Redistribution, intergenerational inequality and poverty transmission –
Germany and the United States compared

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The intergenerational impact of public transfers on the economic and social outcome in a society is discussed ambiguously. A considerable amount of research generally found that parental welfare participation may encourage the welfare dependency of future generations and thus perpetuate generational poverty cycles (Gottschalk 1992, Vartanian 1999, Pepper 2000, Page 2004). Public transfers prevent persons from developing their resources or to take advantage of existing opportunities. Human capital such as education and work experience is not valued, and there is little motivation to pursue full-time employment (Hill and Duncan 1987, Mayer 1997, Corak and Heisz 1999). At the other side public transfers are said to result in an overall improvement in the living standards of the poor (Ellwood and Summers 1986). In this view, public transfers and redistributive taxes might be dedicated to narrow the gap between the income of the parents so that the incomes of the children converge to the mean more quickly (Corak 2006).

The paper aims to analyze the implications of public transfers on the intergenerational income inequality and poverty trends in Germany and the United States, two countries differing concerning welfare policy regimes, labor market settings and family role models. We analyze the pre- and post-government income of parent-child pairs in different time windows to address to non-linearities in the intergenerational income mobility (Hyson 2003, Hertz 2004).

The empirical analysis is based on nationally representative data from the German Socio-Economic Panel (GSOEP) and the Panel Study of Income Dynamics (PSID). We include children aged between 15 and 20 years and co-resident with their parents in 1981 (USA) or 1984 (Germany). The children are at least 29 years old when we observe their pre- and

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post-government income position, their socioeconomic characteristics, as well as their labor market performance.

The analysis of the intergenerational inequality and poverty intensity is based on the poverty indexes presented in Foster et al. (1984). In the analysis of the intergenerational income mobility we employ linear and non-linear regression approaches on the permanent income variables for different cohorts in different time windows. The sensitivity analysis discusses potential biases associated with different methods to account for life-cycle differences between parents and children and the corresponding data problems.

The paper proceeds as follows: Section 2 introduces in the related literature. Section 3 reports the data base. Section 4 characterizes the poverty measures and the specification of the regression models. Section 5 presents the empirical results, and section 6 concludes with a discussion of the implications of these findings and the directions for further research.

References


