Intergenerational wealth transmission and mobility in Great Britain: what components of wealth matter?

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Background

- Strong and growing interest in wealth inequalities: living standards, affect major lifecycle decisions (Piketty, 2014; Boserp et al. 2017; Black et al. 2020).

- Intergenerational wealth persistence & role of family background-beyond individual's own characteristics (Killewald et al. 2017, Blanden et al. 2021, Fagereng et al. 2022, Gregg and Kanabar, 2022; Nekoei and Seim, 2023).

- Composition of wealth portfolios changing across cohorts, role of housing wealth (Gritti and Cutulli, 2021; Pfeffer and Waitkus, 2021).

Contribution

- Document the component(s) of wealth driving intergenerational wealth persistence in GB, across cohorts and over time

- Highlight rapidly diverging outcomes for homeownership opportunities and housing wealth by parental wealth background (it matters) across cohorts

- Rate at which the intergenerational association is changing is rapid: rank estimates imply doubling in circa 60 years

Long run wealth inequality: 1895-2013 (Alvaredo et al. (2018)
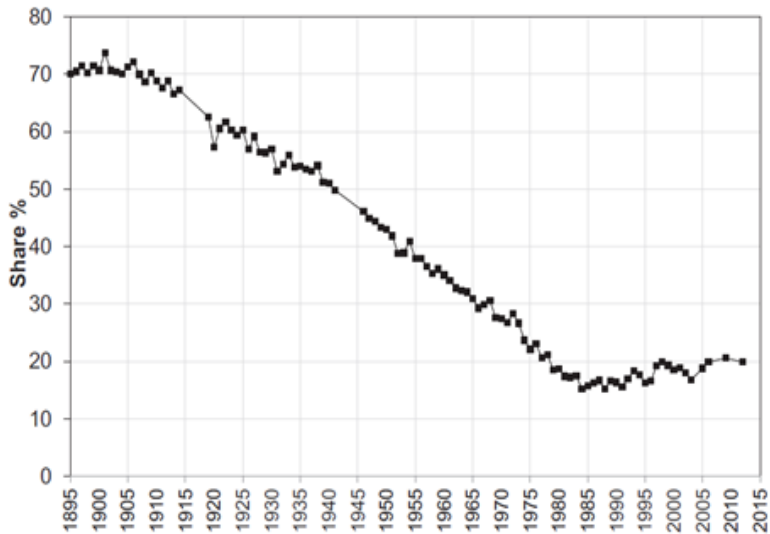
of top 1% in the UK 1895–2013.

Parental wealth and offspring homeownership using WAS: 2010/12-2016/18

Data
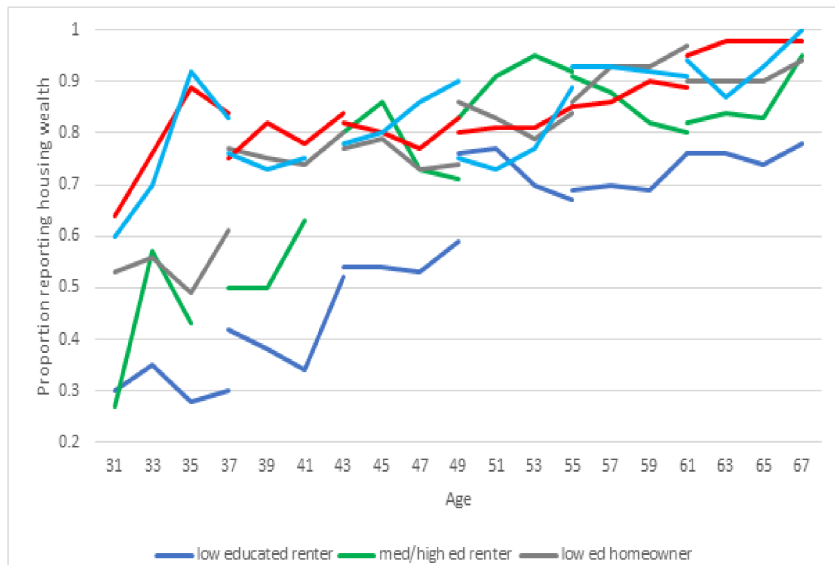
- Wealth and Assets Survey waves 3-round 6 (2010/12-2016/18)

  ▸ Cross section and longitudinal- derived measure of total net wealth and its subcomponents

  ▸ Oversamples wealthier households by rate of 2.5-3 compared to other postal addresses

