differences in private costs of attending college.

The final stage in the model, adulthood (ages 30+, or O_A), refers to offspring outcomes as an adult that are likely to reflect the combination of investments, opportunities and choices (such as marriage) that occur through the life course. These might include such characteristics as adult SES, education, occupation, household income, labor market attachment, earnings, or other advantages and disadvantages in the labor market. For instance, labor market institutions and macro-economic factors (or Institutions_t) might provide differential returns to the same credentials across countries and thereby independently affect O_A.

A case in point is the comparison of Sweden to the UK and then the UK to the USA. Equal educational endowments command different prices and rewards in the labor market in each of these nations. Hence, wage-setting institutions per se can affect the differences we see in earnings as adult outcomes. In other words, if we hold levels of education constant, differences in intergenerational earnings outcomes between the United States and the United Kingdom depend most heavily on labor market returns to education. Because the earnings distributions are more unequal in the United States, particularly with much higher rewards among the more highly educated, young adults with the same level of university attainments will do better in terms of earnings in the United States compared to the United Kingdom (Blanden et al. 2013). And, similarly, in another paper we find that the earnings premiums to educational attainment are higher in the United Kingdom than in Sweden (Björklund, Jäntti, and Nybom, 2012). It follows that

heterogeneity in earnings and income outcomes across generations within countries will depend on processes like the structure of labor markets that we cannot fully capture in our implementation of the model.

It is implicit in Figure 5 that parental SES may be associated with any stage or outcome of the development process, and any outcome at an earlier life stage may be related to later outcomes all the way up to adulthood. For example, parental education or income (PARENTAL SES) may be related to birth weights in the birth year, or to test scores and socio-emotional behavior in early childhood, which in turn, may be associated with various outcomes at any of the subsequent developmental stages up to adulthood. Ultimately, offspring adult socioeconomic status, O_A , is the outcome of a whole series of parental and other inputs from the birth year on, including the formation of partnerships. This schema is consistent with many dynamic multi-stage models of skill development, in which intermediate outcomes at each stage not only affect subsequent outcomes but may also affect the productivity of inputs at subsequent stages. For example, children who were not read to as preschoolers may find it more difficult to learn to read at school. This initial disadvantage can then be reinforced if a poor secondary education limits one's choices and opportunities in terms of preparation for or success in higher education. On the other hand, if this same child were fortunate enough to attend a resource-rich secondary school that specializes in college preparedness, this may offset some of the initial disadvantage, and do a better job of connecting schooling and improving performance between these two levels. The entire process may therefore allow for cumulative advantages within cohorts.

Many believe that with due sacrifice of time and effort, anyone, regardless of socioeconomic status, will be able to prosper and provide their children with a better life. But the reality is that children born into poor families tend to stay poor and children born into wealthy families generally stay rich. Why is this so? Why does advantage and disadvantage persist across generations, and what policy responses might improve social and economic mobility in an era of rising inequality? Our results shed some light on the answers to these questions.

7. Outcomes

First and foremost, we find an achievement gradient according to parental education (high, low, median) from the very first time we observe a child's outcome. That is, gaps in outcomes by parental SES emerge early in childhood in all countries, by the time that child's characteristics or abilities first become measurable. These gaps are apparent in health, cognitive, and socio-behavioral domains. They result early on from a combination of the influences of parenting and "heredity" (including in utero environments—and genes). In no country do we find that high- and low-SES children start out equally prepared for schooling. And in no countries do we find that the differences narrow as a child ages. Hence the parental role in early attainment is difficult to overcome. Even in the best of cases, where early childhood education is universal, France's 'ecole maternelle' reduces but does not eliminate the parental education gradient with respect to child outcomes at pre-school ages (Dumas and Lefranc, 2012).

Several of the studies focusing on children who are older have attempted to observe changes in parent status-child attainment gradients as children age. Evidence concerning changes in the size of the SES gaps as the child ages is important for better understanding the proximal factors. While gradients within countries clearly differ at early ages, we find only limited evidence of "fanning out" (i.e., the gaps becoming larger) as a child ages. But there are fairly large gaps. For instance, Figure 6 shows test scores for 11 to 17 year olds by parental education in seven countries. The difference between the top and bottom of the bar are due to parental differences. The solid bars indicate the advantage of having highly educated parents. The bottom stripe bars suggest deficits between lowly educated parents and the average student. We can see that gaps are narrowest in two high inequality countries—Australia and Canada, and largest in the United States and Germany. German differences are larger than French or Swedish differences mainly because of the negative effect of low educated parents on German children's test scores (striped bars).

