

Intergenerational Mobility in Theory (again)

Miles Corak

Department of Economics, and Stone Center on Socio-Economic Inequality

The Graduate Center, City University of New York

MilesCorak.com [@MilesCorak](https://twitter.com/MilesCorak)

Inequality, Economic Opportunity, and Public Policy

Lecture 10

Motivation

Some puzzles we have been examining

1. Inequality and mobility between and within countries
 - The Great Gatsby Curve
 - The geography of intergenerational mobility
2. Inequality and mobility over time
 - absolute mobility
 - relative mobility
3. Non linearities in relative mobility
 - concave
 - convex
 - concave and convex

Motivation for another look at theory

1. A significant rise in inequality, and particularly top end inequality
 - major implication of this is the suggestion that financial transmission of wealth across generations will be a growing public policy concern
 - tax policy addressed to wealth and bequests
 - other issues?
 - how do political institutions function?
 - how are social investments in children skewed?
2. Cross-sectional inequality and time series variation
 - declining absolute mobility seems to be well-documented in the United States
 - in the face of rising inequality, the evidence of changes in relative mobility is mixed

Becker, Kominers, Murphy, Spenkuch (2018)

“We are therefore left to wonder how cross-sectional inequality relates to social mobility and whether the intergenerational transmission of resources tends to dampen or exacerbate changes in inequality.” [page S8]

- How does cross-sectional inequality relate to intergenerational mobility?
- Does intergenerational transmission of resources dampen or exacerbate changes in inequality?
- Will the United States become a more or less mobile society?

Becker et al (2018): set up and messages

The setup

1. the paper recognizes the literature on complementarities in Human Capital investment in a particular way, claiming to speak to rising top end inequality
 - this foreshadows the next lecture
2. “We dispense with the implicit assumption that all parents are equally good at investing in their children” [page S8]
 - parents with more human capital not only are more productive in the labor market, but also in the production of their children’s human capital.

An empirical puzzle from Corak and Heisz (1999)

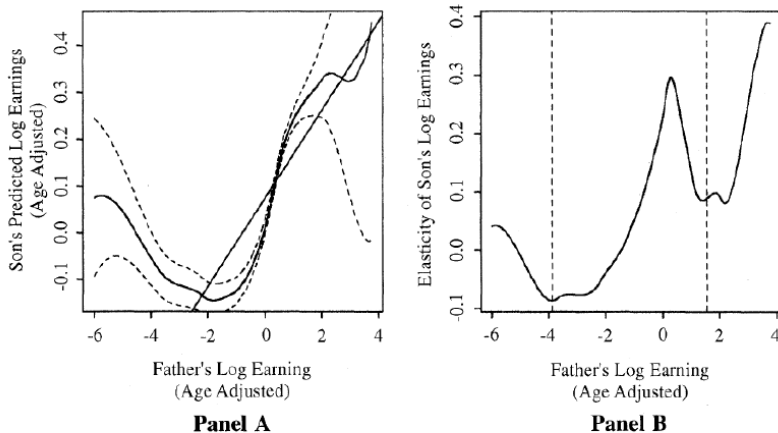


Figure 3

Nearest Neighborhood Estimates of The Relationship Between Father and Son Earnings

Figure 1: Non linearities in parent-child earnings

An empirical puzzle from Chetty et al (2014)

Child quintile	Parent quintile				
	1	2	3	4	5
1	33.7%	24.2%	17.8%	13.4%	10.9%
2	28.0%	24.2%	19.8%	16.0%	11.9%
3	18.4%	21.7%	22.1%	20.9%	17.0%
4	12.3%	17.6%	22.0%	24.4%	23.6%
5	7.5%	12.3%	18.3%	25.4%	36.5%

Figure 2: Quintile transition matrix

Source: Chetty, Hendren et al (2014), Table II

Major messages from Becker et al (2018)

1. endogenously developed class boundaries
 - societies may develop a “human capital elite” due to convexities in the production of human capital and the structure of returns in the labor market (particularly those associated with “super stars” or “winner take all” markets)
2. rising inequality may be accompanied by reduced intergenerational mobility
 - this depends on whether changes in the returns to human capital increase or skew the income distribution, not just widen it
 - dynamics of movement to the new steady state may be characterized by an overshooting

Major messages from Becker et al (2018)

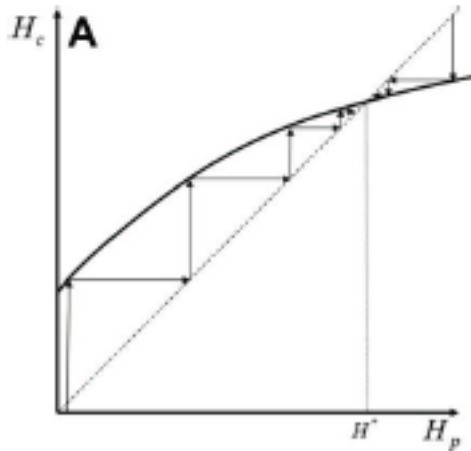


Figure 3: Intergenerational dynamics with low complementarities and earnings elasticity

Major messages from Becker et al (2018)

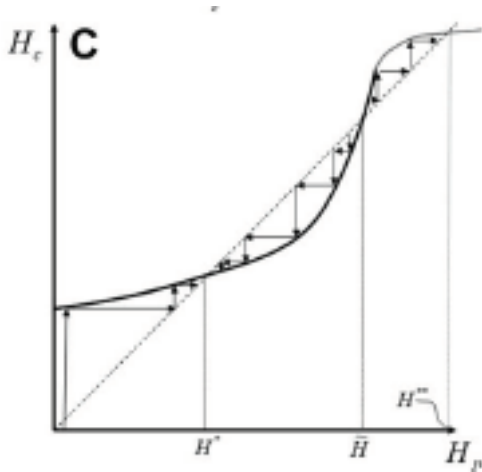


Figure 4: Intergenerational dynamics with high complementarities and earnings elasticity

Becker et al (2018): the model and results

the model

$$V(I_p) = u(z) + \delta u_c(\bar{I}_c) \quad (1)$$

$$E = rH^\sigma \epsilon \quad (2)$$

$$H_c = F(y, G, A_c, H_p, v_c) \quad (3)$$

$$H_c = A_c y^\alpha H_p^\beta \quad (4)$$

- y does not depend on parental income so there are no imperfections in the credit market
- A_c is set to 1 so that innate ability does not come into play

the intergenerational elasticity

$$\log E_c = \mu + \frac{\beta}{1 - \alpha\sigma_c} \frac{\sigma_c}{\sigma_p} \log E_p + \epsilon \quad (5)$$

- the return to human capital through r plays no role
- possibility of overshooting the steady state solution

Interpretation and policy implications

“The assumptions of complementarity between y and H_p reflects the idea that human capital does not raise productivity only in the marketplace but also in household production.”

- education helps parents choose more effective inputs in order to achieve some outcome
 - educated parents might be more adept at navigating the intricacies of the public school systems
 - knowledgeable adults may be in a better position to help children with their school work

Interpretation and policy implications

“Although we favor the interpretation of high-human capital parents being literally better at investment, we note that our conclusions would continue to hold for many other modelled sources of complementarity.” [page S13]

- what are some other “unmodeled sources of complementarity”?

Next class