  ▸ Utilise retrospective data on parental characteristics to estimate parental wealth (2S2SLS)

Parental wealth

- WAS asks a battery of questions regarding their parents characteristics (when individual was aged around 14)

  ▶ Includes fathers/mothers education, economic status, housing tenure, whether single or couple parent hhold, # siblings

  ▶ Interact parent's highest level of education and housing tenure (5 groups: high, medium, low educated homeowner & high/medium, low educated renter)

  ▶ Education and housing relatively stable characteristics relative to other measures, plus further interaction leads to small sample groups

Parental wealth

- Markers of relative wealth position of parents and resources available whilst growing up (Dearden et al, 1997)

- Observe parental wealth pre/post peak wealth (circa mid 60s) so need to correct for this (ordering/rank stability)

- Observe offspring wealth pre/post peak wealth (circa mid 60s) do not need to correct - precisely because interested in wealth accumulation at *current* age

Methodology: 2S2SLS

- First stage: $IHSW_{pseudo-parent} = \alpha + \beta P_i + \epsilon$

- So estimate parent's wealth using sample of 64 year olds from WAS (for whom we know their total net wealth, education and housing tenure)

- Second stage: $IHSW_{offspring} = \gamma + \phi \hat{P}_i + \tau$

- Correct standard errors to deal with fact we have a 'generated regressor' à la Wooldridge (2002) [actually use Murphy and Topel (1985) approach]

Methodology: 2S2SLS

- Where $\hat{\beta}Z_i$ corresponds to the retrospective markers of parental characteristics

- Validation/sense check: estimate correlation between our parental markers and wealth of actual parents aged 30-50 in WAS (controlling for age). Estimated correlation is 0.63.

Biases

- First stage: regressors used to predict pseudo-parental wealth have an independent effect on offspring wealth (upward bias see Jerrim et al. (2016))

- Measurement error will lead to attenuation and so bias coefficient downwards

- Only affects IWE-type and not rank regressions (latter more efficient but does not capture wealth inequalities across generations only degree of reordering)

- Lifecycle bias: due to absolute wealth differences rising with age (but wealth Gini generally declines in age see also Cowell et al. (2017)). Rank regression- inequalities have no influence and rank ordering stable post age 40.

