

# **Inequality of Opportunities, and the Intergenerational Transmission of Social (Dis-) Advantages – Empirical Evidence from Selected Countries**

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JEL-Classifications: D31; J24; J32; J62

Key words: personal income, wealth and their distribution; income inequality; human capital; measurement and analysis of multidimensional poverty; intergenerational mobility;

## **Abstract**

The structuring impact of the change of macroeconomic indicators, the institutional settings of the labor markets, as well as the relative demand for skills count among the explanations of increasing inequality of the earnings distributions in many industrialized countries since the 1990ies (Jenkins 2011). Technological and demographic change reinforce job polarization and the heterogeneity of employees concerning age, gender, occupations and industries contribute to increasing economic and social stratification (Acemoglu 2003, Atkinson and Piketty 2010). Understanding economic and social inequality experienced in childhood gains in importance from a perspective caring about the equality of opportunity (Smeeding and Rainwater 2004). The negative consequences of economically and socially disadvantaged children for the society may be considerable (Vleminckx and Smeeding 2001), because child poverty often feeds a vicious circle that implies a higher risk of impoverishment in adulthood (Atkinson et. al. 1983, Corcoran 2001, Corak 2006).

Studies on intergenerational income mobility adopt the logic of the neoclassical human capital approach (Becker 1964, Mincer 1974) which assumes that parental investments increase the children's human capital, which in turn increases the children's economic and social performance (Becker and Tomes 1986, Solon 1999, Solon 2002, Chadwick and Solon 2002). Income inequality, the inequality of opportunity and the intergenerational mobility of the social and economic position are correlated (Friedman 1962), but the causality is ambiguous so that income inequality can stifle upward social mobility (Causa and Orsetta 2010). The degree of intergenerational income mobility is an indicator of the equality of opportunity in a society and the flexibility of the labor market.

Based on longitudinal nationally representative data from the German Socio-Economic Panel (SOEP), the British Household Panel Survey (BHPS), and the US Panel Study of Income Dynamics (PSID), which were made available by the Cross-National Equivalent File (CNEF) project at the College of Human Ecology at the Cornell University, Ithaca, N.Y. (Frick et al. 2007) the paper analyzes the degree of income inequality and intergenerational income mobility as well as the determinants of social and economic dynamics of different birth cohorts. We analyze the relationship between income inequality and the inequality of opportunities, which is the degree to which the conditions at birth and early childhood determine the economic and social chances as adults. We proceed multivariate analysis to answer the question which parental characteristics are associated with the relative risk of the children at birth or early childhood to be at the bottom/at the top of the income distribution (Mc Fadden 1973, Maddala 1983, Heckman 1981, Greene 2003). We evaluate the social and economic status of these children as adults employing multi-dimensional capability indicators (Sen 1992, Mehrotra 2006, Redmond 2008, Robeyns 2005). To analyze the intergenerational mobility we employ linear and non-linear regression approaches for different cohorts of child-adult pairs (Hertz 2004, Couch and Lillard 2004, Grawe 2004) introducing income inequality – inequality of opportunity indicators as exploratory variables.

The paper is organized as follows. Section 1 introduces, section 2 provides the theoretical background and the related literature. Section 3 presents the data base and the methodological issues. Section 4 discusses the empirical results, and section 5 concludes with a summary of findings and the implications and recommendations for economic and social policy.

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