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Why do wealthy parents have wealthy children?



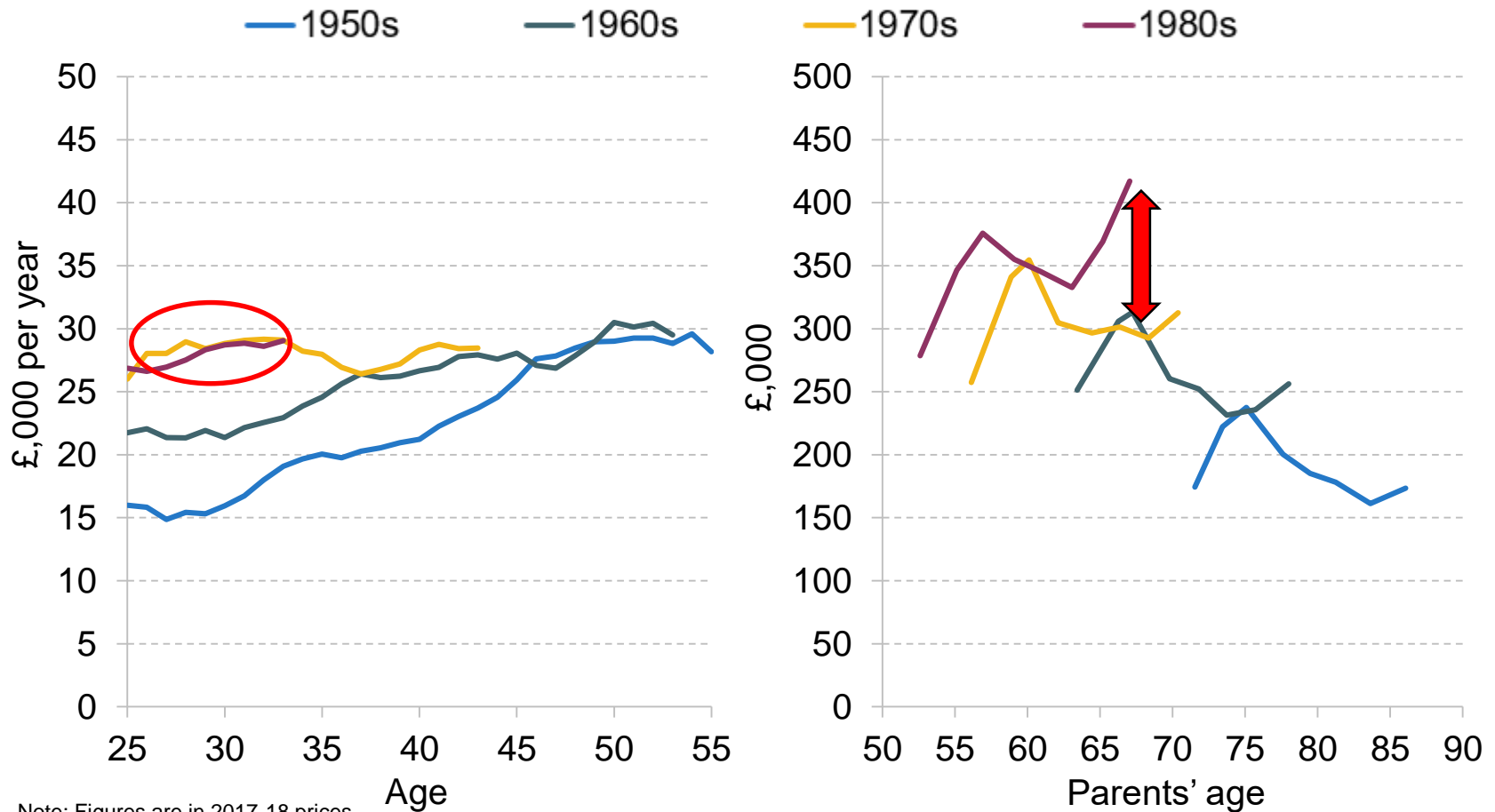
Economic
and Social
Research Council

Context and motivation

- Are the children of poor parents destined to be poor? Why do rich parents tend to have rich children?
 - These are questions about *intergenerational mobility* or *social mobility*
 - Social mobility has typically focused on education and earnings
- Wealth has doubled compared to incomes since the 1980s in the UK
 - Low earnings growth for those of working-age
 - Fast growth of wealth for older age-groups

Younger generations' incomes are stagnating while their parents' wealth grows

Median equivalised household income (left) and median wealth of parents (right)



Note: Figures are in 2017-18 prices.

Source: Figure 1.1 of Bourquin et al. (2021)

Why do wealthy parents have wealthy children?

- Are the children of poor parents destined to be poor? Why do rich parents tend to have rich children?
 - These are questions about *intergenerational mobility* or *social mobility*
 - Social mobility has typically focused on education and earnings
- Wealth has doubled compared to incomes since the 1980s in the UK
 - Low earnings growth for those of working-age
 - Fast growth of wealth for older age-groups
- We should look at wealth when thinking about social mobility because:
 - It captures intergenerational financial transfers, returns to wealth
 - Other benefits of wealth, including sense of security
 - Wealth might enable parents to give advantages to their children

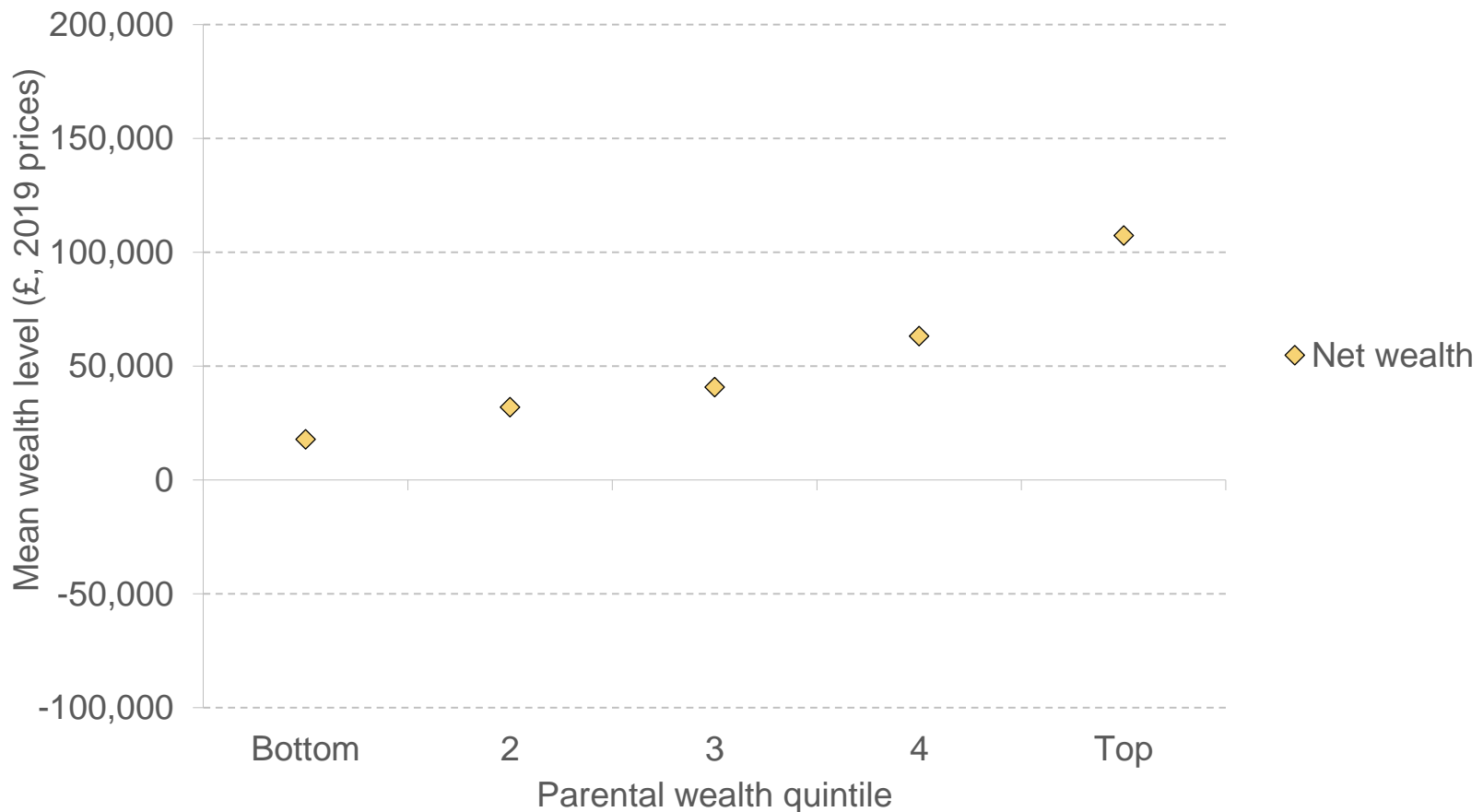
Our focus



1. How much does your wealth depend on how wealthy your parents are?
 - We examine those born in the 1970s and 1980s when they were in their 30s

2. What channels are associated with intergenerational wealth persistence?
 - We look at earnings, saving, returns to wealth and partners

Those with parents in wealthiest fifth are six times wealthier than those with parents in the poorest fifth



Source: Figure 3.2 of Davenport et al. (2021)

Why do wealthy parents have wealthy children?