- **Bottom line**: to deal with this we take parents to 'peak wealth' based on current position in the wealth distribution but attach values derived from the sample of current 64 year olds
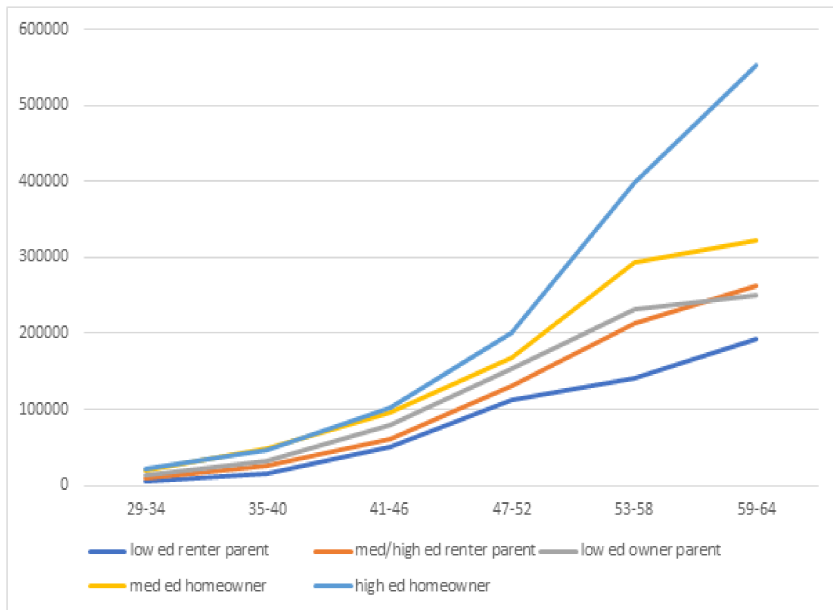
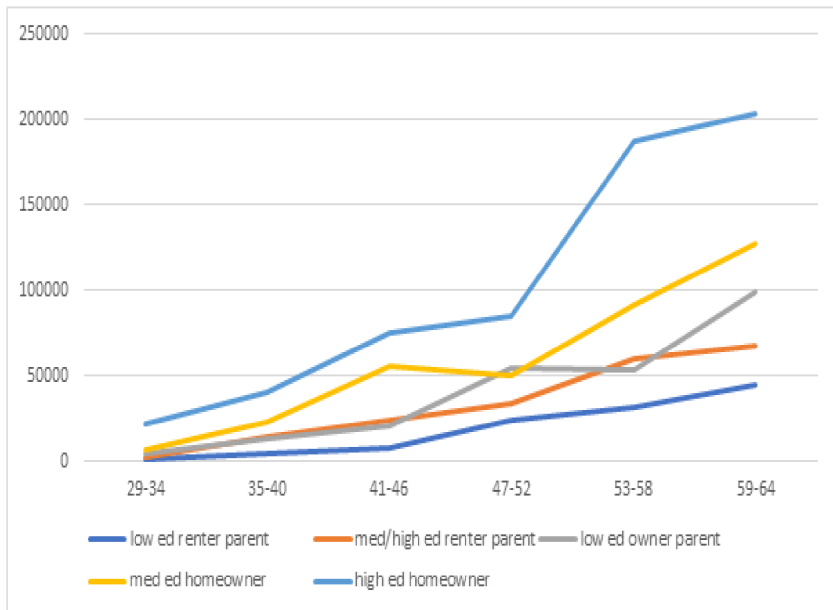# Descriptive evidence: total wealth
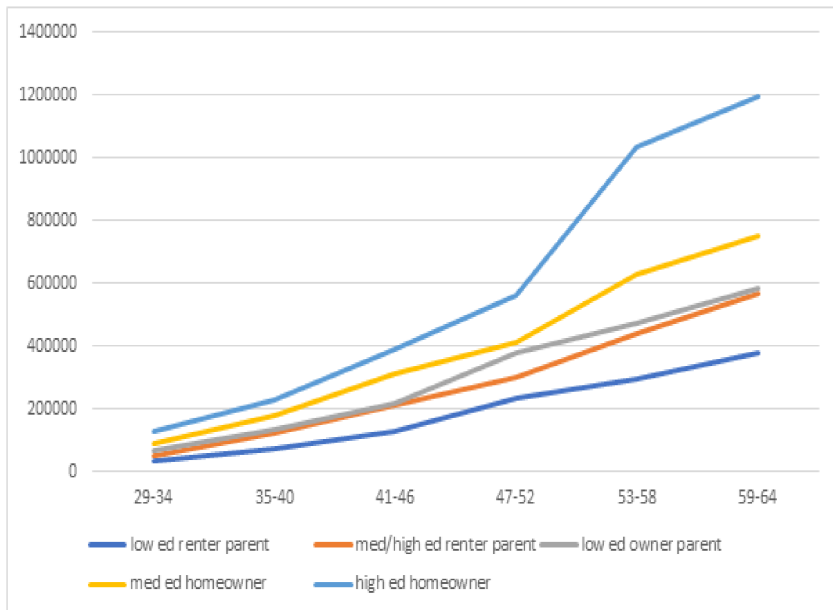
Descriptive evidence: housing wealth
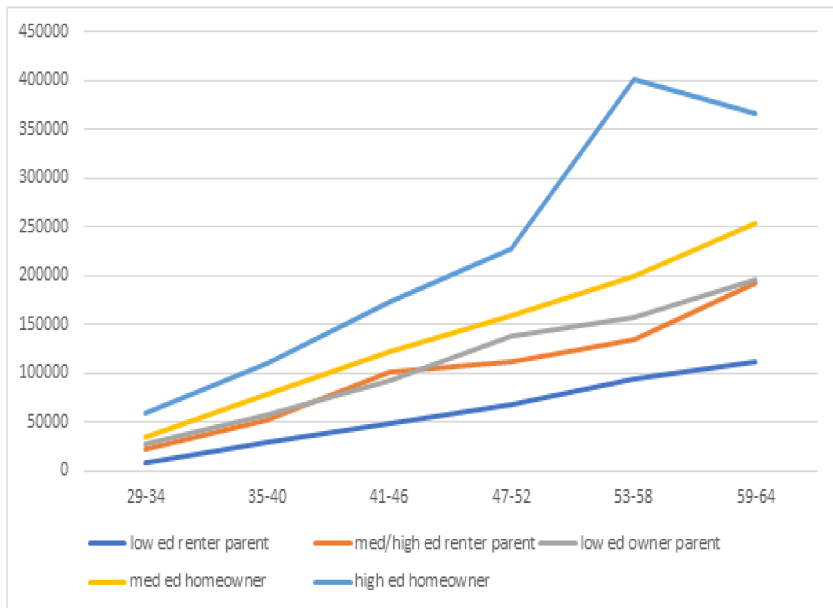
Descriptive evidence: pension wealth

Descriptive evidence: financial wealth

Cross section estimation results- IWE

Table 1: Intergenerational elasticity in offspring and parent wealth, wave 3 and 6 [offspring current age, parents peak].