The reason why we find these differences is more elusive. Canada has three times the rate of intergenerational mobility as the United States—possibly because Canada makes more public investments in its labor market, health care, and family programs than does the United States. In Germany, the United States, and the United Kingdom, some of the socio-behavioral gap arises because lower-SES mothers experience more partnership changes and family instability and these are associated with more behavioral problems and lower cognitive achievement for boys.

The same issue is apparent in United States and the United Kingdom where low incomes for single parents have a negative effect on attainment. Even in Norway, where all children do well in terms of absolute income, children from single parent households have less upward mobility than



do children from two parent households. Hence the out-of-wedlock birth rates cited above still make a difference in outcomes.

Finally, average differences in measurable child outcomes encountered early on in life persist throughout children's lives up to university ages and likely beyond. Even the most recent evidence from the 2009 PISA reading test scores across several nations shows an uncomfortably high correlation between parents' SES and children's test scores (Figure 7). These patterns of attainment by parental SES for the most part mirror the ones found in the papers cited above .

The attainment of a four-year college degree is the ticket to a middle class lifestyle in most rich countries. But countries differ substantially in the graduation rates by cohort. For instance, as shown in Figure 8, Germany and the United States are currently losing the higher education race. Figure 8 suggests that cohort-by-cohort progress in tertiary educational attainment is evident for succeeding cohorts in every nation, except the United States and Germany where the gradient is flat. In Germany the dual tracking system and the high wages commanded by those with technical training make up for some of this difference. The United States is losing the race between education and technology, as the youngest cohort has been passed by many other nations. Indeed the high mobility-low inequality nations in Scandinavia and Northern Europe and the most mobile of the Anglo nations, Canada and Australia seem to be moving ahead most quickly in term of college graduates.

8. Policy

An important policy lesson from our research is that it is possible to provide more equal life chances than is the case in the United States and some other rich countries in ways that do not violate family autonomy or the principle of merit in assigning 'income positions' (e.g., jobs) in society. But there are also limits to such policies as parental influences are evident at every stage of the life course, and therefore we must confront Fishkin's trilemma. While one will never be able to overcome parental influences, most of the policies that fit as possible answers to the trilemma are based on leveling up the children at the bottom of the SES distribution.

For instance, early childhood policy offers some lessening of the gradient. In France and Denmark there is causal evidence (Dumas and Lefranc 2012; Bingley and Westgaard-Neilsen, 2012) that universal preschool programs partially close the SES gap in school achievement and subsequent wages and therefore the high child poverty countries might benefit from policies to improve economic well-being for low income families, especially for the children of lower SES parents, especially single parents. But these policies do not erase these differences—there is still

an SES gradient for child outcomes at the start of formal schooling in France and Denmark, but it is less steep than in other nations.

Another policy option, nurse home visiting programs is being tried in the USA as part of the Affordable Care Act (ACA). The evidence on the program (Olds et al., 2010) suggests that support for parents to improve their parenting skills in the general context of intervening early in a child's life might help first time young mothers of low income backgrounds . Such a policy is about to go into effect in the United States as part of health care and health reform. There is now evidence in Jamaica (Gertler et al., 2013) that such programs have substantial effects, indeed effects over and above pre-school lone. Higher child allowances and comprehensive policies to reduce poverty for low income families with children are also two such options that seem to work well in Canada.

The educational system is likely to be the most widely used and most acceptable policy tool we have for equalizing life chances, especially for working class and low-SES children. But the education system does not seem, so far, to be able to achieve this goal. The net effect of education systems so far, is not to reduce the relationship between parental SES and child achievement, but to hold it constant and perhaps even increase the gradient. At best, education systems may be offsetting existing processes of cumulative advantage in keeping the overall IGM gradients that are apparent early on in a child's life stable as these children age.

