INTERGENERATIONAL TRANSFERS AND THE
CONCENTRATION OF WEALTH WITHIN FAMILY LINEAGES

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Short Abstract

We study the role of intergenerational money transfers in the reproduction of wealth using sibling and cousin data from the PSID and its new Rosters and Transfers module. Specifically, we answer whether intergenerational transfers have equalizing or stratifying effects on the distribution of wealth within family lineages, not just one but potentially two generations down. We examine whether siblings’ wealth positions are more similar when their parents make wealth transfers, suggesting that parental wealth has a compensating or equalizing effect on offspring outcomes, or whether instead parental transfers act to further stratify siblings’ outcomes, as parents make choices about which children will receive transfers. The analysis of cousin correlations in wealth will then reveal whether these equalizing/stratifying effects are still observable in the third generation. If so, intergenerational transfers may serve to pass on advantage across multiple generations and thereby contribute to long-term rigidities in the wealth structure.
BACKGROUND AND SCIENTIFIC CONTRIBUTION

Compared to income and earnings, wealth in the United States is substantially more unequally distributed (Budría Rodríguez et al. 2002; Scholz and Levine 2004). Access to wealth is in turn associated with a wide range of outcomes, including longevity, family formation, and the educational achievement and labor market outcomes of offspring (Attanasio and Emmerson 2003; Charles, Hurst, and Killewald 2013; Conley 1999, 2001; Pfeffer 2011; Bond Huie et al. 2003; Orr 2003; Schneider 2011). Furthermore, these associations are not fully explained by standard measures of socioeconomic advantage, such as income or education. The wealth distribution is thus an important measure of the concentration of social inequality and advantage.

Unlike education and income, wealth can be directly passed down to subsequent generations through bequests or *inter vivos* transfers. We analyze the role of these transfers in contributing to the concentration of wealth within family lineages. To measure the intergenerational persistence of family wealth, we use sibling correlations that capture the total variance in wealth shared by offspring from the same family. These correlations provide an overall measure of inequality in opportunity to attain wealth – tied to parental wealth, but also other family characteristics, neighborhood factors, genetic endowments, etc. Sibling correlations have frequently been used to assess inequality in the opportunity to attain education, earnings, and other markers of socio-economic success (e.g., Jencks 1972, Solon et al. 1991). To our knowledge, there is only one study that estimates sibling correlations in wealth, finding them to be of similar size to those in earnings (Conley and Glauber 2005).

We also extend this approach to study the multigenerational persistence of wealth by estimating wealth correlations among cousins. Since cousins share common grandparents but not parents, cousin correlations allow us to assess the distinct contribution of grandparental circumstances net of the contribution of parental circumstances (Jaeger 2012; Hällsten 2014).
Mare (2011) and Pfeffer (2014) have hypothesized that the multigenerational transmission of inequality should be particularly pronounced for wealth, more so than for other socio-economic characteristics, due to the role of monetary transfers, but this hypothesis has not been tested directly.

While our estimates of sibling and cousin correlations in wealth are themselves important, we will use these estimates as a springboard to study the role of direct intergenerational monetary transfers in the persistence of wealth across generations. A large literature in economics has proposed and tested different behavioral models underlying intergenerational transfers (Becker and Tomes 1979, 1986; Becker 1974; Barro 1974; Bernheim et al. 1985; Cox 1987; Cox 1990; Cox and Jappelli 1990). This literature is primarily concerned with parental investment behavior as it relates to their children’s earnings and income. Instead, here we study the relationship between transfers and the ultimate wealth attainment of children. As Conley and Glauber (1995: p. 9) note, parents are more likely to be able to equalize net worth than earnings. Thus, by examining the importance of parental transfers for siblings’ wealth outcomes, we are able to test hypotheses of preferential parental investment on an outcome more directly susceptible to parental manipulation.