Age group	29-34	35-40	41-46	47-52	53-58	59-64
Central birth years	1979-1980	1973-1974	1967-1968	1960-1961	1954-1955	1948-1949
Wave 3 (2010-12)						
Total wealth	0.46*** [0.04]	0.43*** [0.03]	0.41*** [0.03]	0.37*** [0.03]	0.44*** [0.03]	0.34*** [0.02]
housing wealth	1.82*** [0.16]	1.57*** [0.15]	1.24*** [0.12]	1.20*** [0.11]	1.18*** [0.10]	0.86*** [0.08]
pension wealth	1.54*** [0.15]	1.39*** [0.14]	1.00*** [0.11]	0.83*** [0.1]	1.07*** [0.10]	0.57*** [0.10]
N_{total}	1299	1893	2362	2420	2364	2841
$N_{housing}$	1298	1902	2359	2425	2374	2846
$N_{pension}$	1340	1938	2386	2442	2377	2847

Cross section estimation results-rank

Table 2: Intergenerational rank in offspring and parent wealth, wave 3 and 6 [offspring current age, parents peak].

Age group	29-34	35-40	41-46	47-52	53-58	59-64
Central birth years	1979-1980	1973-1974	1967-1968	1960-1961	1954-1955	1948-1949
Wave 3						
Total wealth	0.40***	0.36***	0.33***	0.30***	0.37***	0.33***
	[0.03]	[0.02]	[0.02]	[0.02]	[0.02]	[0.02]
housing wealth	0.30***	0.30***	0.31***	0.30***	0.36***	0.35***
	[0.03]	[0.02]	[0.02]	[0.02]	[0.02]	[0.02]
pension wealth	0.30***	0.28***	0.20***	0.19***	0.23***	0.17***
	[0.03]	[0.02]	[0.02]	[0.02]	[0.02]	[0.02]
financial wealth	0.21***	0.24***	0.22***	0.23***	0.30***	0.26***
	[0.03]	[0.03]	[0.02]	[0.02]	[0.02]	[0.02]
N_{total}	1299	1893	2362	2420	2364	2841
$N_{housing}$	1298	1902	2359	2425	2374	2846
$N_{pension}$	1340	1938	2386	2442	2377	2847
$N_{financial}$	1340	1938	2386	2442	2377	2847

Panel estimation results (housing wealth)-IWE

Age group at wave 3 Central birth years	29-34 1979-1980	35-40 1973-1974	41-46 1967-1968	47-52 1960-1961	53-58 1954-1955	59-64 1948-1949
Log-Log						
β cross section full sample wave 3	1.67*** [0.2]	1.49*** [0.14]	1.18*** [0.12]	1.14*** [0.11]	1.14*** [0.10]	0.83*** [0.08]
β balanced panel wave 3	1.89*** [0.26]	1.54*** [0.22]	1.19*** [0.18]	1.22*** [0.16]	1.11*** [0.13]	0.76*** [0.10]
β balanced panel round 6	1.93*** [0.30]	1.49*** [0.22]	1.21*** [0.18]	1.26*** [0.16]	1.23*** [0.12]	0.86*** [0.10]
$N_{offspring}$ cross section wave 3	1299	1893	2362	2420	2364	2841
$N_{offspring}$ balanced panel	460	784	974	1112	1269	1628

Panel estimation results (housing wealth)-rank

Age group at wave 3	29-34	35-40	41-46	47-52	53-58	59-64
Central birth years	1979-1980	1973-1974	1967-1968	1960-1961	1954-1955	1948-1949
Rank-rank						
rank cross section full sample round 3	0.3*** [0.03]	0.30*** [0.02]	0.31*** [0.02]	0.30*** [0.02]	0.36*** [0.02]	0.35*** [0.02]
rank balanced panel wave 3	0.35*** [0.04]	0.29*** [0.04]	0.31*** [0.03]	0.31*** [0.03]	0.37*** [0.03]	0.36*** [0.02]
rank balanced panel round 6	0.37*** [0.05]	0.33*** [0.04]	0.34*** [0.03]	0.35*** [0.03]	0.40*** [0.03]	0.36*** [0.02]
$N_{offspring}$ cross section wave 3	1299	1893	2362	2420	2364	2841
$N_{offspring}$ balanced panel	460	784	974	1112	1269	1628

Summary of results I

- Strong correlation across all wealth types, trend across age groups

- Chain comparison using panel suggests growing IWE in housing wealth esp at younger ages for individuals born 6 years apart.

