

Assessing Intergenerational Earnings Persistence Among German Workers

Philipp Eisenhauer* Friedhelm Pfeiffer†

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The vitality and stability of our democracy - as well as the economy - eventually depend on the social permeability of our society¹.

This statement by the German Federal President Horst Köhler, draws attention to the strong meritocratic beliefs concerning the equality of opportunity that govern public debates. This is especially true for the education system. According to public rhetoric it is aimed to guarantee social mobility in Germany. Families receive a child benefit transfer, schooling for up to 13 years is free of charge and, if education is continued at a university, the cost of living is covered by federal aid for students from low-income families. But, does this general concern translate into a society in which one's economic success is independent of the family born into? And if so, to what degree?

Studies on intergenerational earnings mobility ideally assess the relationship between parental and offspring's long-run economic status. Due to data restrictions long-run economic status is proxied by short-run measures in most empirical studies. Such an approach introduces an attenuation bias due to transitory fluctuations and life-cycle variation in the association between current and permanent economic status.

*Centre for European Economic Research and Graduate School of Economic and Social Sciences, University of Mannheim. Corresponding author: P.O. Box 103443, D-68034 Mannheim, Tel.: +49-621-181-3431, E-mail: peisenha@rumms-uni-mannheim.de

†Centre for European Economic Research and University of Mannheim

¹Horst Köhler, German Federal President, in an interview with the Frankfurter Allgemeine Zeitung, 29.12.2007, Berlin (own translation).

Our paper estimates a variety of relationships between father-son earnings from different samples of West German workers drawn from the GSOEP 1984-2006. The contribution to the existing literature is twofold. First, we rely on a more mature dataset which allows to observe father-son pairs at more similar stages in their life-cycle. Second, we implement a decision rule assessing all possible father-son combinations with respect to the reliability of (averaged) earnings as a short-run proxy for long-run economic status.

The results indicate that roughly 33% of a father's earnings advantage are passed on from generation to generation in Germany. The intergenerational earnings relationship among West German workers therefore seems to be lower compared to the United States (40%) and higher compared to Sweden (20%) according to the point estimates.