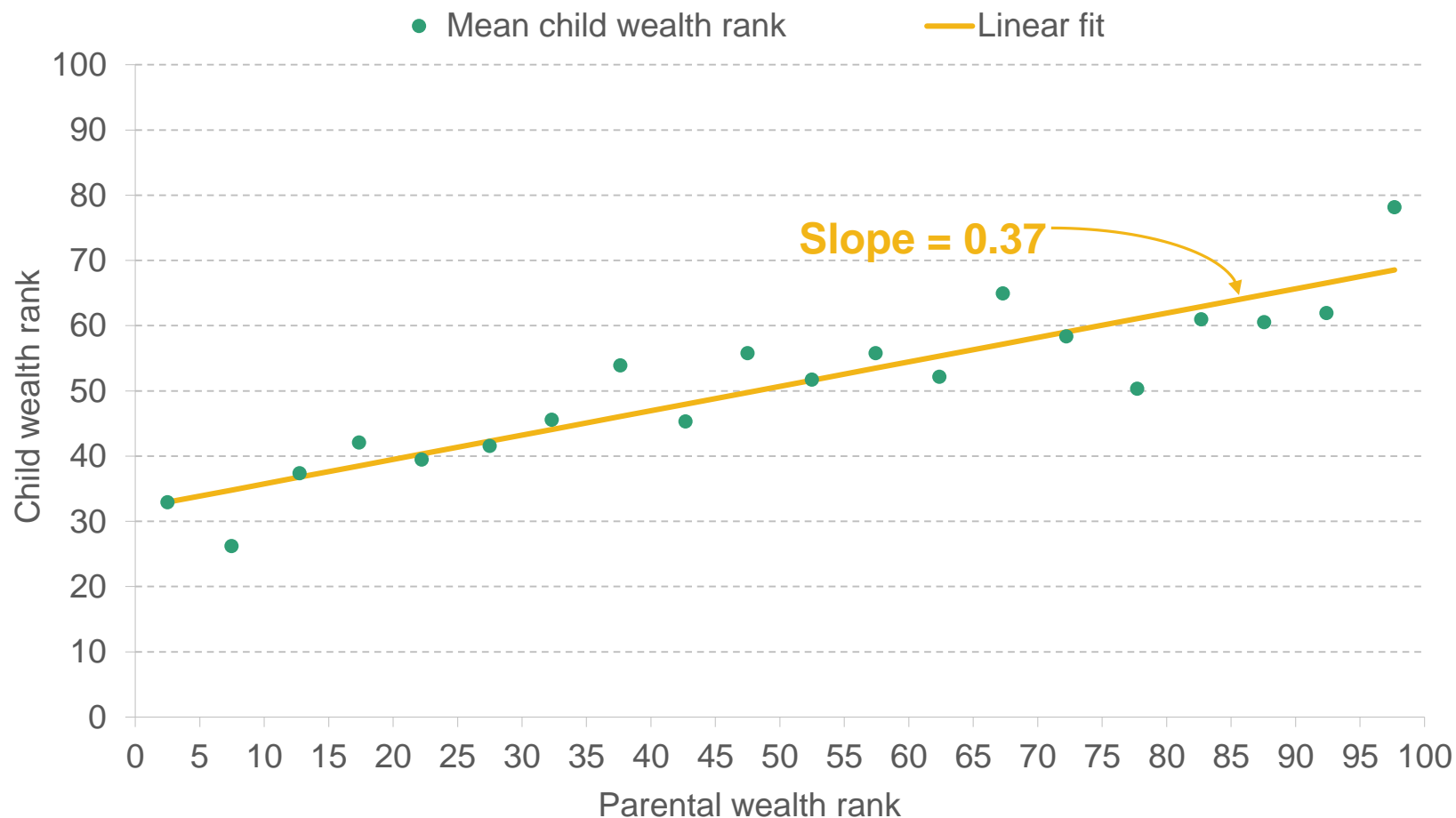
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Source: Figure 3.2 of Davenport et al. (2021)

Wealth rank increases steadily with parents' wealth rank



Source: Figure 3.3 of Davenport et al. (2021)

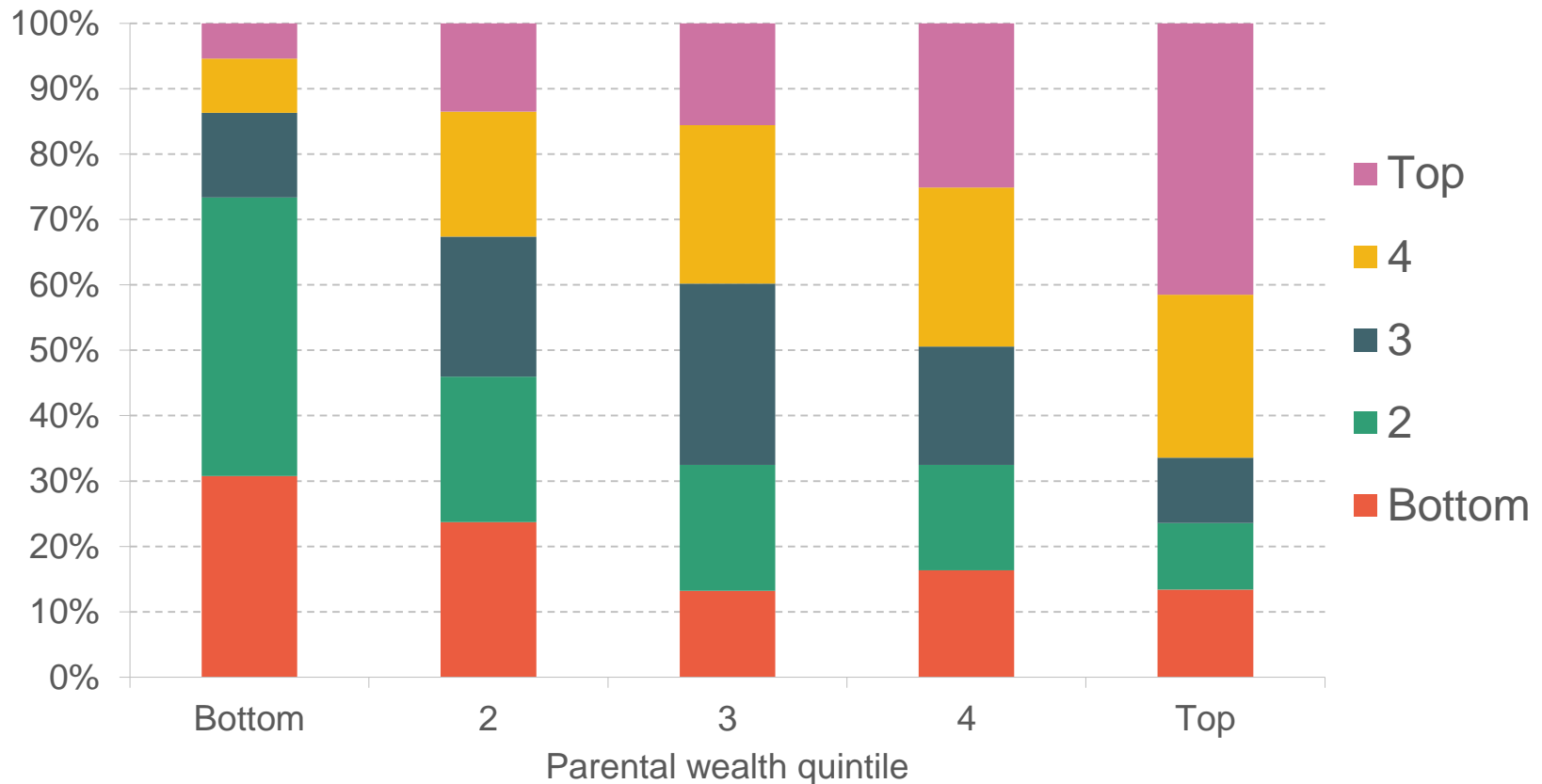
Why do wealthy parents have wealthy children?

Measuring intergenerational wealth mobility in the UK

1. 10% higher parents' wealth is associated with ~4% more child wealth
 2. Parents 1 percentile higher up in the wealth distribution of their generation have children on average 0.37 ranks higher up in theirs
- On these measures, the UK has similar wealth mobility to the USA
 - Wealth persistence is higher (mobility is lower) than in Scandinavia

Having wealthy parents is particularly important for getting to the top

Proportion of children in each wealth quintile, by parental wealth quintile



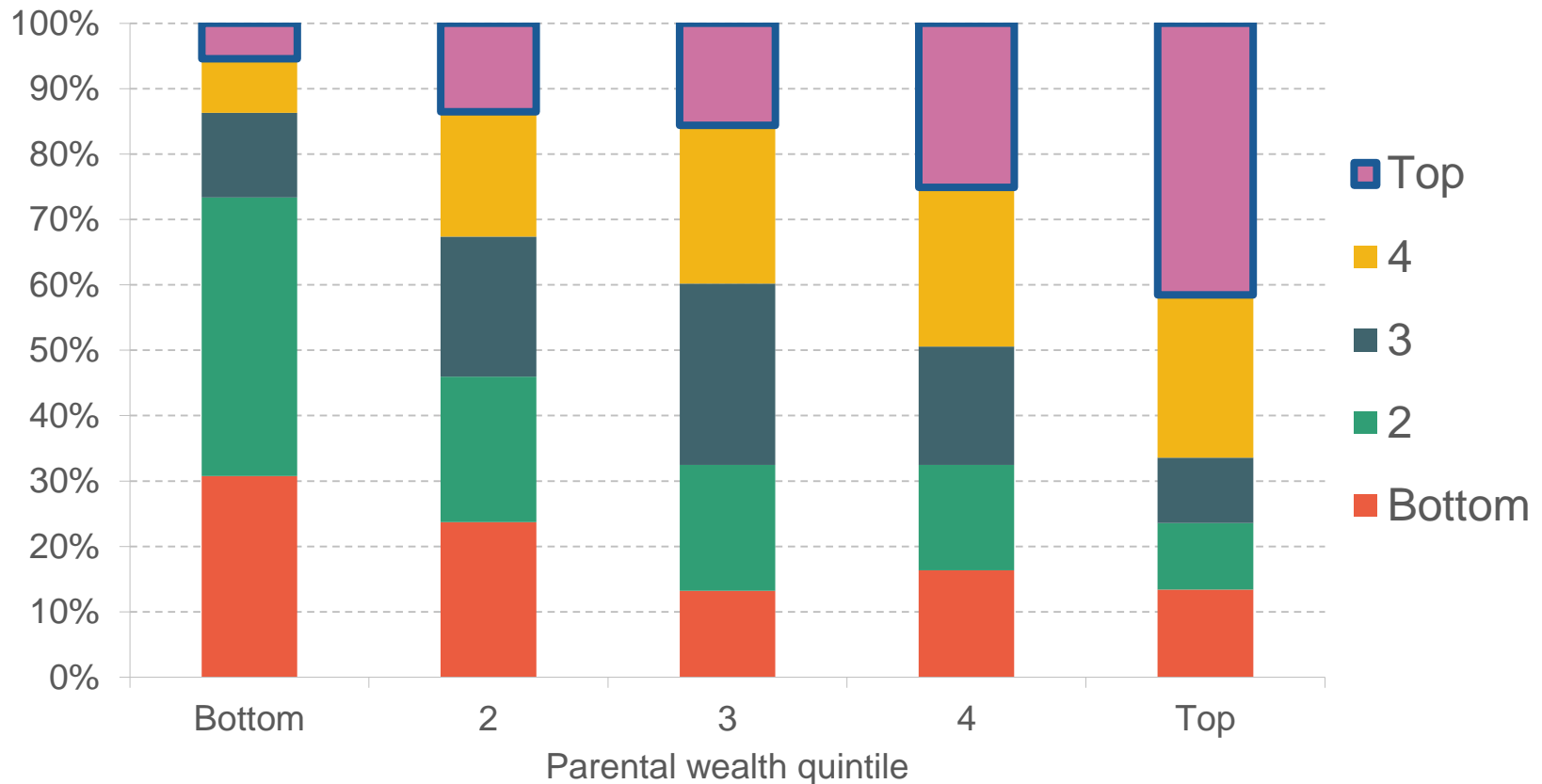
Source: Figure 3.4 of Davenport et al. (2021)

Why do wealthy parents have wealthy children?