Parents play an important role at every stage of the life course—early in life, in school, and through neighborhood choices, including secondary school systems with tracking. Schooling reforms at older ages can also help reduce the disadvantages of having low-SES parents, but not eliminate them. Activist educational efforts in secondary and tertiary schooling and for school completion and tertiary degrees among low-SES kids are needed to overcome parental advantages of money, know-how, and place. Lower-SES graduates from tertiary education do much better than those who do not in terms of upward mobility, and there is less association between parental SES and later jobs for these graduates. The trick is to produce more college graduates and tertiary degrees from low-SES families.



9. Conclusions

In a recent country study for the USA, Kenworthy and Smeeding (2012) conclude that “Perhaps the most damning indicator of rising inequality is falling intergenerational mobility” (p. 129). This assertion is made based on a substantial amount of forward looking data which compares the ingredients for increased economic mobility among today’s children compared with what is needed to increase upward mobility in the United States (Kenworthy, 2012; Smeeding, 2013). Unfortunately we are not yet able to make such assessments for other countries at this time. Perhaps it is only the United States which has become the land of inopportunity. But as inequality rises in other nations with successive generations, we should at least be aware of this possibility. Hopefully new policies to increase pre-school education and parenting programs like the Nurse Home Visiting program will make some difference in the United States?

But in the end we will never be able to eradicate SES differences in child outcomes, especially in highly unequal societies, and we will never be able to, and may not wish to, override parental autonomy—even if policies can be put in place to limit their advantages. However, there is evidence that some income and education policies, if carefully implemented, can help reduce barriers to intergenerational mobility and increase equality of opportunity.



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Figures

Figure 1: Mobility Outcomes for Men Whose Fathers Are at the Bottom and Top of the Earning Distribution.

PERCENT OF MEN WHOSE FATHERS WERE IN BOTTOM FIFTH OF THE EARNINGS DISTRIBUTION:

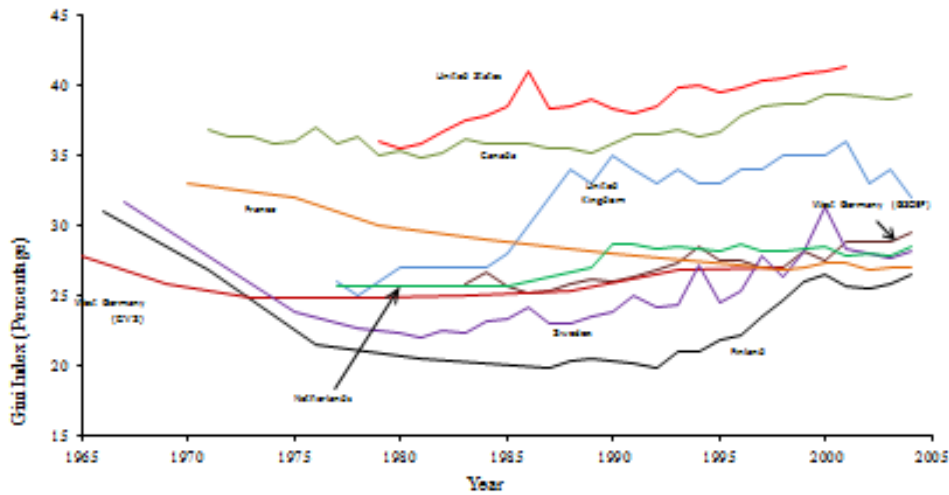
	REMAINED IN BOTTOM FIFTH	CLIMBED 1 TO 3 INCOME POSITIONS	CLIMBED TO TOP FIFTH
Denmark	*25 %	61 %	*14 %
Finland	*28	61	11
Norway	*28	60	*12
Sweden	*26	63	11
United Kingdom	*30	57	*12
United States	42	50	8

PERCENT OF MEN WHOSE FATHERS WERE IN TOP FIFTH OF THE EARNINGS DISTRIBUTION:

	DROPPED TO BOTTOM FIFTH	DROPPED 1 TO 3 INCOME POSITIONS	REMAINED IN TOP FIFTH
Denmark	*15 %	48 %	36 %
Finland	*15	50	35
Norway	*15	50	35
Sweden	*16	47	37
United Kingdom	11	60	30
United States	10	55	36

