Dad's brains mean more to his son's success than his money: study

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Sons of fathers with high incomes tend to end up with higher than average incomes themselves, but new research shows that it's not just dad's money that helps a son on his way.

According to a study recently published in the Journal of Political Economy, human capital endowments passed from father to son—perhaps in the form of smarts, advice, work ethic, or some other intangible—could be more important to a son's success than the size of dad's paycheck.

"We know there's a correlation between fathers' income and sons'." said David Sims, an economics professor at Brigham Young University and one of the study's authors. "What's gotten less attention is the mechanism. We wanted to see if the intergenerational income correlation is due to money—what we can buy for our kids—or if human capital attributes passed from father to son play a role as well."

The problem is that separating the two inputs is tricky. On average, fathers with higher human capital endowments also tend to have higher incomes, so it's hard to tell which factor is doing what. Sims and his colleagues used a statistical model and a rich dataset to try to disentangle the two.

The authors' methodology builds on the following thought experiment. Take two smart, similarly skilled and educated fathers. Say one lived in a town with a robust labor market and he had a big salary. The other father wasn't so lucky. He lived in a town with a depressed labor market, and had much lower earnings despite his comparable human capital. If money is the only thing that matters in the intergenerational transfer of income, then we'd expect that the son of the lucky father would end up with a higher income than the son of the unlucky father. However, if human capital matters, the two sons may end up with more similar incomes.

To test this idea, the researchers used remarkably detailed government administrative data on a large sample of Swedish fathers with sons born between 1950 and 1965. The data included salary information for fathers and sons as well as clues about fathers' human capital: education levels and the nature of their occupations. Fathers with more education or those who work in jobs that require specialized skills are considered to have higher human capital endowments that could be passed to sons.

First, Sims and his colleagues looked for a raw correlation between fathers' incomes and their sons', which, as expected, was quite strong. Then they employed a statistical methodology to isolate differences in fathers' income due to something other than human capital, like in the example of similar fathers who worked in differing labor market conditions. If the income correlation weakens for fathers and sons in these types of situations, the researchers could conclude that money isn't the only thing that matters.

And that's exactly what the study found. Income differences not related to a father's human capital were weaker predictors of a son's income. In other words, human capital matters.

"We can conclude that, for the men in our dataset, differing human capital endowments passed from father to son account for about two-thirds of the overall intergenerational income relationship," Sims said. "We don't offer a final answer here, but we do offer some boundary conditions and present a methodology that could help unravel the question."

More information: Lars Lefgren, Matthew J. Lindquist, and David Sims, "Rich Dad, Smart Dad: Decomposing the Intergenerational Transmission of Income. *Journal of Political Economy* 120:2 (published June 8, 2012).

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