Policy Forum: Intergenerational Disadvantage

Intergenerational Disadvantage: An Introduction to the Key Issues

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1. Introduction

As in many other countries, economic and social commentators in Australia have long been concerned about high and rising levels of economic and social inequality. That said, inequality per se is not necessarily regarded a bad thing. What often concerns people more is inequality in opportunity. In Australia this is embodied in the notion of a right to a “fair go”, something that many (if not most) political leaders have espoused a commitment to at some point. The origins of the “fair go” in Australia, however, are rooted in the trade union movement and our industrial relations system. It is this notion that underpins things like minimum award wages and protections against unfair dismissals. The basic argument is that anyone who is prepared to work hard should be rewarded. At the same time, this notion is then often extended to argue that those who are not prepared to work hard should receive minimal protection from the state.

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But what if disadvantage begins well before people reach working age? Indeed, what if it is circumstances at birth that are most critical? This was the topic at the centre of a workshop organized by the Melbourne Institute of Applied Economic and Social Research, which in turn provides the basis for the three contributions presented here. [1] The contribution by Miles Corak is an adapted versions of his keynote addresses to this workshop, while the remaining contributions, by Esperanza Vera-Toscano and Irma Mooi-Reci, are summaries of key themes that emerged from other presentations and discussion at the workshop.

2. The Extent of Intergenerational Mobility / Inequality

Until relatively recently, existing research on intergenerational mobility in Australia focused almost exclusively on occupational mobility – that is, on the extent to which the occupations of children (typically sons) differed from the occupations of their parents (typically fathers) (for a very brief review, see Leigh 2007). But a focus on occupations can be problematic, in part because it presupposes that both parents and children will secure employment in an occupation that is relatively stable and long lasting, but also because occupational status itself is subject to change. And then there is the issue that the nature of jobs is constantly changing – many of the occupations that exist today simply did not exist a generation ago. Thus measures of occupational status need to be constantly updated, yet most research in Australia has proceeded as if occupation status is more or less stable over relatively long periods. There is also the issue that measures of occupational status, by definition, involve classifying individuals into aggregated classes, thus eliminating within-class variation.

In principle, a much simpler metric for studying change over time is individual earnings, and in recent years, reflecting the emergence and availability of new data sources, notably the Household, Income and Labour Dynamics in Australia (HILDA) Survey but also administrative income tax data, a number of studies of intergenerational earnings elasticities for Australia have been published. This body of evidence is summarized in the paper by Corak, At first glance the different studies provide highly variable estimates of the intergenerational income elasticity, ranging from less than 0.2 (which would suggest Australia is one of the most mobile societies on the planet) to around 0.4 (after adjustment for attenuation bias). Corak, however, argues that these differences mainly reflect differences in measurement and definitions across studies, and that a consensus estimate still exists – he concludes that roughly one quarter of income inequality in Australia is passed on from parents to child, similar to the most comparable estimate for Canada, higher than what is generally found in most Scandinavian countries, but far less than in many other countries including both the UK and the US, a conclusion that is echoed by Cobb-Clark (2019).

3. Transmission Mechanisms

A key theme of the Workshop is that knowing the ‘correct’ estimate of intergenerational mobility is far less important than developing a good understanding of the processes by which disadvantage is transmitted from one generation to the next, again a view that is echoed by Cobb-Clark (2019). Nevertheless, this was the area where research appears to be least well developed. Discussion of this topic is summarised in the contribution by Vera-Toscano. In particular, she emphasises discussion of three key mechanisms – education, income support, and genes. However, there are other mechanisms that may be equally important. Included here are things like family functioning and conflict, work norms and personality traits.

4. Challenges and Future Directions

Finally, Mooi-Reci summarises discussion around challenges facing future research. She highlights the disconnect between theory an empirical practice (e.g., as reflected in the traditional focus on fathers and sons, and on the tendency to ignore periods of parental joblessness).

Data gaps are also emphasised. Lack of suitable data has long been a problem facing Australian researchers in this area, and almost certainly has been one of the reasons why research in the past has focused on occupational status rather than individual earnings or income. As noted earlier, the emergence of the HILDA Survey, a panel data study, has been the catalyst for new research. Nevertheless, the immaturity of the panel means that researchers to date have either inferred parental incomes from respondent reports about their parents' occupation and / or education or are constrained to using samples which are relatively young. And even tax data are not without problems. As Mooi-Reci notes, these data are still not widely available, linking children with parents is subject to error, and taxable income is not necessarily the same as actual income.

She also emphasises measurement concerns, focusing on life-cycle bias, attenuation bias, and data asymmetries that often arise when comparing outcomes of children with those of their parents.

Finally, she briefly considers suggestions for moving research forward. I draw particular attention again to the importance of better understanding the different causal pathways through which intergenerational disadvantage is transmitted.

Endnote

References

Cobb-Clark, D.A., 2019, ‘Intergenerational transmission of disadvantage in Australia’, Life Course Centre Working Paper Series no. 2019-19, Institute for Social Science Research, University Queensland.

Leigh, A. 2007, ‘Intergenerational mobility in Australia’, *The B.E. Journal of Economic Analysis & Policy*, vol. 7, issue 2, article 6.

[1] The Workshop, titled Intergenerational Paths to Self-sufficiency, was held on 28-29 November 2019, and supported by funding from both The Australian Research Council Centre of Excellence for Children and Families over the Life Course and the Faculty of Arts at the University of Melbourne, as well as the Melbourne Institute.