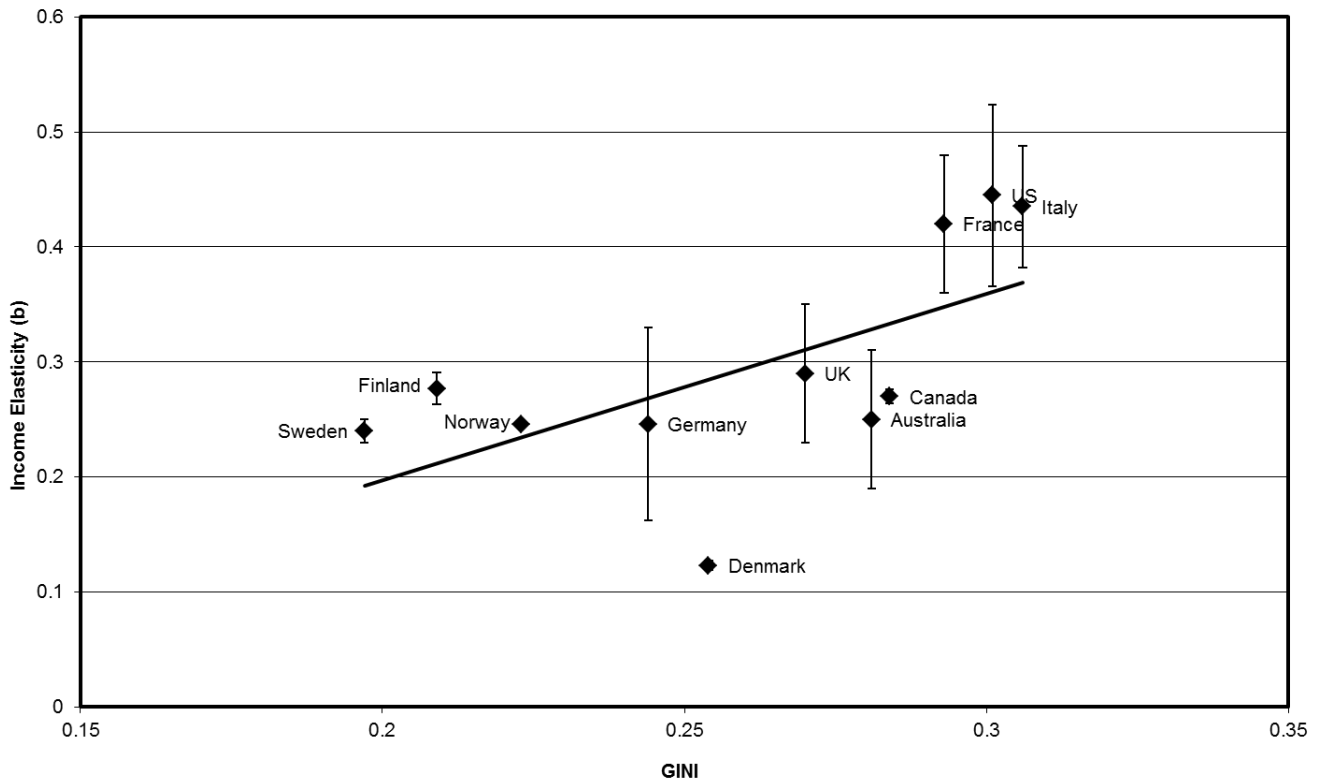
* Statistically different from outcome in the United States. (Statistical testing was not done on the middle column). Row percentages may not total to 100 due to rounding. Sons in all six countries were born near 1958 (1957-1964 in the United States), and earnings of both fathers and sons were estimated near age 40. Sons' earnings are generally measured between 1992 and 2002 (in 1995 and 2001 in the United States). Source: Jäntti et al., 2006, Table 4, p. 18 and Table 12, p. 33.

Figure 2 : Gini Index (Percentage) of Disposable Income



Source: Brandolini and Smeeding (2009), reproduced with permission.
 Note: The Gini Index varies from 0, complete equality, to 1, complete inequality. EVS - Survey of Income and Expenditure; GSOEP - German Socio-Economic Panel

Figure 3 : Estimates of Intergenerational Income Elasticities for Fathers and Sons Plotted with Gini Coefficients for Eleven Developed Countries during the Early 1980s.



Data provided by M. Jantti from Figure 20.1, Bjorklund, A., and M. Jantti. 2009. Intergenerational Income Mobility and the Role of Family Background. In W. Salverda, et al. (eds.), The Oxford Handbook of Economic Inequality. Oxford: OUP.



