Parental Wealth and Children's Life Chances: An assessment of the mechanisms underlying intergenerational wealth effects

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Introduction

Research on inequality in opportunities typically revolves around one central question: which characteristics of a family's social and economic status impact the educational and labor market chances of children and how? Typically, socio-economic characteristics of family households are measured as parental education, parental occupation, and family income – the holy trinity of stratification research. One important feature of economic circumstances that is often overlooked or unexamined in these studies is family wealth, or net worth (i.e. the sum of financial and real assets minus debt). Wealth is a dimension of economic well-being that suffers particularly stark inequalities, and thus its neglect is troubling. It is different from income – reflected in a surprisingly low association between the two[1] – and much more and increasingly unequally distributed (Keister and Moller 2000; Wolff 2006). Severe inequalities in familial wealth, such as those observed in the United States, may well create unequal opportunities for children over and above other socioeconomic characteristics of families. Recent research has begun to document the independent effects of parental wealth on children's educational opportunities. This paper extends this research by documenting the role of wealth for the entire status attainment process, i.e., not only educational but also occupational attainment. More importantly, however, this paper goes on to empirically assess the social mechanisms that underlie the association of wealth and opportunities.

Existing literature and the contribution of this paper

While some influential programmatic statements from economists have made the case that wealth differentials could account for a considerable part of the intergenerational association in social status (Mulligan 1997; Bowles and Gintis 2002), empirical work in this field has been rather limited so far (see reviews by Spilerman 2000; Haveman et al. 2004). A group of scholars has focused on the large wealth gaps between blacks and whites as a central source of disadvantage for African American children (Oliver and Shapiro 1997; Shapiro 2004). The first clear empirical statement of the intergenerational effects of parental wealth has been provided by Conley (1999; 2001) who documented strong positive effects of parents' net worth on the probability of high school graduation as well as on post-secondary attainment. In his models, parental wealth appears to be the second most influential background characteristic (after parental education) influencing the educational opportunities of children. Independent and strong effects of parental wealth on educational attainment have recently been confirmed by Morgan and Kim (2006) as well as Haveman and Wilson (2007).

But research on the intergenerational role of wealth has thus far not addressed several questions important to stratification researchers and social policy makers alike. First, we need to answer the question of whether "different forms of wealth have different impacts at different stages?" (Conley 2001: 68).

[1] Keister and Moller (2000) report the correlation between earned income and net worth to be as low as .26 for the U.S.

In my research, I not only assess at which stage of schooling each component of parental wealth appears to be influential but also whether wealth effects extend beyond educational attainment and directly confer additional labor market advantage. More importantly, and the focus of this paper, my research moves beyond the mere description of wealth effects towards their explanation: why is it that wealth produces attainment opportunities? Ultimately, this paper also aims at responding to Morgan and Kim's recent invitation that "it would surely be fruitful to learn whether wealth does indeed have a meaningful causal effect on attainment" (2006: 185).

Theoretical background and hypotheses

Recent qualitative work by Thomas Shaprio serves as a theoretical starting point because it suggests that parental wealth holdings function as "transformative assets that lift [children] beyond their own achievement" (2004: 10). The transformation of monetary well-being into attainment advantages can occur through several mechanisms, two of which will be tested empirically in this paper:

1. *Neighborhood effects.* Home ownership accounts for the biggest share in most families' asset portfolio. The value of a family's home is positively related to the quality of the residential neighborhood and – given the US system of locally-based school financing – its primary and secondary schools. I therefore hypothesize wealth effects, especially on secondary school attainment, to be partly mediated by "neighborhood effects". Of course, "neighborhood effects" are merely a bundle of different social processes (see Ainsworth 2002), but empirically pinning down the importance of neighborhoods and schools would move this field of research much closer towards an understanding of why wealth matters for attainment.

2. *Unobserved heterogeneity.* This paper accounts for the possibility that the observed association between parental wealth and opportunities arises at least in part from unobserved (and potentially unobservable) characteristics of parents which are responsible for their propensity to accumulate assets, on the one hand, and which foster the attainment of their children, on the other hand. Evidence for the causal role of wealth in conferring advantage to children would yield an overdue empirical justification for asset-based policies which have lately sparked much interest (Sherraden 1991; Shapiro and Wolff 2001).

The two mechanisms proposed above are hypothesized to be important though far from exlusive channels through which parental wealth affects children's life chances. For reasons of space, additional explanations are only briefly discussed but not empricially analyzed in this paper. This limitation seems justified considering that neither the question of causality nor that of mediating mechanisms has been addressed in prior quantitative research on wealth stratification.

Data

This paper mainly draws on data from the *National Longitudinal Survey of Youth* (NLSY79) and in addition partly on the *Panel Study of Income Dynamics* (PSID). School-age children of households interviewed in the late 1980s, when extensive wealth measures were introduced for the first time in these surveys, are between ages 28 and 42 in the latest available panel waves and total approximately 1,300 individuals in each dataset. The measures of wealth in these surveys are fairly comprehensive. They provide information separately for each asset type, such as savings and checking accounts, stocks, business holdings, real estate, transportation possessions, home equity, and debts. The surveys also include a broad range of additional socioeconomic background measures widely used in social scientific research. Geocode identifiers allow matching households to characteristics of neighborhoods at the Census Tract level.

