General Introduction and Motivation

“The past tends to devour the future.”

Thomas Piketty

With his book “Capital in the Twenty-First Century”, Thomas Piketty doubtlessly caught the spirit of the age. He addresses the dynamics which drive the accumulation and distribution of capital, using a collection of data over twenty countries which ranges as far back as the eighteenth century. His main finding is striking: a small group of people becomes richer and richer, while most of the remainder stay poor. Transmitting their own wealth to the offspring, a few family dynasties control a large part economic resources. Hence, family background and thus birth rather than individual performance determines social status and economic success. Most likely income level is strongly persistent across generations. Thus, like Piketty (2014) states: “The past tends to devour the future.” With a strong parent-child connection, it is hard to imagine that there is equality of opportunity. Assuming high levels of income inequality within society, the poor are stigmatized. In this case, intergenerational income mobility is important because there is much to gain when climbing up the income ladder. Shedding light on intergenerational income mobility both theoretically and empirically is the main subject of this thesis. In contrast to Piketty (2014), the focus is particularly in labor income.

Analyzing the economic parent-child connection, intergenerational income mobility describes the likelihood of social advancement and descent across generations. Hereinafter, intergenerational income mobility is also referred to as income mobility or simply mobility. With regard to social flexibility, high income mobility across generations is desirable in many respects. This preserves social harmony: in mobile societies everyone can make it from rags to riches because of skills, abilities, and individual performance. This implies that family background is not that important, therefore these societies tend to offer quite equal opportunities. In these societies income is also regarded to be fairly distributed. In addition, mobility affects the efficacy and efficiency in society by

1Quoted in Piketty (2014, page 378).
setting additional incentives to work and enabling the members in society to apply their skills and talents in an advantageously way for society. Thus, such a society taps its full economic potential.

Over the last decades, the gap between rich and poor has anew been widening in most industrialized countries. Thus, calls for social justice are growing ever louder. Policy measures that reduce economic inequality within society may additionally offer more equal opportunities. One example of such measures is public education. Reviewing redistributive policy measures, equality of opportunity serves as a criterion of how issues of social justice are resolved. However, in addition to equality of opportunity, the prevalent intergenerational income mobility is important to evaluate a society’s income distribution and its changes across time and generations. With regard to the increasing income inequality in the last decades, there is a strand of literature stating that this is accompanied by a decline in intergenerational income mobility. The central issue of this thesis is whether redistributive policy measures that may offer more equal opportunities are also successful in enhancing intergenerational income mobility.

Part I of this thesis deals with education and its influence on intergenerational income (im)mobility. In the form of intergenerational transfer payment, public education reduces economic inequality that exists across generations ex ante. At first, it is theoretically analyzed whether education policies tending to promote greater equality of opportunity also enhance intergenerational income mobility. In addition to the direct effect of public education on the degree of intergenerational mobility, there is an indirect effect, as it impacts parents’ decision of how much to invest in a child’s human capital. Here, parents face the trade-off between their own consumption and higher future income levels of their child by investing in the child’s human capital. Whether public education is successful to enhance intergenerational mobility decisively depends on how the parent’s react to these policy measures. For example, if public education lowers the parent-child connection by crowding-out private human

---

2 For this, see for example Atkinson and Piketty (2007) and Atkinson, Piketty, and Saez (2011).
3 In this context equality of opportunity means equal life chances for all citizens concerning schooling, occupation, and other areas of personal advancement, as stated by Weizsäcker (1999).
4 For this, see for example Solon (2004).