Figure 4: Summary Estimates of Intergenerational Income Mobility and Inequality for Fathers and Sons for Eleven Developed Countries

	Low Parental Inequality	Medium Parental Inequality	High Parental Inequality
High to Medium Persistence (Low or Medium Mobility)		Germany	France Italy United Kingdom United States
Low Persistence (High Mobility)	Finland Norway Sweden	Denmark	Australia Canada

Source: Author's calculations

Figure 5. Model of Intergenerational Transmission of Advantage by Life Stage*.

*It is implicit in the model that outcomes at any life stage can be associated with outcomes at any subsequent life stage.

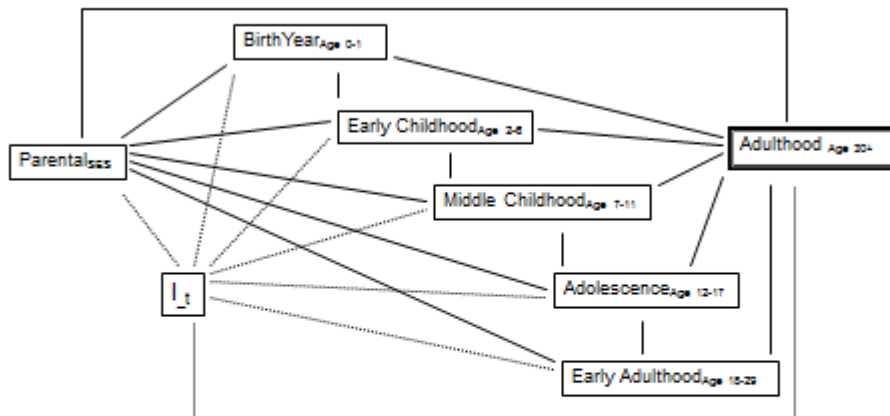
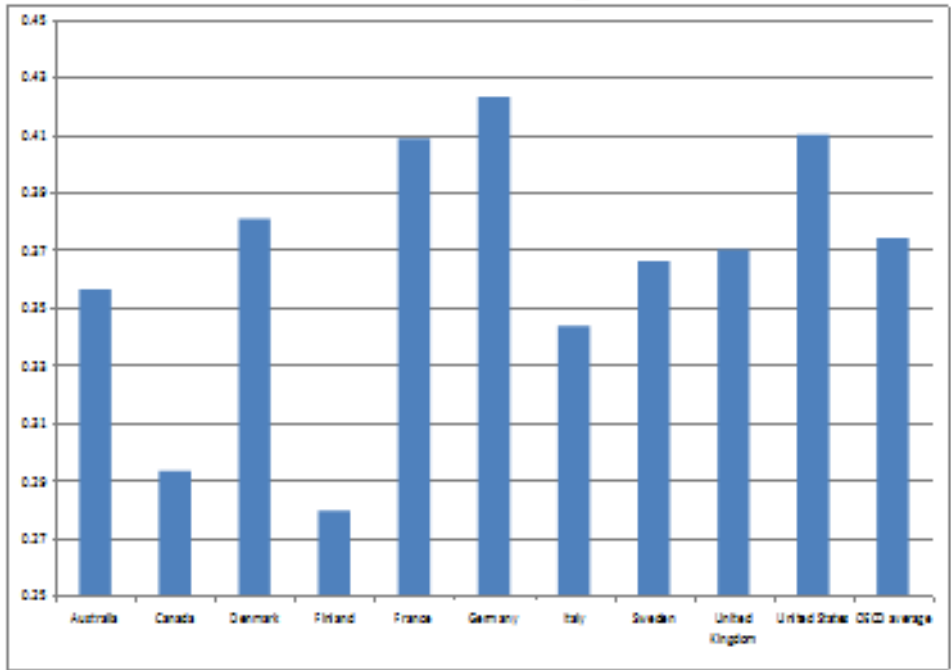


Table A. Variable Definitions and Examples of Proposed Measures at Different Points in the Life Course

Parental Variables (P_{t-1})	Childhood/Early Adulthood Life Stages	I_t Data Points	Adulthood (Age 30+)
Education, Income, Earnings, SES, Occupation, Wealth, Employment	BirthYear (C_0), Early Childhood (C_1), Middle Childhood (C_2), Adolescence (C_3), Early Adulthood (C_4)	I_t is assumed to be different public and private investments in children's development that vary by country.	SES, Income, Education, Employment/Labor Market Attachment
	Educational attainment, cognitive measures, socio-emotional behavior, employment/labor market, health/physical		

