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Drawing on research with Pascale Bourquin, Alexander Davenport, Bee Boileau, Laura van der Erve, Lindsey Macmillan, Sonya Krutikova, Peter Levell and Robert Joyce

Social mobility in a time of high wealth levels

12th December 2023

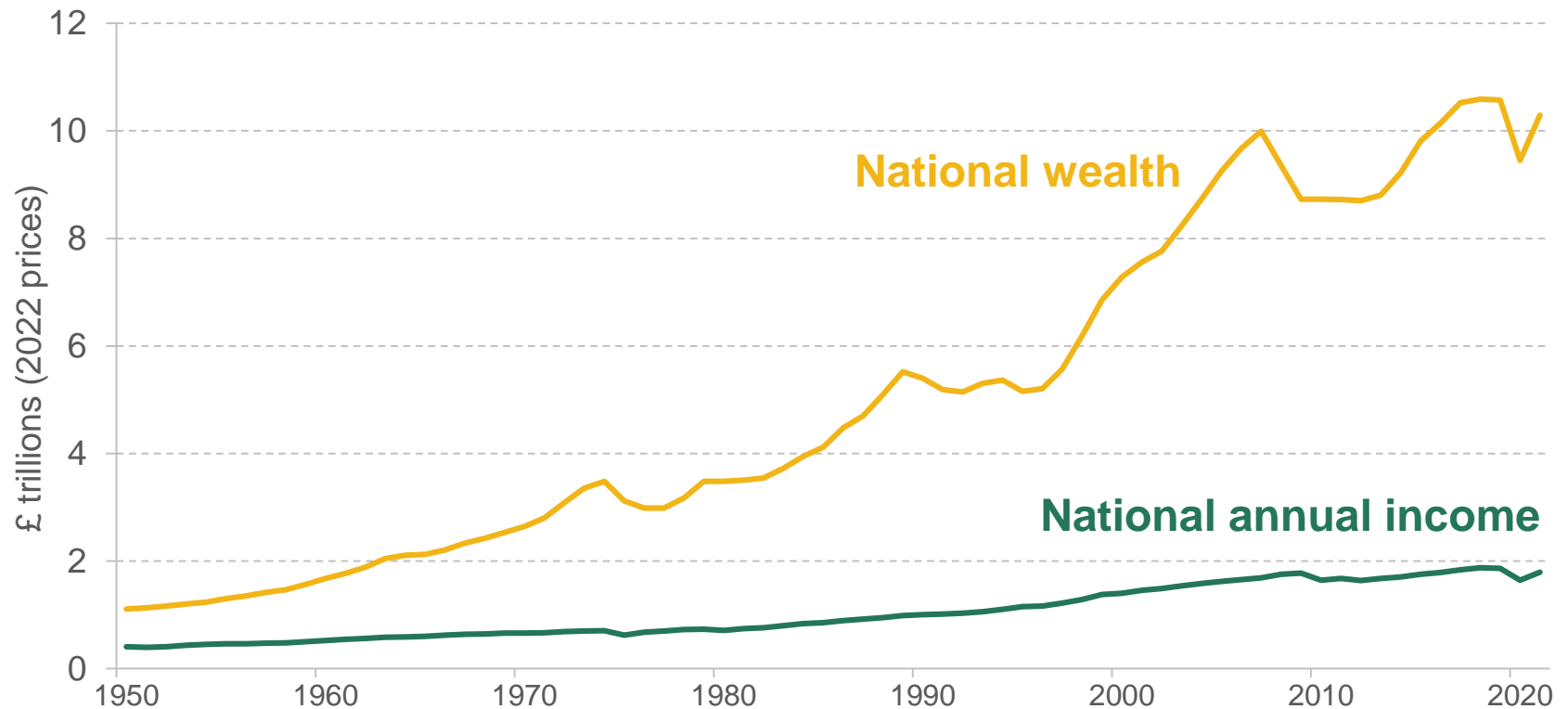
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Wealth grew much faster than incomes over the late 20th and early 21st century