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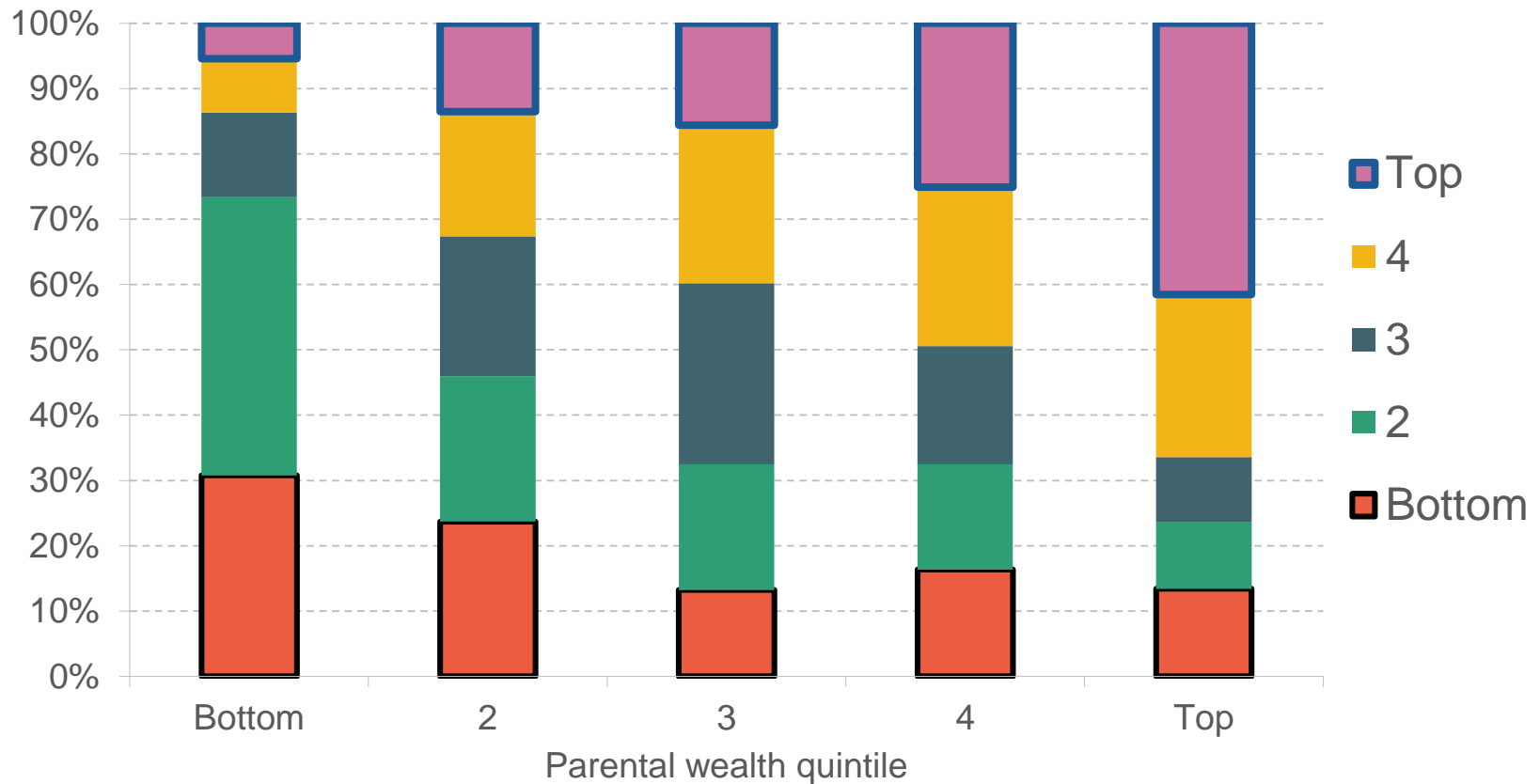
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Source: Figure 3.4 of Davenport et al. (2021)

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 - Persistence of wealth across generations is high internationally
 - Wealthy parents are particularly important for getting to the top of the wealth distribution

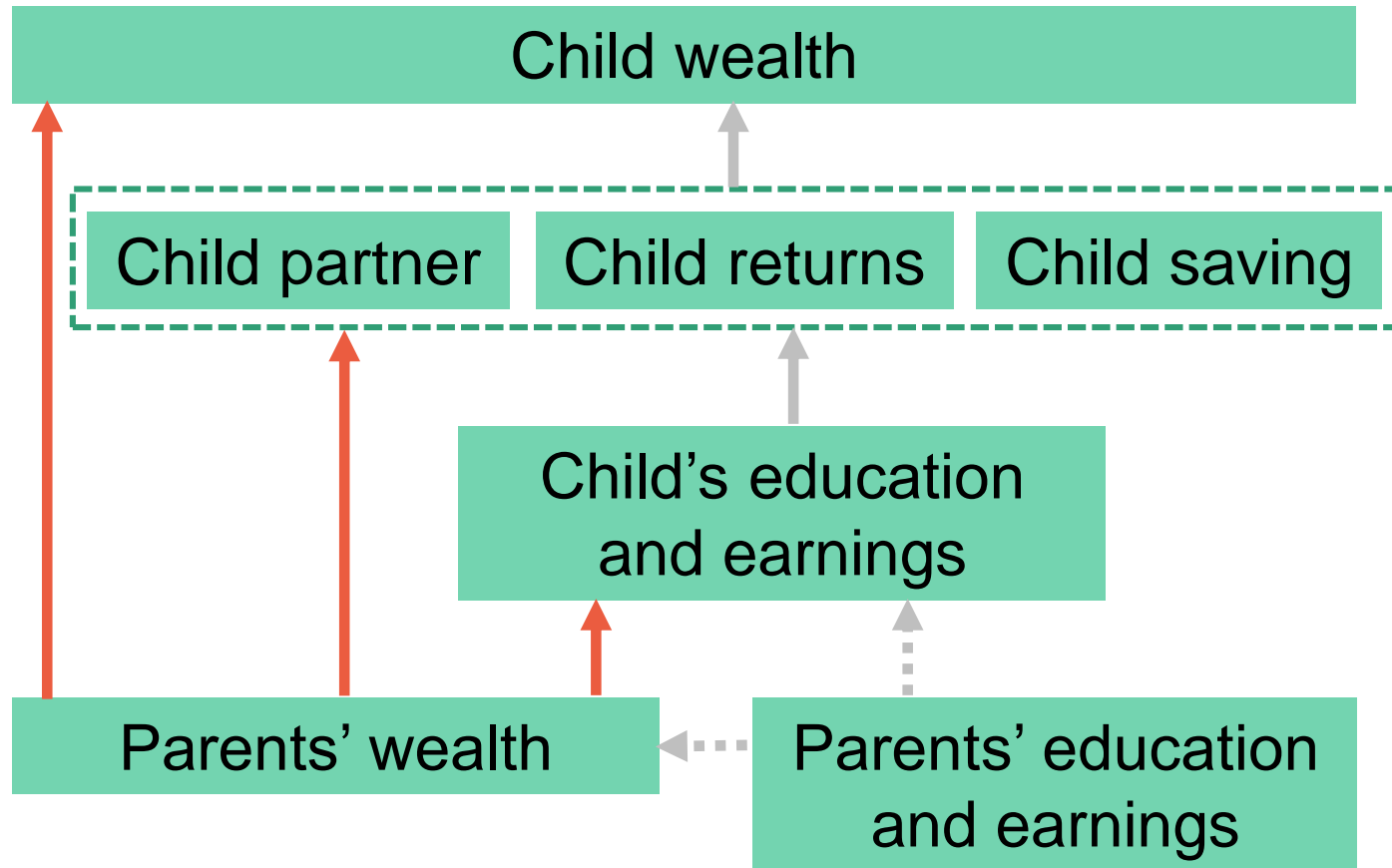
2. What channels are associated with intergenerational wealth persistence?

