

Dynastic Inequality and Persistence of Human Capital Over Three Generations

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Comments are very welcome!*

Abstract

Empirical research on the persistence of inequality has been largely restricted to a two generational framework, mainly due to a lack of appropriate data on multiple generations. At the same time, it is often assumed that the intergenerational persistence of socio-economic outcomes follows a first-order Markov process; i.e. the influence of ancestors vanishes within few generations. However, an increasing number of studies show that this assumption should be revisited. This study aims to quantify the extend of persistence of human capital over three generations, comparing the US and Germany. Hereby, we make use of the rich informational content of nationally representative household survey data; the Panel Study of Income Dynamics (PSID) and the Socio-Economic Panel (SOEP). Applying different measures, we evaluate the persistence of human capital over a span of about 120 years. Our results highlight a relatively high persistence of human capital over three generations in both countries, while intergenerational mobility is slightly lower in Germany than in the US. Finally, we cannot reject the hypothesis that the grandparental coefficient is higher than the one obtained by an iterated regression procedure assuming an AR(1) process, shedding light on the long-run aspects of equality of opportunity within the two societies.

Keywords: Dynastic Inequality, Intergenerational Mobility, Three generations, Equality of Opportunity.

JEL Classification: D63, I24, J62, O15

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