National income and national wealth



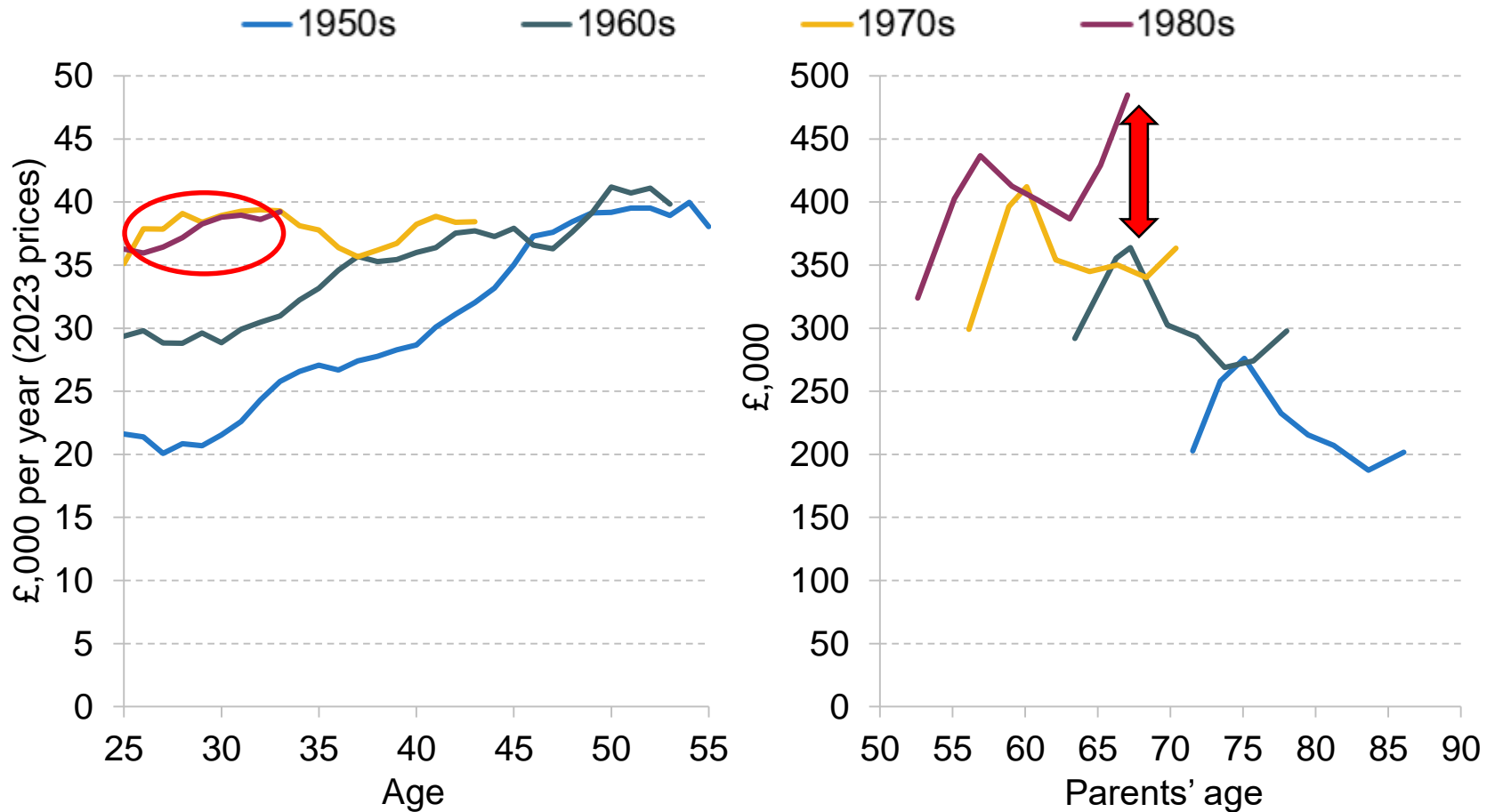
Source: World Inequality Database

Social mobility in a time of high wealth levels

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Younger generations' incomes stagnated while their parents' wealth grew

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



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

Why wealth?