Our focus

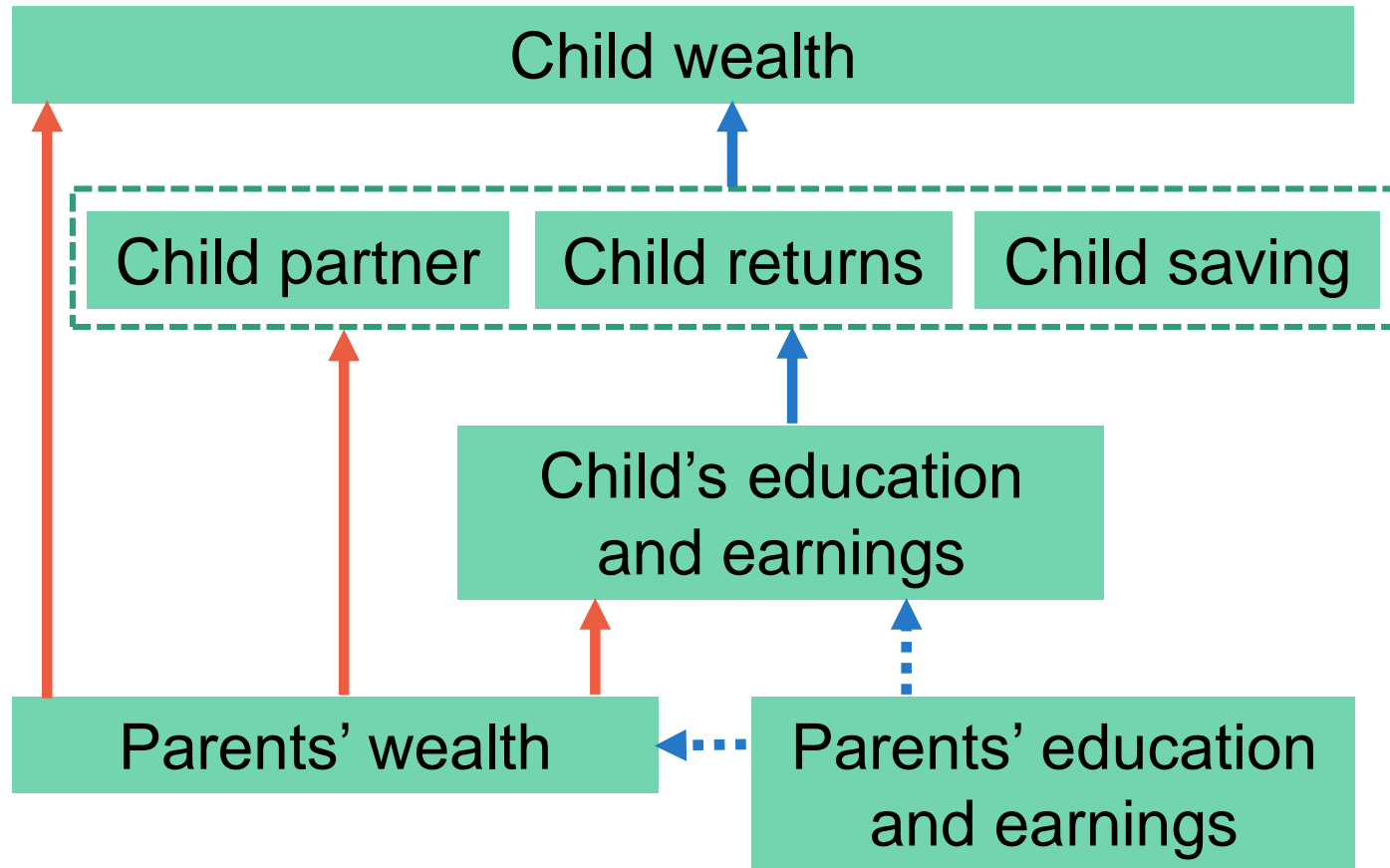
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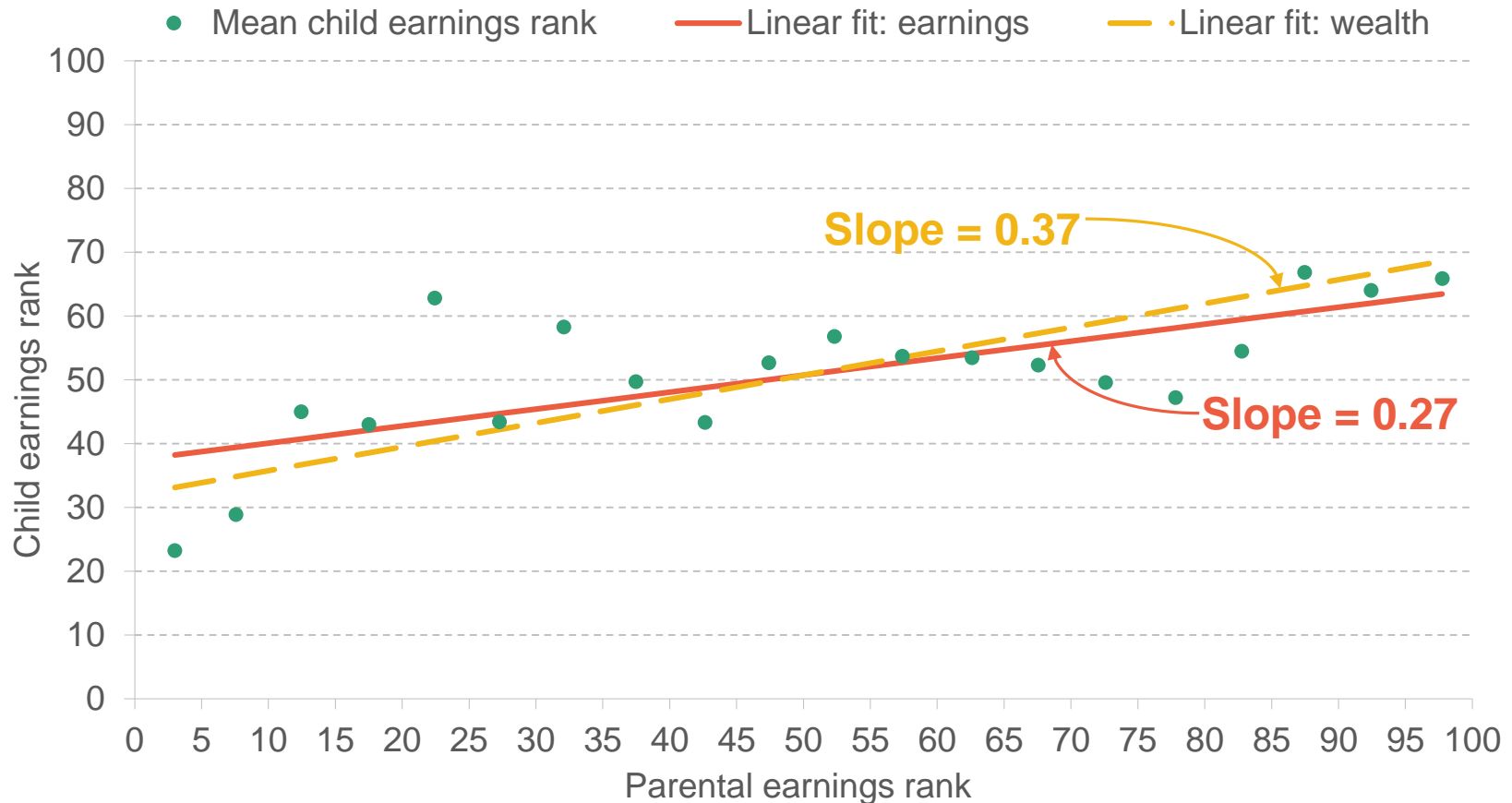
What channels drive intergenerational wealth persistence?



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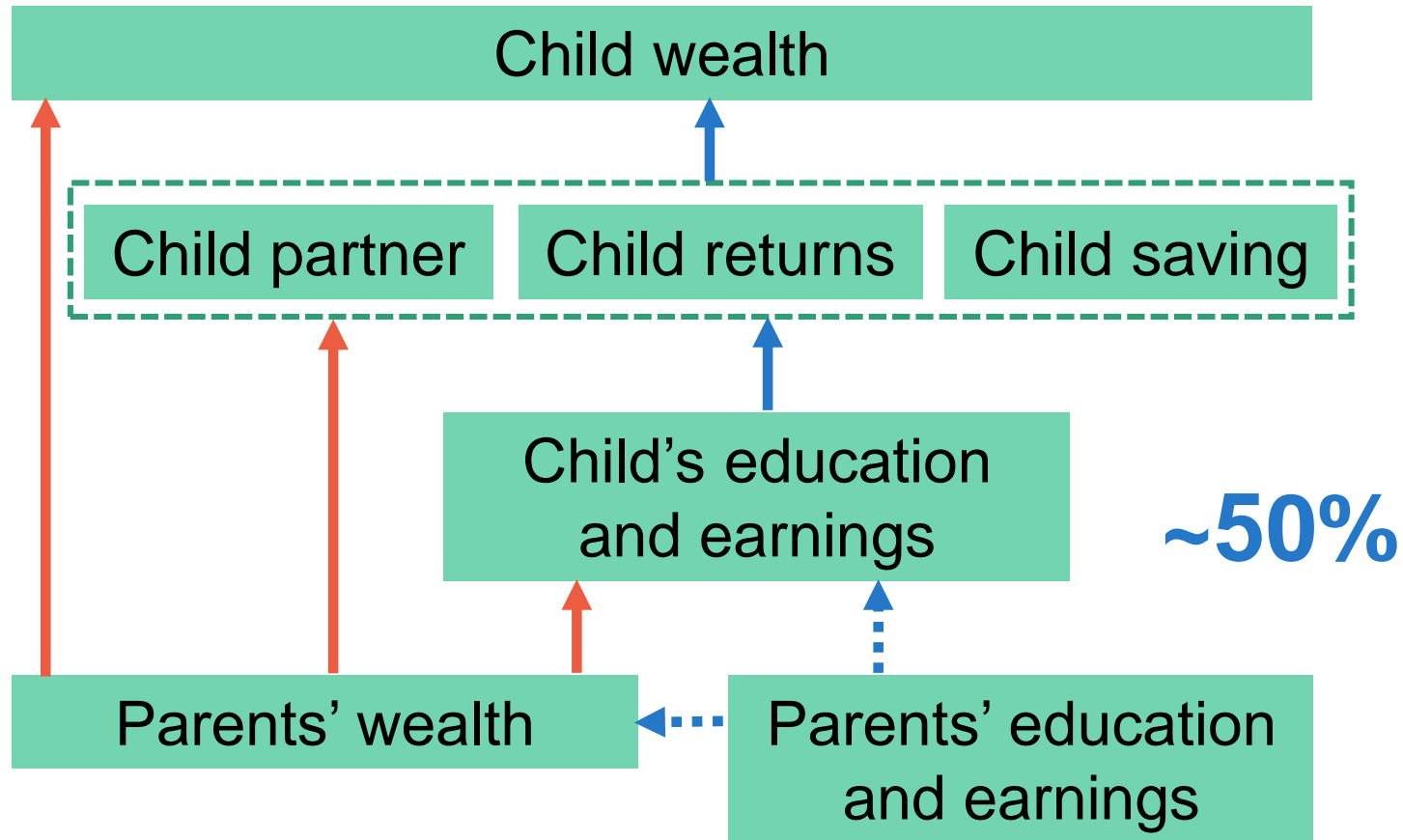


Intergenerational wealth mobility is lower than intergenerational earnings mobility



Source: Figure 4.1 of Davenport et al. (2021)

What channels drive intergenerational wealth persistence?