This paper pays more attention than prior research to important data quality issues, such as non-response and measurement error, which loom large in survey reports of family wealth. Non-response to asset questions is relatively high and its potential bias is meant to be countered by multiple imputation. The issue of measurement error is addressed by using wealth measures from two points in time. Finally, the use of two independent data sources is meant to yield further confidence in the stability of findings.

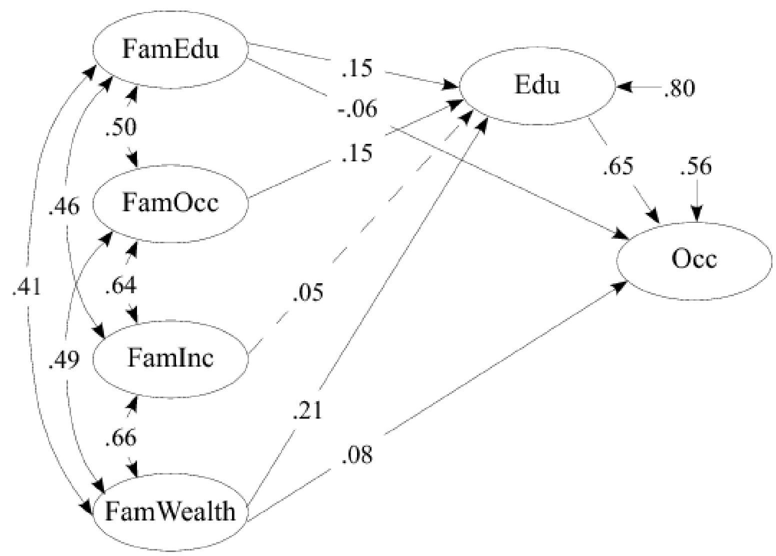
Methods

The *description of intergenerational wealth effects* proceeds in three steps. First, an overall description of the role of wealth in intergenerational status transmission is illustrated in a classical sociological status attainment framework (Blau and Duncan 1967). In other words, structural equation models estimate the direct and indirect effects of parental wealth – alongside the classical social background measures – on educational and occupational attainment. The results of this analysis for the NLSY are reported as a path model in figure 1.

Next, the intergenerational effects of wealth on educational attainment are investigated in more detail by drawing on transition models of educational attainment (Mare 1981). By using a recent extension of these models which allows proportionality constraints on background effects (Hauser and Andrew 2006), I assess whether the relative importance of wealth in comparison to other background characteristics remains the same across educational transitions or whether parental wealth becomes more important as children move up on the educational ladder.[2] Finally, occupational attainment is modeled in a multinomial logistic framework with white-collar, blue-collar, and self-employment as dependent variables. The educational and occupational attainment models not only include a rich set of control variables but also allow the decomposition of the net wealth variable (into home equity, financial assets, debts).

[2] The latter finding would constitute an interesting empirical exception to the usual pattern of declining background effects across transitions (Blossfeld and Shavit (1993)).

Figure 1: Status attainment model with parental wealth



Source: National Longitudinal Study of Youth (NLSY79); author's analysis (N=2,148)
Notes: Directed arrows are standardized regression coefficients, curved arrows are correlations. Dashed lines are nonsignificant at $p<.05$. Each variable is measured at two time-points (i.e., 1988 and 1989 for background measures, and 2004 and 2005 for attainment measures); the 'measurement part' of the model is not displayed here in order to limit focus on the substantive part of the model.

For the assessment of the proposed *causal mechanisms underlying these intergenerational associations* I first apply a counterfactual framework, drawing on propensity score matching methods and their generalized form for continuous treatments (Rosenbaum and Rubin 1983; Hirano and Imbens 2004). Since propensity score methods only adjust for observable differences between groups, the focus of this part of the analysis lies on subsequent stability tests, so-called Rosenbaum bound estimates (DiPrete and Gangl 2004) which allow a first assessment of the potential impact of unobserved parental characteristics. Next, a lagged wealth measure is introduced as a proxy for these potentially unobserved factors. The basic argument is that parental wealth measured after the educational and early occupational attainment of children cannot affect attainment in and of itself. If such lagged measure does exert effects, it should operate as a proxy measure for the unobserved characteristics of parents.[3] Both the lagged measure and the propensity score are entered alongside the wealth variable in the regression models discussed above. Second, in order to begin to uncover the social mechanisms underlying the potentially causal relationship between wealth and opportunities, I introduce controls for neighborhood characteristics (such as unemployment rate, average income, etc.). Here, the focus of the interpretation lies on the degree of mediation of the observed wealth effects.

[3]The same strategy has been applied by Mayer (1997: 80ff) to assess the causal effects of parental income on children.

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