

# Family matters for future wealth

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Australians pride themselves on having a classless society, where wealth is determined not by how rich your parents are but by your own efforts. However new research, for the first time using actual income numbers from two generations of Australians, paints a less egalitarian picture.

The Paper, Direct Measures of Intergenerational Income Mobility for Australia, published in the journal *Economic Record*, used data from the Household Income and Labour dynamics Australia (HILDA) survey, which has followed a sample of Australian households for 18 years.

The researchers, from the University of Wollongong, Australian National University (ANU) and the University of Technology Sydney (UTS), found that people born into [low-income families](#) in "the land of the fair go" don't actually move easily into higher-[income](#) bands later in life.

Their analysis also suggests that family structure—who you're married to, when you have children and how many you have—matters when it comes to what's known as income mobility.

"Australia has greater mobility than US citizens, but less than in Scandinavian countries," says UTS economist and study co-author Associate Professor Peter Siminski.

The researchers were able to put a number on this using a scale of zero to one, where 0 means people's incomes have no relationship to those of their parents and 1 means advantage or disadvantage is completely

transferred.

The result was not as close to the zero end of the scale as some people might expect, with the researchers estimating the intergenerational "elasticity" of income in Australia at 0.4.

"Income mobility matters because it is one of the best measures we have of equality of opportunity," says co-author Associate Professor Robert Clark from ANU.

Some argue that if there is a high level of inequality in society—a big gap between rich and poor—this is simply a reflection of effort, that those with high incomes have worked harder or are more productive.

However, intergenerational income mobility—not just the gap between rich and poor in one generation—is important to consider because it is more closely related to equality of opportunity, says co-author Dr. Silvia Mendolia from the University of Wollongong.

"There is a much stronger consensus that [people](#)'s outcomes shouldn't be due to factors outside their control—such as their family wealth," she says.

The research also found that family makeup plays a role in income mobility. When researchers measured [household income](#), not just individual income, they found greater persistence of income advantage or disadvantage between generations.

"Household income depends not only on your own income but also whether you have a partner, your partner's earning capacity, how young you are when you have children, and how many children you have," says lead-author Chelsea Murray.

While an individual born into a low-income family may later experience income mobility, this could be ameliorated by the fact they then marry someone in a low-income band or compounded by marrying someone in a higher-income band.

"Studies that seek to measure the transmission of economic wellbeing may need to consider broader measures of income that account for differences in family structure," Murray says.

Aside from being central to the concept of fairness, there are strong economic reasons for equality of opportunity being a desirable social outcome.

"Society is better off if someone who has the potential to achieve great things is able to develop their skills and talents and fulfil that potential, thereby contributing to the economy. It is also better for social cohesion", says Dr. Siminski.

Educational policies are the clearest and most obvious policy lever that governments have to improve income mobility, he says.

"It's important for governments to tackle disadvantage at an early stage, in schools, and to facilitate broad access to higher education, so income advantage isn't entrenched," Dr. Siminski says.

"There tends to be greater persistence of advantage across generations in countries where having a university degree provides a big boost to lifetime income.

"I think the most obvious thing to do is to focus on access to higher education, to facilitate that pathway from high school through to university.

"It is also important to channel the greatest amount of money into schools that have the greatest level of disadvantage," he says.

**More information:** Chelsea Murray et al, Direct Measures of Intergenerational Income Mobility for Australia, *Economic Record* (2018). [DOI: 10.1111/1475-4932.12445](https://doi.org/10.1111/1475-4932.12445)

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