Those with wealthier parents earn more and have higher education

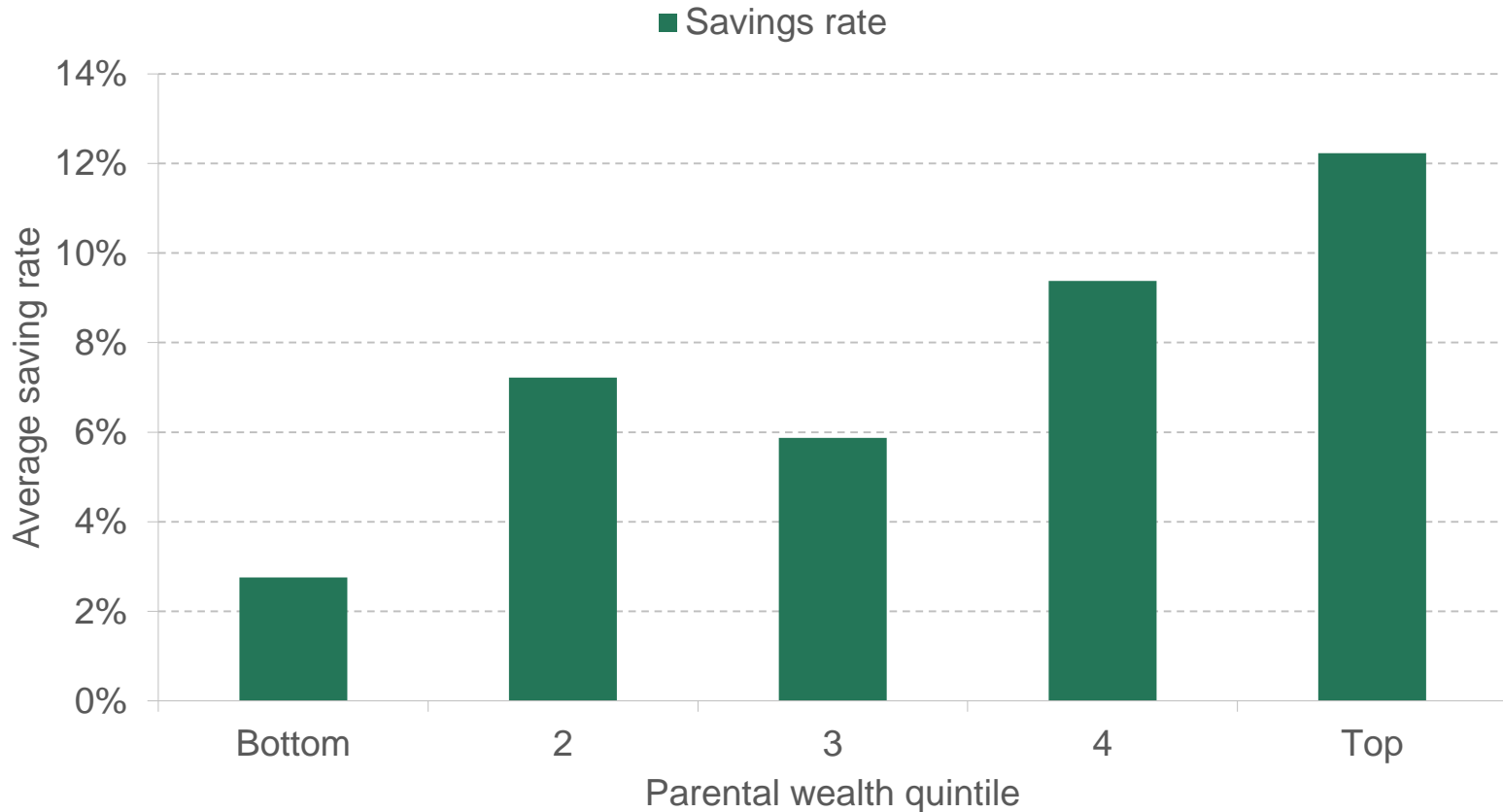
Average long-run child earnings, by parental wealth quintile



Source: Figure 5.1 of Davenport et al. (2021)

Why do wealthy parents have wealthy children?

Those with wealthier parents save more, for a given level of earnings



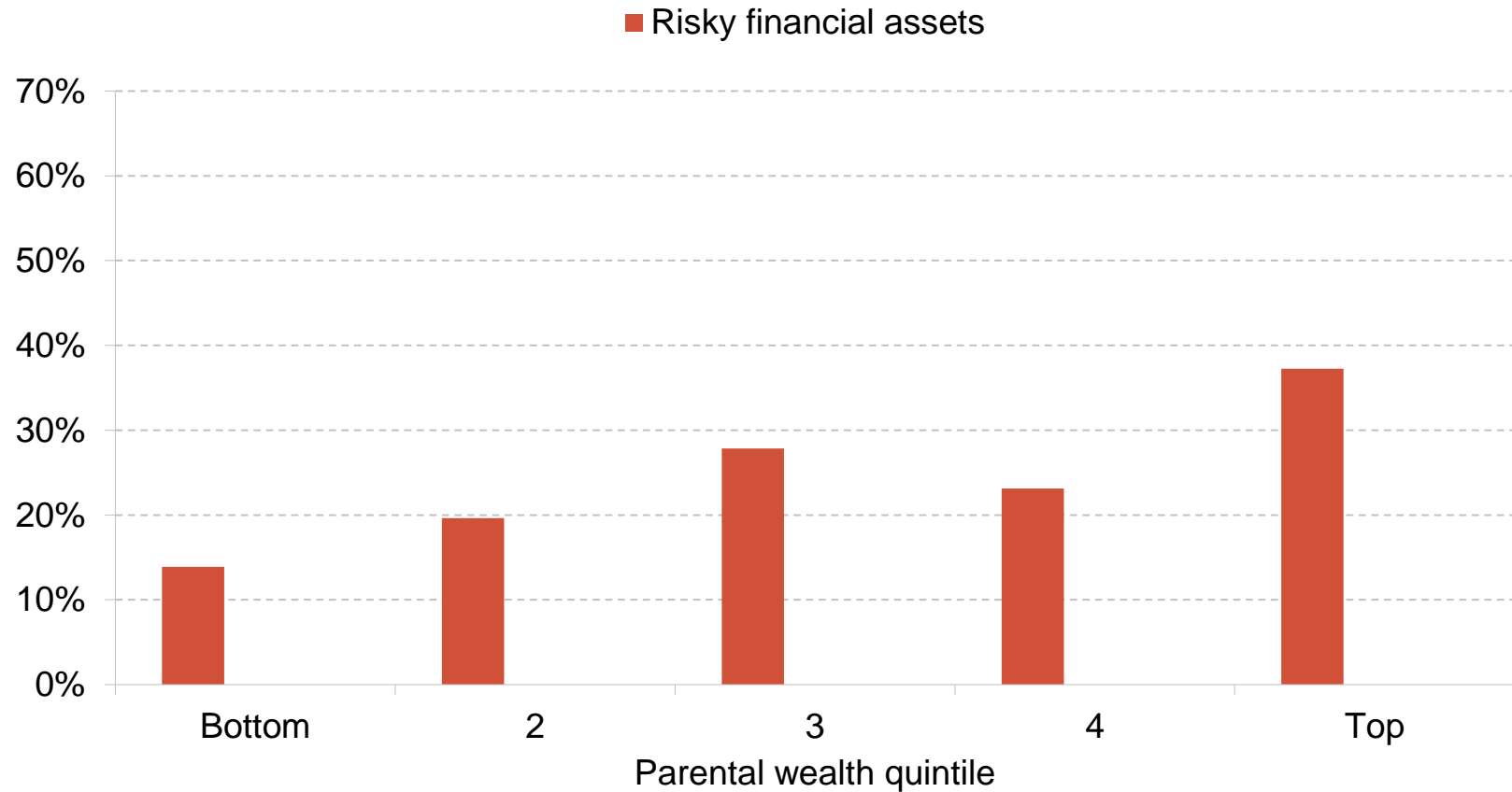
Source: Figure 6.1 of Davenport et al. (2021)

