

# How far does the apple fall from the tree?

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Australians have a greater chance of rising up the income ladder over generations than Americans do, according to new research from The Australian National University.

The research, by ANU economist Dr Andrew Leigh, estimates the degree of intergenerational mobility (also known as 'social mobility') by calculating the relationship between the earnings of fathers and their sons.

Using four surveys, covering over 5000 sons born between 1910 and 1979, the research makes the first direct comparison of social mobility in Australia and the United States, and finds a greater degree of social mobility in Australia.

"It is easier to move from rags to riches in Australia than it is in the United States", said Dr Leigh. "Particularly for those who begin in poverty, Australia offers a greater chance of rising up the income ladder."

"Intergenerational mobility in Australia is probably similar to the United Kingdom. However, Australia is most likely not as socially mobile as the Scandinavian countries – where there is very little relationship between parental and child earnings."

Due to lower labour force participation rates by women in previous generations, the research focused only on fathers and sons. It found that the elasticity of sons' wages with respect to fathers' wages is around 0.2-0.3; meaning that for every 10 percent increase in a father's earnings,

his son's earnings would be expected to rise by 2-3 percent. The intergenerational elasticity for the United States is around 0.4-0.6.

The study also concluded that intergenerational mobility in Australia seems to have stayed stable over the past forty years.

“On one view, the absence of any significant rise in intergenerational mobility might be regarded as surprising. Increases in health care coverage and expansions in educational attainment are among the policy reforms that might have been expected to increase intergenerational mobility.”, said Dr Leigh.

“Yet there were also trends in the opposite direction, including the abolition of inheritance taxes, the rise in jobless households, and the rise in inequality.

“So perhaps it is not too surprising that family background matters as much today as it did in the 1960s.”

The paper, Intergenerational Mobility in Australia, was published in the latest edition of the B.E. Journal of Economic Analysis & Policy.

Source: Australian National University

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