- 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

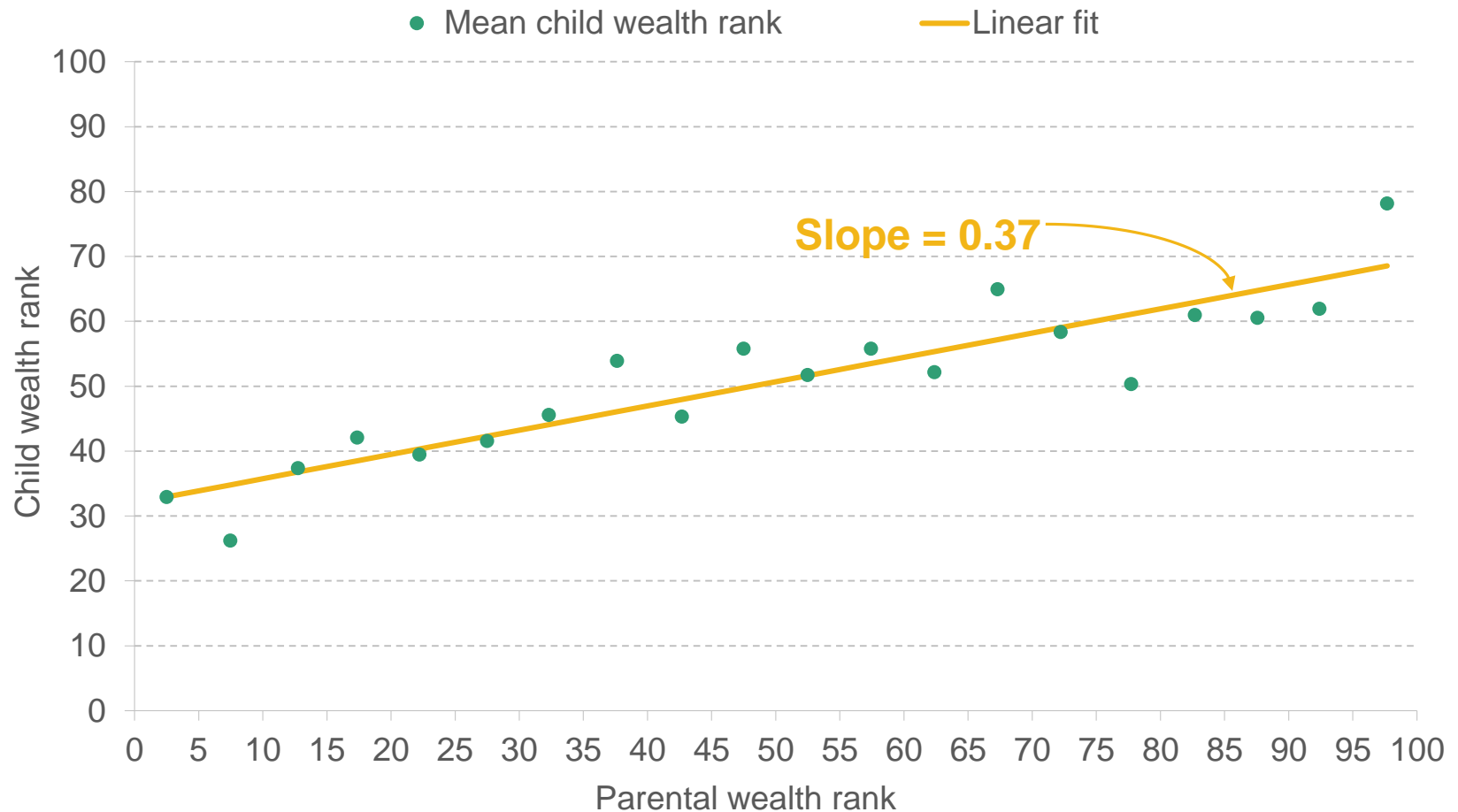
Key questions

1. How much does your wealth depend on your parents' wealth?
 - Look at those born in the 1970s/80s when they were in their 30s
 - Project what they will inherit and its social mobility effects