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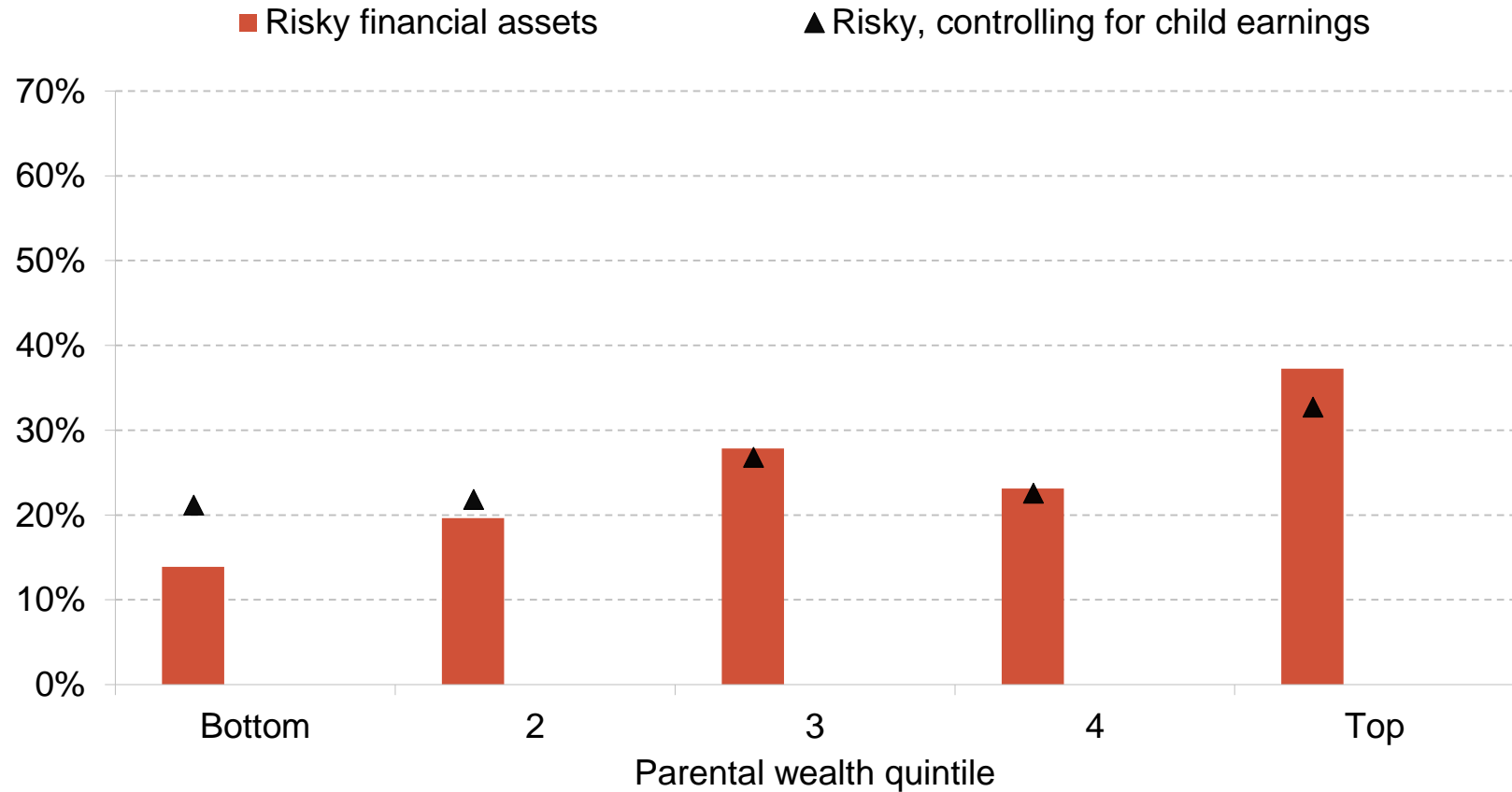
Source: Figure 6.1 of Davenport et al. (2021)

Those with wealthier parents are more likely to hold risky financial assets



Source: Figure 7.1 of Davenport et al. (2021)

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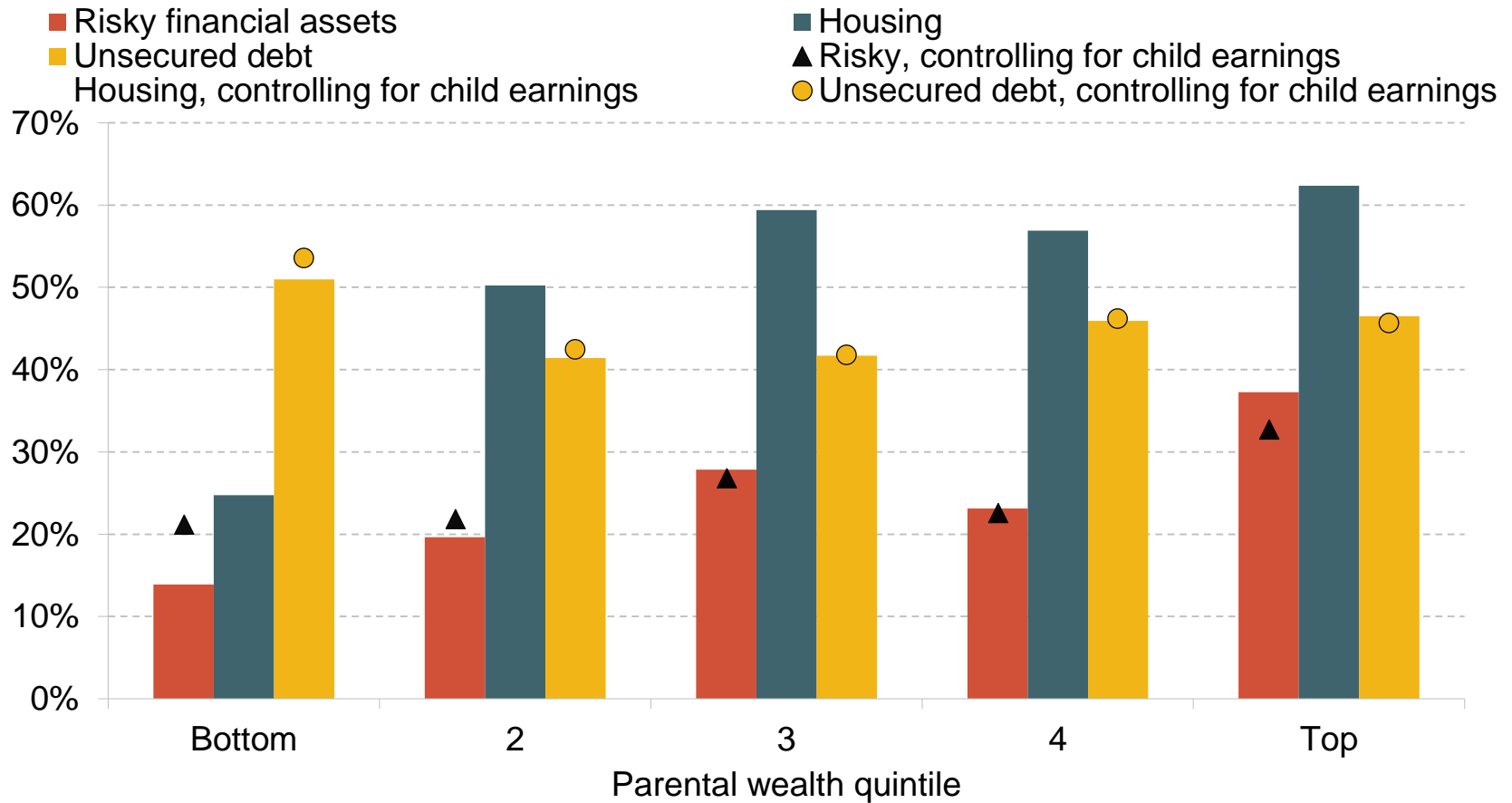


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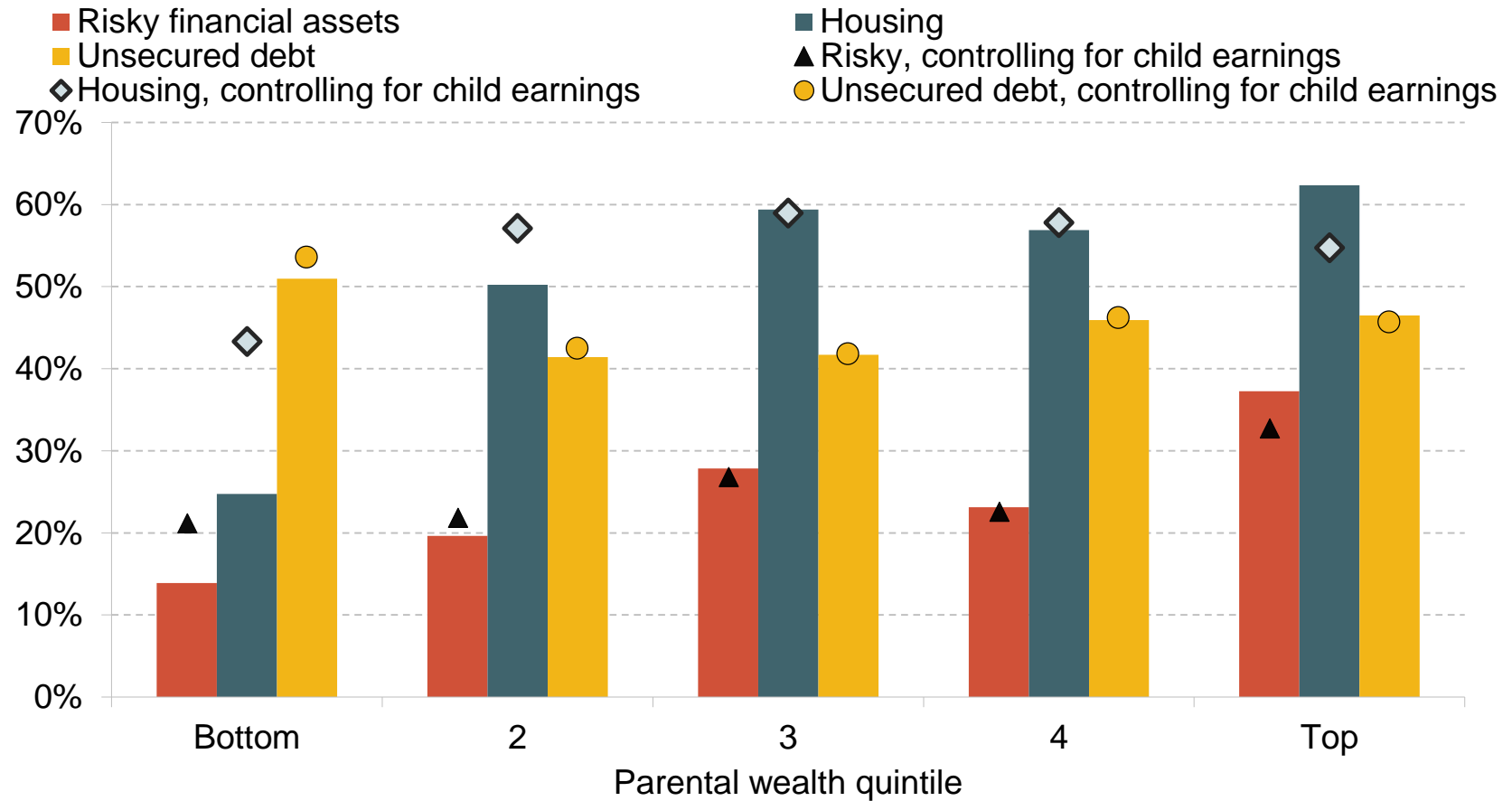
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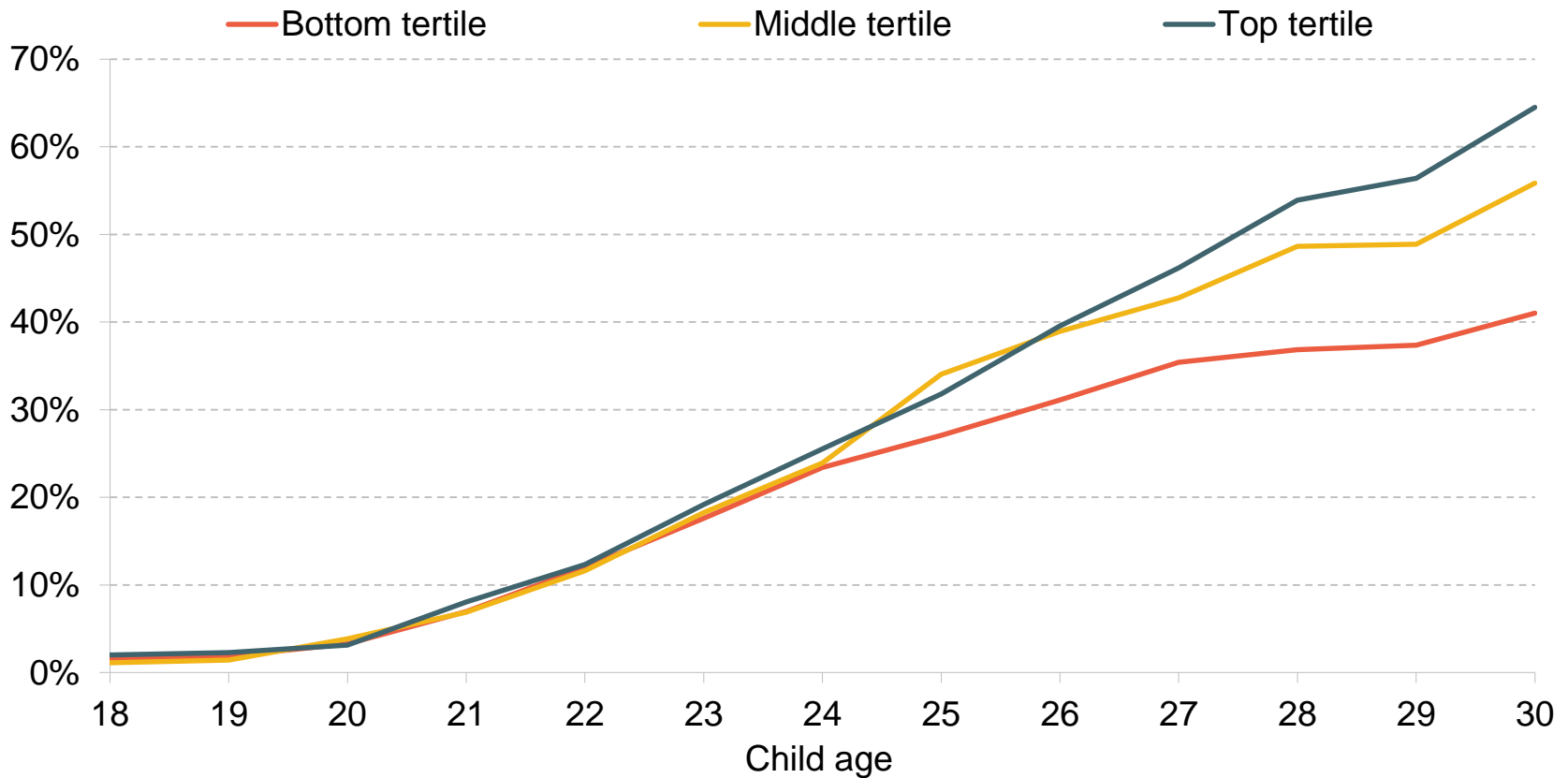
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Source: Figure 7.1 of Davenport et al. (2021)