- Gregg & Kanabar (2022) also show holds for total net wealth

- Given trend need to understand how rapidly the IWE/rank correlation is changing

- So key question: how rapidly is home-ownership diverging across cohorts by parental wealth background?

# Change in intergenerational parent-offspring housing wealth association

Wealth type	B[σ]	Rank[σ]
Property wealth		
Wave 4*Parent's wealth	0.052 [0.0389]	0.005 [0.00671]
Round 5*Parent's wealth	0.088* [0.0517]	0.0150* [0.00873]
Round 6*Parent's wealth	0.186*** [0.0677]	0.0302*** [0.0113]
Age*Parent's wealth	-0.026*** [0.00468]	0.004*** [0.000711]
Parent's wealth	1.724*** [0.112]	0.194*** [0.0148]
N$_{total\_wealth}$	33,278	33,278
N$_{housing\_wealth}$	33,098	33,098

- Both specs show consistent finding- role of parental wealth growing over time. Implies doubling (based on rank spec) in roughly 60 years.

Parental wealth and homeownership- recall Figure 1

Whether reports housing wealth	B[σ]	Rank[σ]
Wave 4*Parent's wealth	0.0119 [0.0111]	0.0345 [0.0431]
Round 5*Parent's wealth	0.0119 [0.0145]	0.0312 [0.0549]
Round 6*Parent's wealth	0.0373** [0.0186]	0.126* [0.0700]
Age*Parent's wealth	-0.00387*** [0.00132]	-0.0103** [0.00481]
Parent's wealth	0.373*** [0.0287]	1.322*** [0.102]
N	33,098	

Parental wealth and offspring housing wealth
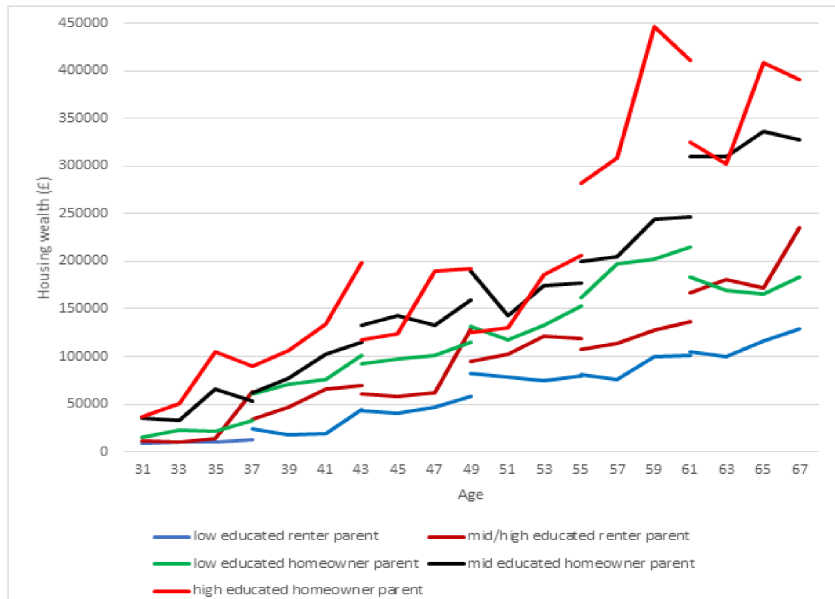
Concluding comments- homeownership and housing wealth central to inequality narrative

- Parental wealth is increasingly related to major lifecycle events such as whether offspring report home-ownership (& housing wealth) across successively younger cohorts.

- The historic and recent returns to this asset mean parental wealth is increasingly influencing offspring wealth & living standards more generally.

- Speed at which rank correlation is changing is substantial: estimates imply doubling in six decades.

Concluding comments

- Results hold even after controlling for offspring's own education and earnings (appreciate other channels at play/endogeneity).

- Taken together the 'penalty' of being born to parents of low wealth is growing rapidly over time.

- Key questions & current research: assortative mating & decomposing offspring versus parent characteristics (including wealth) in explaining wealth inequalities across cohorts & over time.