Assessments of different behavioral models have examined differences in transfer receipt among siblings of different economic statuses (e.g. Schoeni 1997; McGarry and Schoeni 1995, 1997). We follow a similar strategy and investigate the eventual wealth of siblings. In particular, we assess whether the occurrence of transfers increases sibling resemblance in wealth, indicating compensatory investment strategies by parents, and we are further able to identify, within families, the characteristics of children that make them particularly likely to receive transfers. We also study whether these effects propagate to subsequent generations by relating the size of cousin correlations to the transfer receipt of their parents (from their own parents). We analyze
compensatory/stratifying effects of transfers from grandparents to parents that are still observable among grandchildren, elucidating a pathway that contributes to the multigenerational persistence in wealth and speaking to the long-term consequences of wealth inequality.

**Research Design and Methods**

The PSID is ideal for intergenerational analyses due to its genealogical design, in which children born to PSID households become PSID respondents themselves. It is the only nationally representative panel study that has been in the field long enough to include both a second and third generation of adult survey respondents (Pfeffer 2014). We will draw on the 2013 wave of the PSID core data to measure family wealth as well as the new 2013 transfer module for the measurement of monetary transfers. The core PSID currently contains around 5,048 sibling pairs and 2,213 cousin pairs (estimates based on 2011 data).

Our main wealth measures are household net worth, home equity and home values, financial assets, and real assets. To reduce measurement error, we will average wealth measures across the 2011 and 2013 survey waves. We use a range of different specifications of these wealth variables to reduce the impact of outliers and capture the full wealth distribution including zero and negative net worth (including logs, wealth ranks, and the inverse hyperbolic sine transformation).

From the 2013 transfer module, we will use information on whether a PSID head and partner have received different types of transfers from their respective parents during adulthood and also whether they have made these types of transfers to their adult children. We distinguish transfer types as giving to no child, all children, or only select children, and distinguish among transfers for education, home ownership, and other purposes.

Like prior research estimating sibling correlations (Jencks et al. 1972; Hauser and Mossel 1985; Björklund and Jäntti 2007; Solon 1999), we use a simple variance component model

\[ y_{ij} = a_{ij} + b_j \]
where \( y^* \) is the wealth (residualized on individual’s age) of individual \( i \) of parental family \( j \), with \( a_{ij} \) the individual component and \( b_j \) the family component. The variance in wealth (\( \sigma_y^2 \)) can then be expressed as the sum of the variances of the individual component (\( \sigma_a^2 \)) and the parental family component (\( \sigma_b^2 \)), that is, \( \sigma_y^2 = \sigma_a^2 + \sigma_b^2 \). The sibling correlation is equivalent to the share of variance in wealth attributable to the parental family relative to the overall variance, namely \( \rho = \frac{\sigma_b^2}{\sigma_y^2} \). The sibling model can readily be extended to the three-generational case (Jaeger 2012, Haellsten 2014, Piraino et al. 2014) to decompose the variance in wealth into the sum of the variances of the individual component (\( \sigma_a^2 \)), the parental family component (\( \sigma_b^2 \)), and the grandparental family component (\( \sigma_c^2 \)). We can then estimate a cousin correlation, separate from the sibling correlation, of \( \rho = \frac{\sigma_b^2 + \sigma_c^2}{\sigma_y^2} = \frac{\sigma_b^2}{\sigma_y^2} + \frac{\sigma_c^2}{\sigma_y^2} \).

Next, we will relate our sibling correlations and cousin correlations to the receipt of transfers. We will compare sibling correlations across different types of transfers (for education, housing, other purposes) and conditions of transfers (no child, all children, select children) from parents and parents-in-law. We will also consider, within families, the characteristics of children associated with transfer receipt, including siblings’ relative characteristics (higher or lower education than other siblings, for example).

Similarly, we will relate the wealth correlation among cousins (G3) to transfers to the parental generation (from G1 to G2) and from the parental generation (from G2 to G3) by comparing the size of cousin correlations across the different types and conditions of transfers mentioned above. This addresses the question of whether the equalizing or stratifying role of transfers can still be observed in a third generation and whether they operate through a generational sequence of transfers (namely, transfers from G2 to G3). Unfortunately, the influence of direct (generation-skipping) inter vivos transfers from grandparents to grandchildren cannot be assessed since this information has not been collected in the PSID transfer module.
REFERENCES