Those with wealthier parents get on the housing ladder earlier

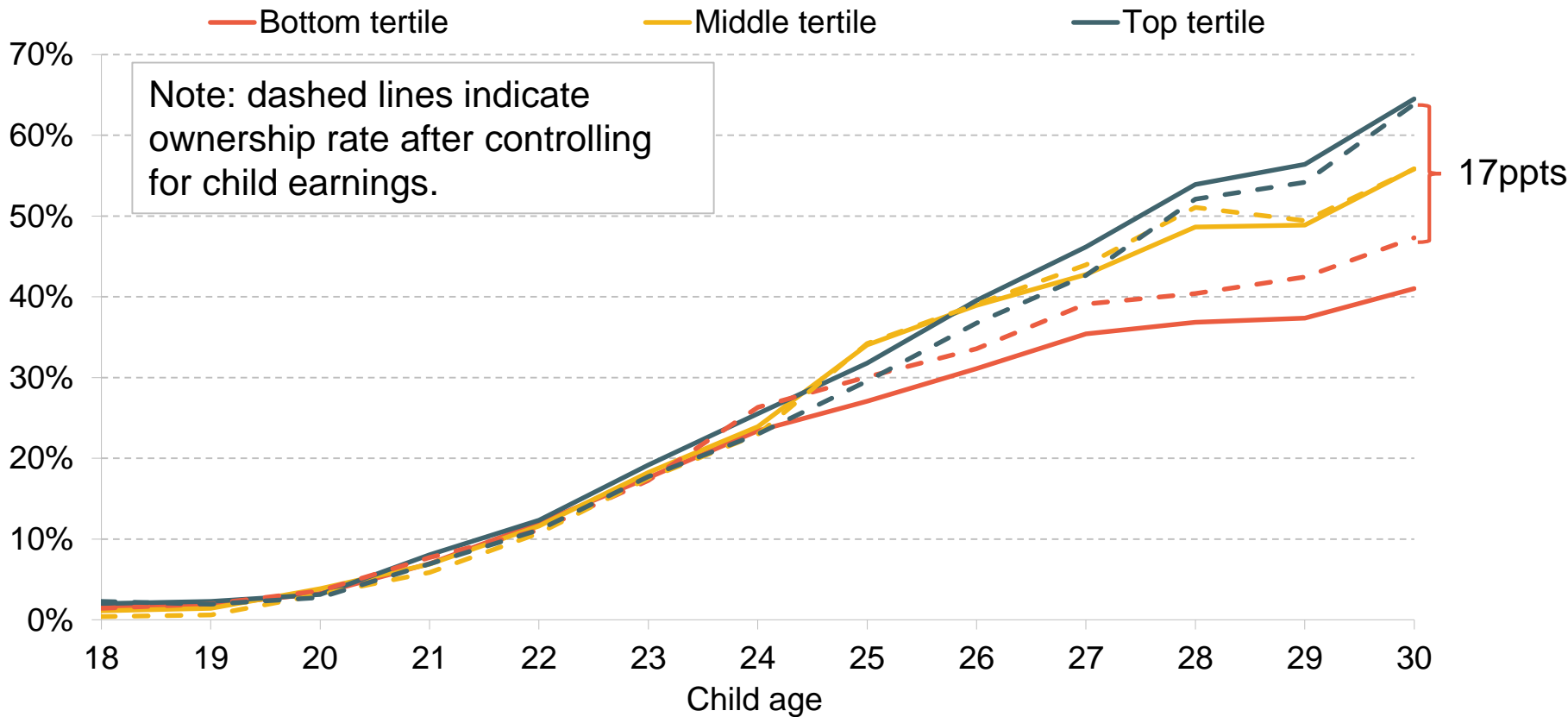
Homeownership rate by age and parental wealth tertile



Source: Figure 7.2 of Davenport et al. (2021)