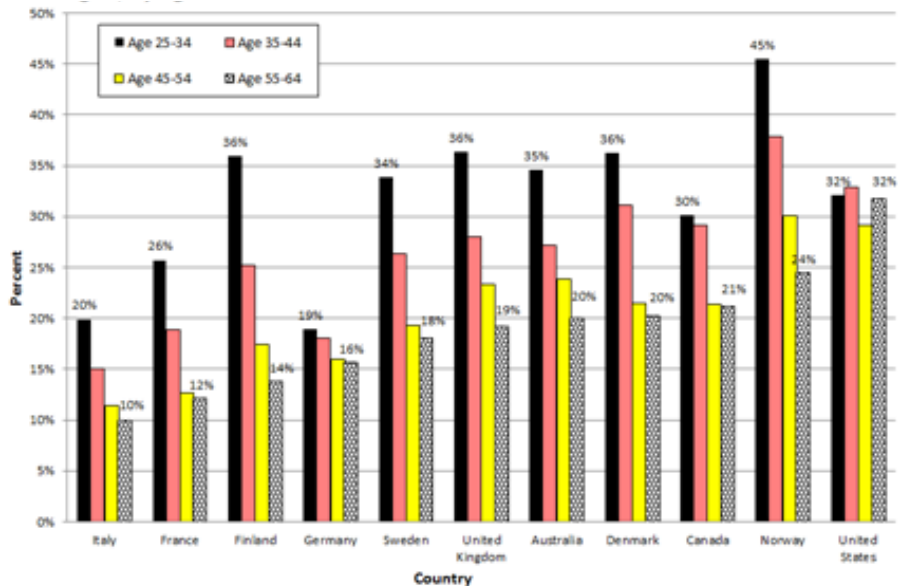
Source: Erikson, Janttil, and Smeeding 2012

Figure 7 : Correlation between OECD SES Background Measure and PISA Reading Test Score, 2009.



Source: Ermisch, Jäntti, and Smeeding (2012)

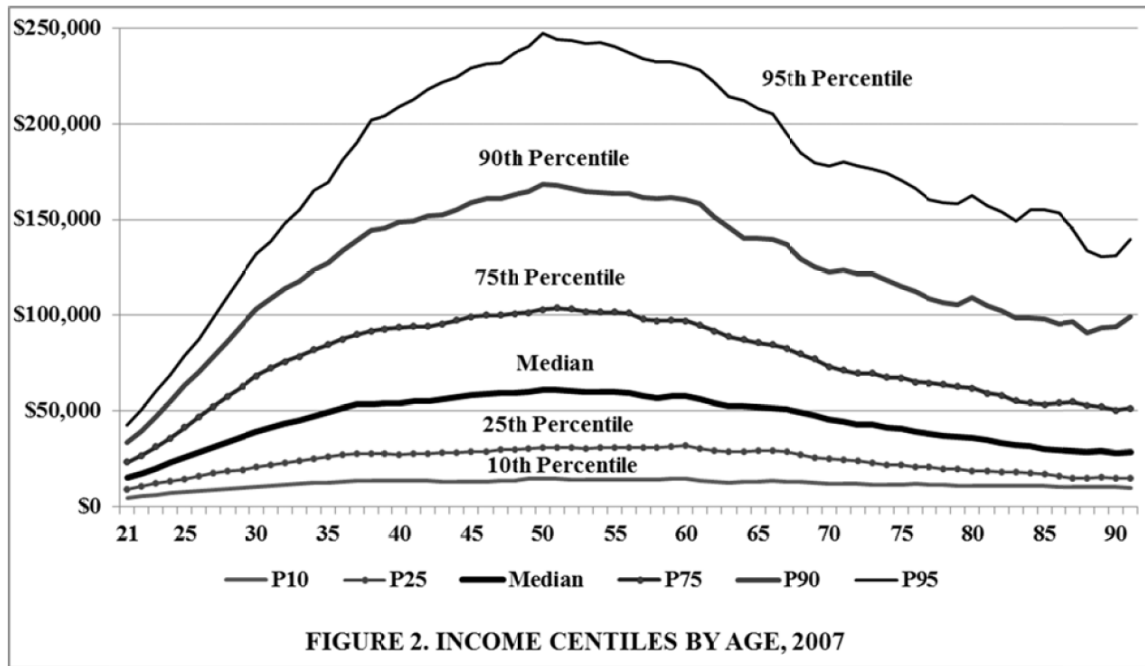
Figure 8: Percentage of Population of Select Countries with Bachelor's Degrees or Higher, by Age.





