Social mobility across generations may be substantially overstated, study shows

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New research measuring resources passed from parents to children shows that current estimates of intergenerational mobility may be substantially overstated.

The study from Nobel laureate James J. Heckman and colleagues at the

University of Chicago and Rockwool Foundation in Denmark shows that parents' and children's economic outcomes are much more tightly linked than previously believed.

The study also documents that previous research may have overstated social mobility most for children from disadvantaged families.

"Our findings not only suggest that we may have missed a large component of the persistence in inequality across generations—we appear to have missed the mark most for children growing up in disadvantage," Heckman said of the study, which was released as a working paper in the *National Bureau of Economic Research*.

The paper was co-authored by Heckman and Sadegh S. M. Eshaghnia of the University of Chicago Center for the Economics of Human Development, Rasmus Landersø of the Rockwool Foundation and Rafeh Qureshi of the University of Wisconsin.

A fine-tuned measure of mobility

The research team developed new measures of economic welfare across the lifespan, accounting for differences in life-cycle trajectories, uncertainty and credit constraints. This improves upon traditional measures of social mobility.

Studies of intergenerational mobility commonly rely on averages of the incomes of fathers and sons measured over the same age intervals. This paper shows that, for many reasons, the traditional approach gives an incomplete account of intergenerational mobility.

"There is much more to resources than just average income over a limited age range. First, the life trajectories of individuals differ in ways that a simple average cannot capture. And uncertainty about what happens tomorrow or next year is also important," said Heckman, the Henry Schultz Distinguished Service Professor in Economics and director of the Center for the Economics of Human Development at UChicago. "We are the first to capture these aspects."

Analyzing unique data from Denmark spanning the full lifecycles of children and their parents, the study found economic outcomes for parents and children are closely related. The traditional analysis of family resources such as average income may have understated the intergenerational dependence by 50% to 100%.

A new view of resources

Previous research shows that the timing of parents' investments in their children's future matters a great deal. Applying that insight and economic theory, the team devised measures of expected lifetime resources that allowed them to study parents' capacity to invest at crucial stages in the lives of their children.

The study is the first to develop an actual measure of the welfare that an individual can expect to have across her life. This is crucial, as the vast changes in timing of key life-events—such as age of marriage and childbearing—that have taken place over the past 50 years makes the traditional approach used in studies of intergenerational income mobility inaccurate.

The finding extends to other dimensions of children lives. The study shows that a wide range of child outcomes such as grade-point average, educational attainment, crime and teen-pregnancy are more closely related to parents' resources than previously thought.

Changes in patterns of educational attainment across generations explain most of the intergenerational change in life-cycle dynamics.

Although the findings suggest that conventional measures overstate relative intergenerational mobility (as measured by the intergenerational income elasticity, or IGE), they underestimate absolute mobility compared to our expected income measures. Children are acquiring more resources than their parents; this is especially true for children of more affluent families.

This effect is an outgrowth of changing life cycle dynamics and economic conditions over time. Recent cohorts acquire more education and have easier access to credit, which reduces uncertainty and helps to smooth consumption across years.

A more nuanced look at mobility

The broader and more comprehensive view of resources and well-being shows that even in a generous welfare state such as Denmark, with substantial social insurance and redistribution through taxes and transfers, there is strong intergenerational dependence. It calls for a deeper examination of inequality and its persistence.

"We are entering uncharted waters. These new findings illustrate that economic analysis has mischaracterized social mobility in one way or the other," Heckman said. "The silver lining is that assessing mobility through the lens provided by our study allows for better understanding of the importance of factors such as the role of the family, changes in individual life cycles across generations, and the expectations and trajectories individuals face across their lifetimes."

More information: Sadegh Eshaghnia et al, Intergenerational Transmission of Family Influence, *National Bureau of Economic Research* (2022). DOI: 10.3386/w30412

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