Those with wealthier parents get on the housing ladder earlier

Homeownership rate by age and parental wealth tertile

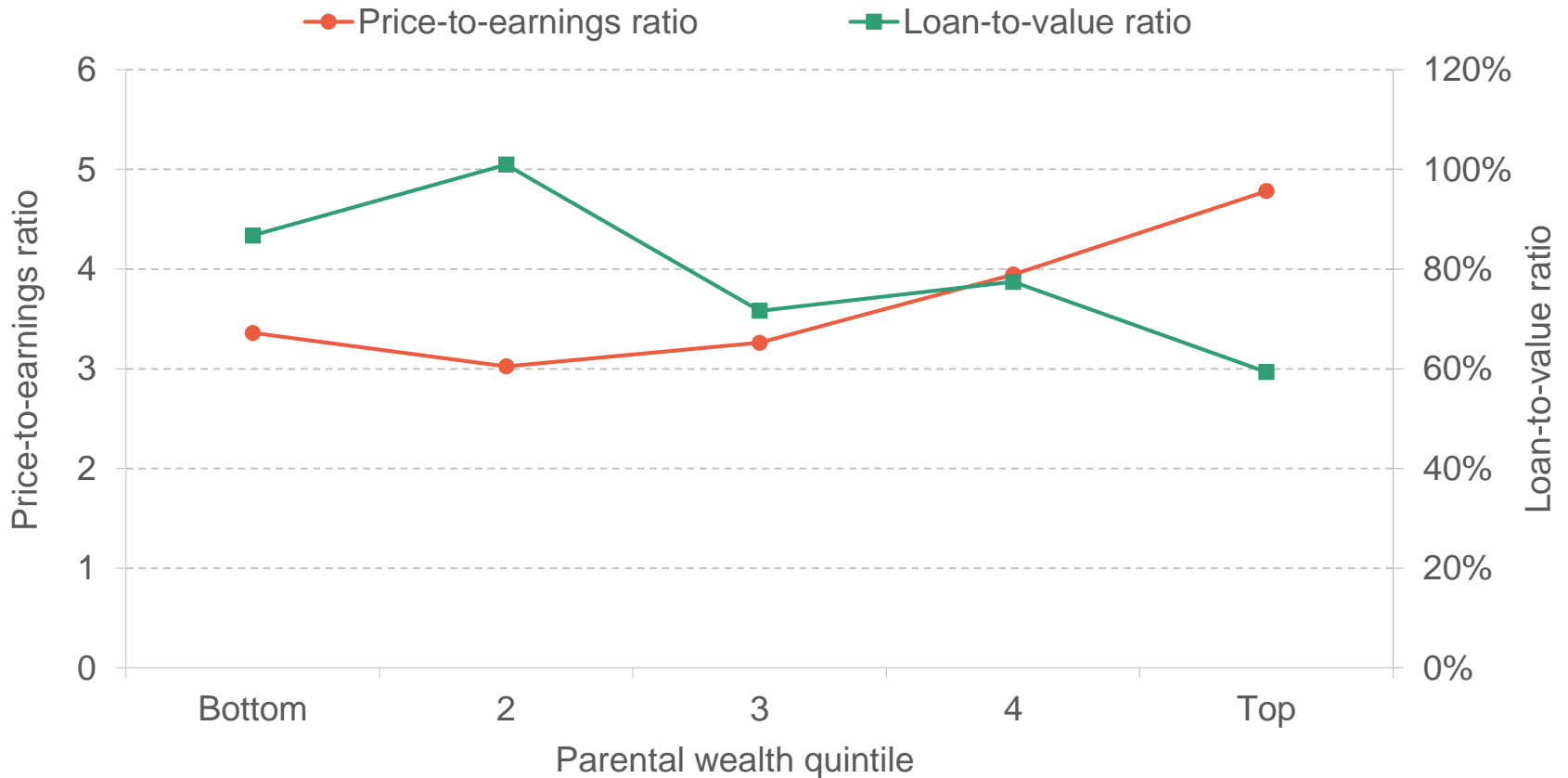


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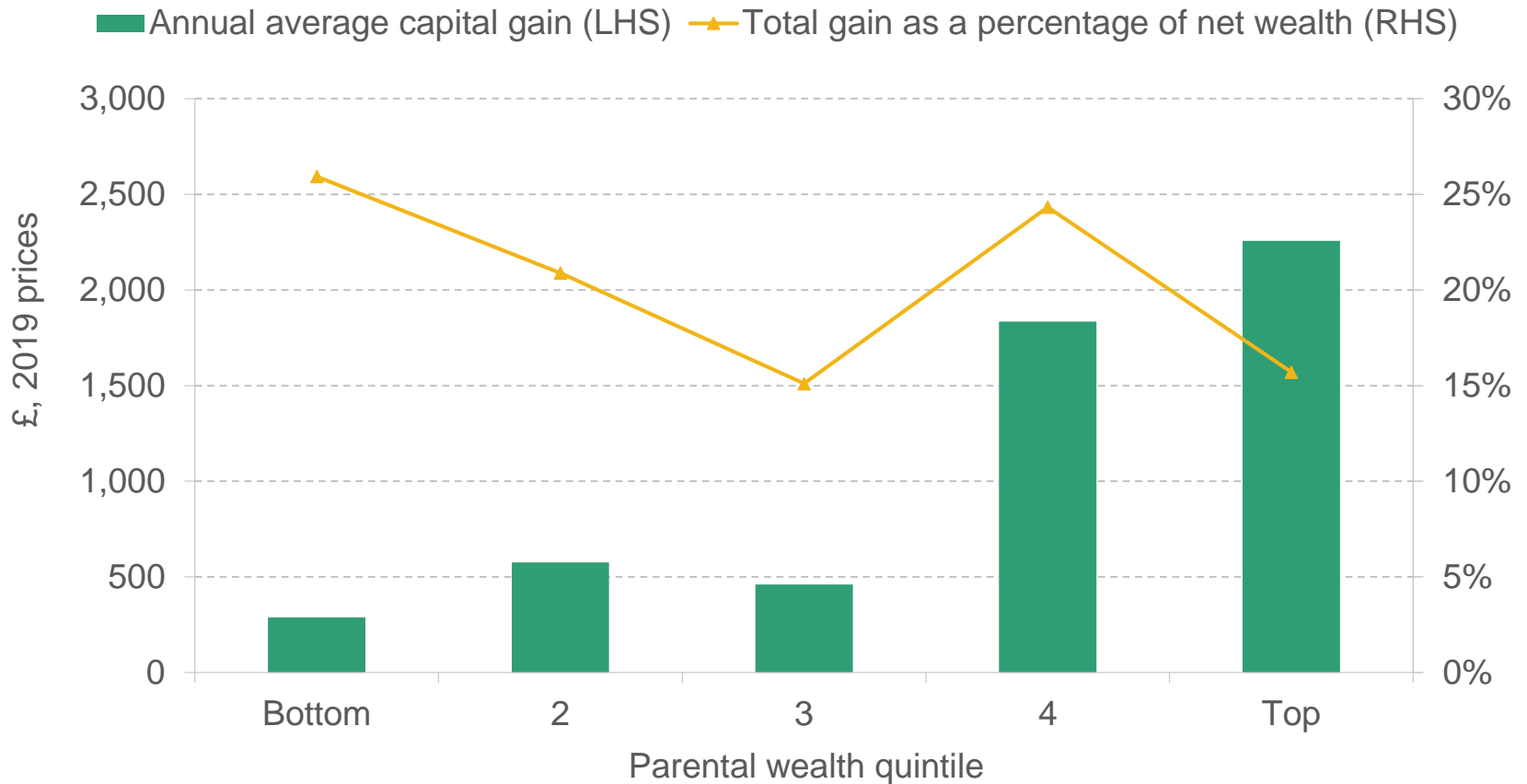
Those with wealthier parents buy more expensive houses with larger deposits

Price to earnings ratio and loan-to-value ratio and time of purchase



Source: Figure 7.3 of Davenport et al. (2021)

But housing capital gains don't drive wealth persistence

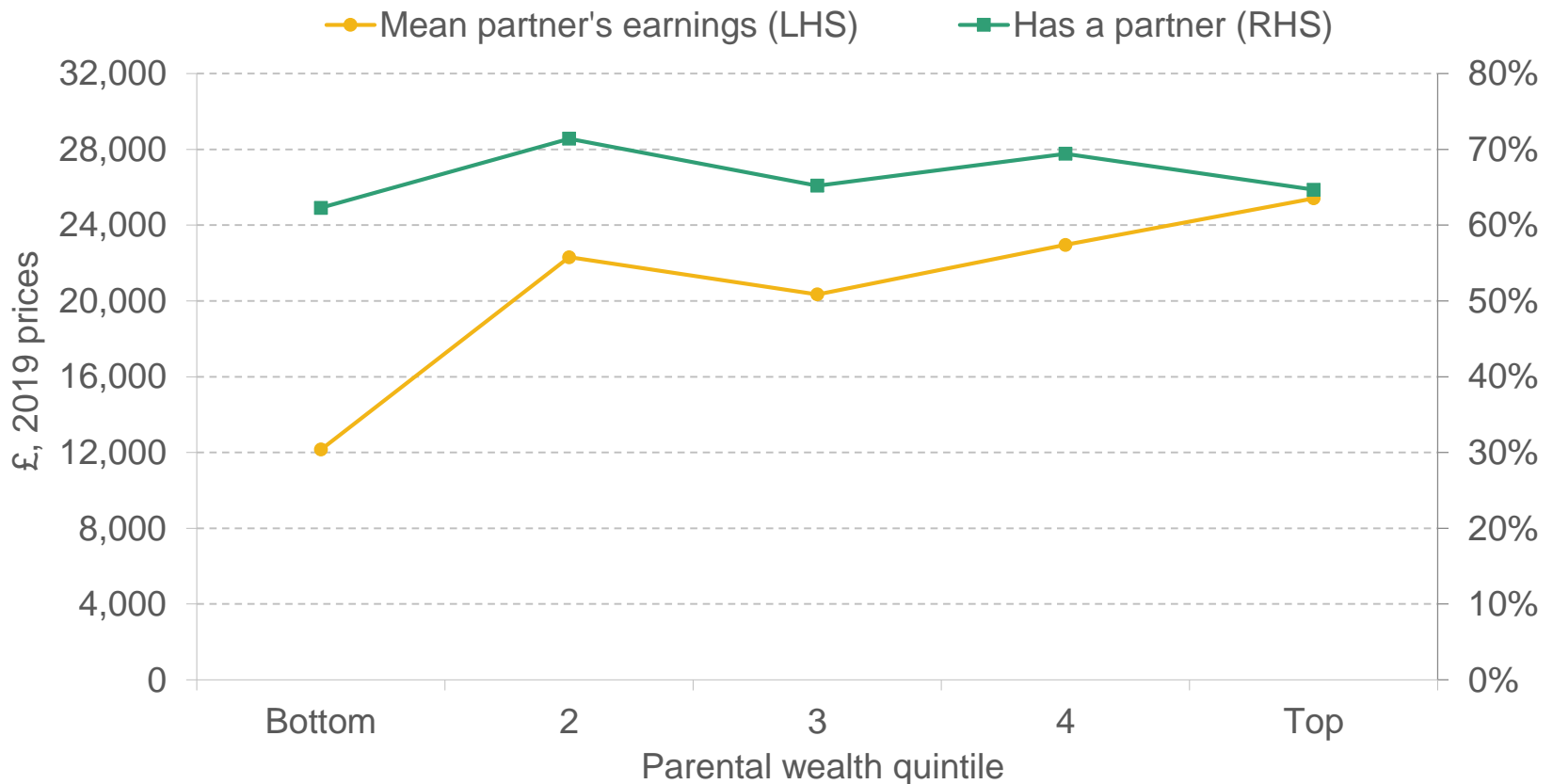


Source: Figure 7.3 of Davenport et al. (2021)

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Those with wealthier parents have higher earning partners, but this is accounted for by the child's earnings



Source: Figure 8.1 of Davenport et al. (2021)

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Conclusions

- Intergenerational persistence in wealth is higher than for earnings and high compared to other countries
- Around half of the intergenerational persistence in wealth is not accounted for by the persistence of earnings and education
- Why is wealth more persistent across generations than earnings?
 - Parental wealth is associated with children's earnings, beyond that accounted for by the parents' education and earnings
 - Children of wealthier parents save more, for given earnings level
 - Direct transfers of wealth likely have a role, consistent with children of wealthier parents getting on housing ladder sooner with more expensive houses and smaller mortgages
 - Greater holding of risky assets can play only a modest role

Conclusions

- Policies that improve educational progression and labour market outcomes for those with low-education and low-income parents would likely increase intergenerational wealth mobility
- However, they would not equalise wealth outcomes between those with wealthier and poorer parents
- A significant amount of the inequalities in wealth by parental background appear to be due to other channels through which parents transmit advantages to their children

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