2. What channels drive intergenerational wealth persistence?
 - We look at earnings, saving, returns to wealth, gifts and loans

3. What are the implications of the growth of wealth for the mobility of different groups?
 - Different ethnic groups and those from different regions

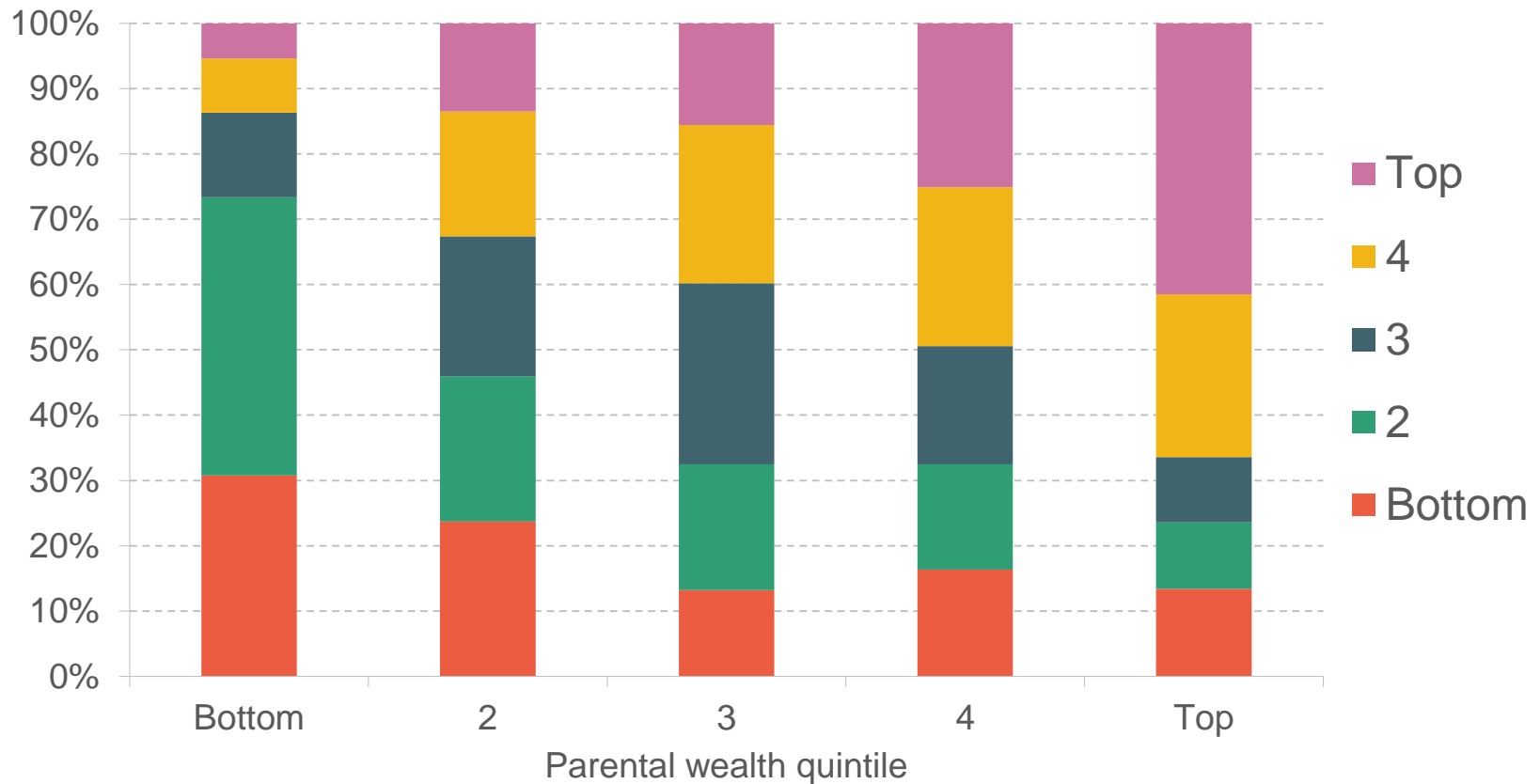
Intergenerational wealth persistence is high in the UK IFS