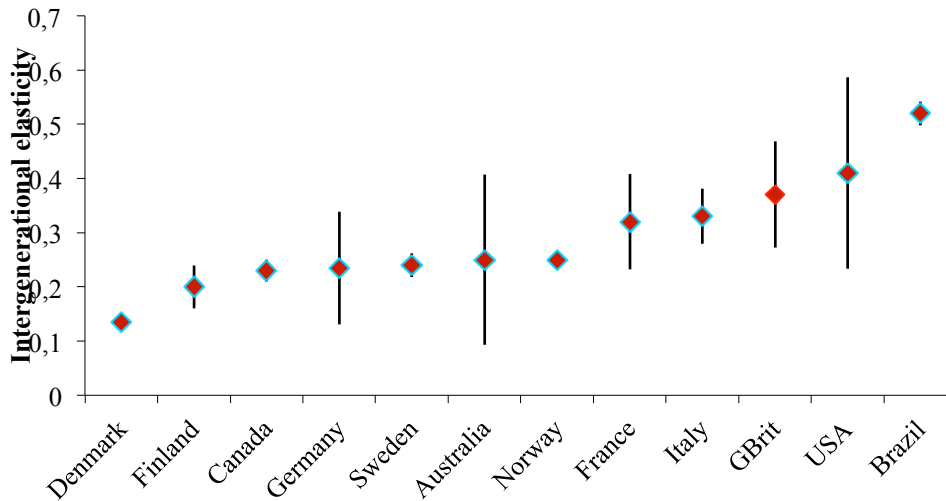
APPENDIX

Figure A-1



Source: Auten, Gee, and Turner (2013).

Figure A-2 : Preferred Intergenerational Income Parameters



Source: Blanden, 2011, Figure 1, and Table 2 and. Lines give 95% confidence intervals.

Figure A-3: The Great Gatsby Curve

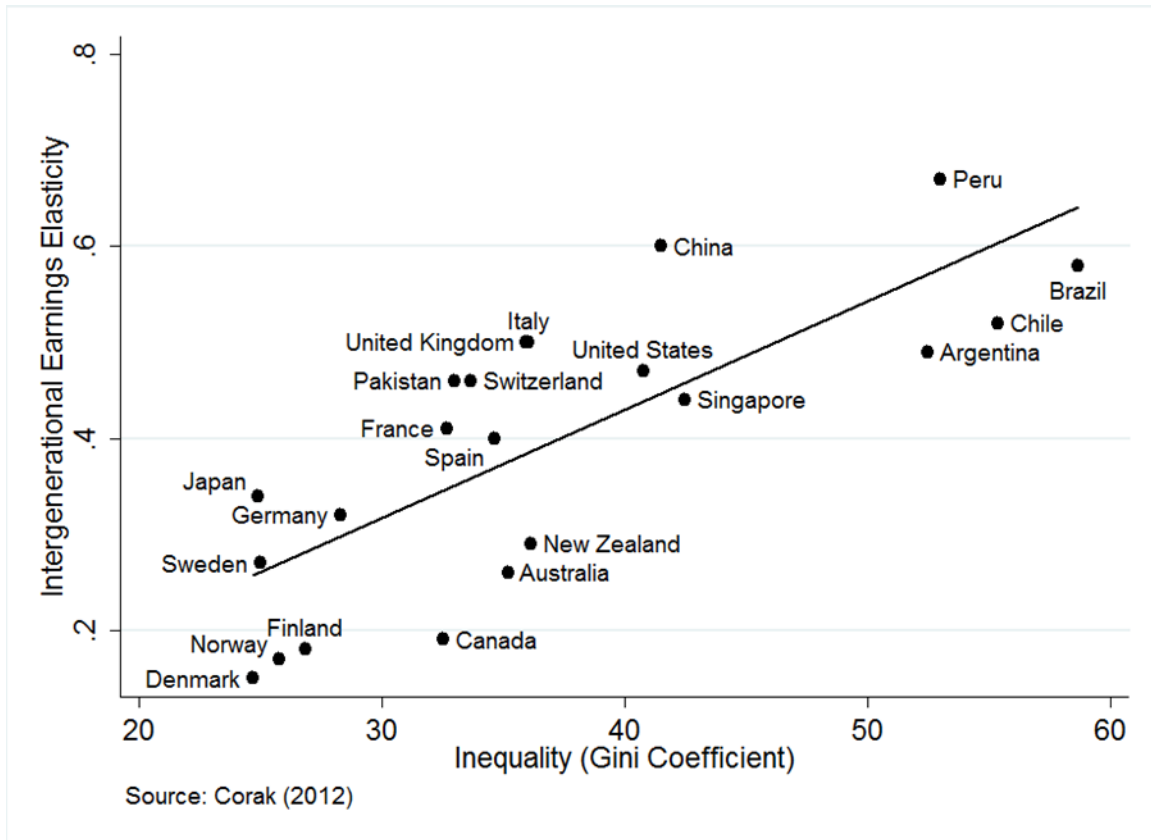
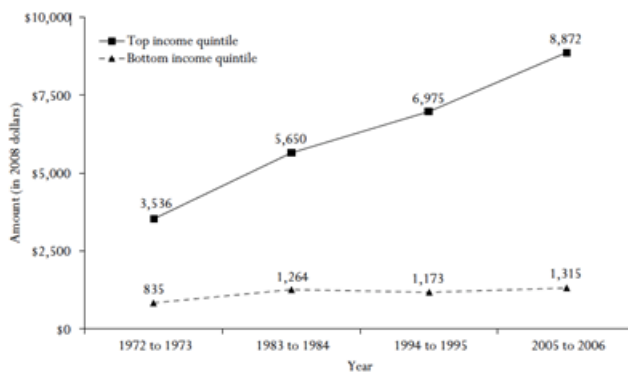


Figure A-4: Parental Expenditure on Child Enrichment in the United States: 1972-2006

**Magnuson and Waldfogel :
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Source Magnuson and Waldfogel (2012) Whither Opport



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Information on the GINI project

Aims

The core objective of GINI is to deliver important new answers to questions of great interest to European societies: What are the social, cultural and political impacts that increasing inequalities in income, wealth and education may have? For the answers, GINI combines an interdisciplinary analysis that draws on economics, sociology, political science and health studies, with improved methodologies, uniform measurement, wide country coverage, a clear policy dimension and broad dissemination.

Methodologically, GINI aims to:

- exploit differences between and within 29 countries in inequality levels and trends for understanding the impacts and teasing out implications for policy and institutions,
- elaborate on the effects of both individual distributional positions and aggregate inequalities, and
- allow for feedback from impacts to inequality in a two-way causality approach.

The project operates in a framework of policy-oriented debate and international comparisons across all EU countries (except Cyprus and Malta), the USA, Japan, Canada and Australia.

Inequality Impacts and Analysis

Social impacts of inequality include educational access and achievement, individual employment opportunities and labour market behaviour, household joblessness, living standards and deprivation, family and household formation/breakdown, housing and intergenerational social mobility, individual health and life expectancy, and social cohesion versus polarisation. Underlying long-term trends, the economic cycle and the current financial and economic crisis will be incorporated. Politico-cultural impacts investigated are: Do increasing income/educational inequalities widen cultural and political 'distances', alienating people from politics, globalisation and European integration? Do they affect individuals' participation and general social trust? Is acceptance of inequality and policies of redistribution affected by inequality itself? What effects do political systems (coalitions/winner-takes-all) have? Finally, it focuses on costs and benefits of policies limiting income inequality and its efficiency for mitigating other inequalities (health, housing, education and opportunity), and addresses the question what contributions policy making itself may have made to the growth of inequalities.

Support and Activities

The project receives EU research support to the amount of Euro 2.7 million. The work will result in four main reports and a final report, some 70 discussion papers and 29 country reports. The start of the project is 1 February 2010 for a three-year period. Detailed information can be found on the website.

www.gini-research.org





GINI GROWING INEQUALITIES' IMPACTS

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