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

Having wealthy parents is particularly important for getting to the top

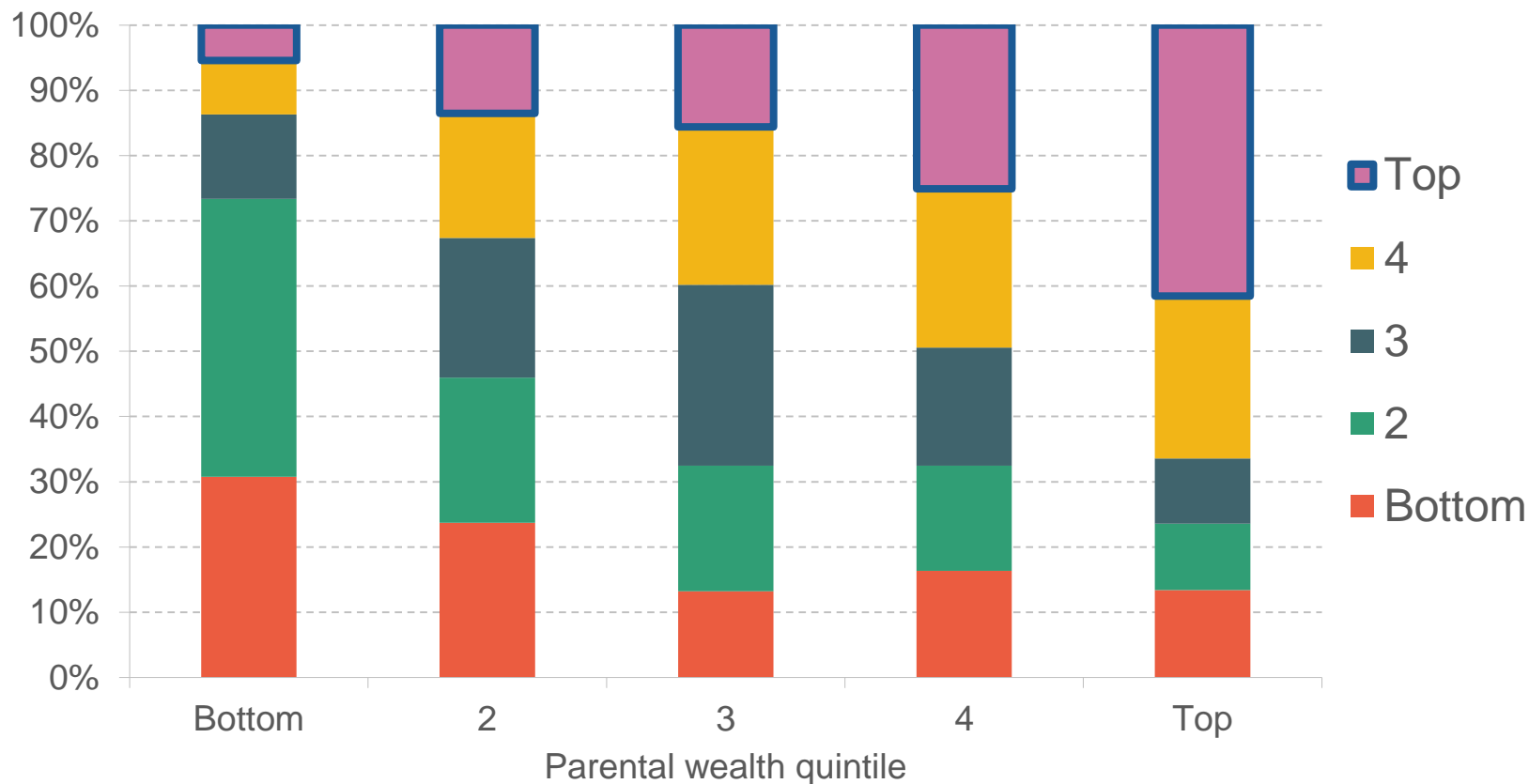
Proportion of children in each wealth quintile, by parental wealth quintile



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

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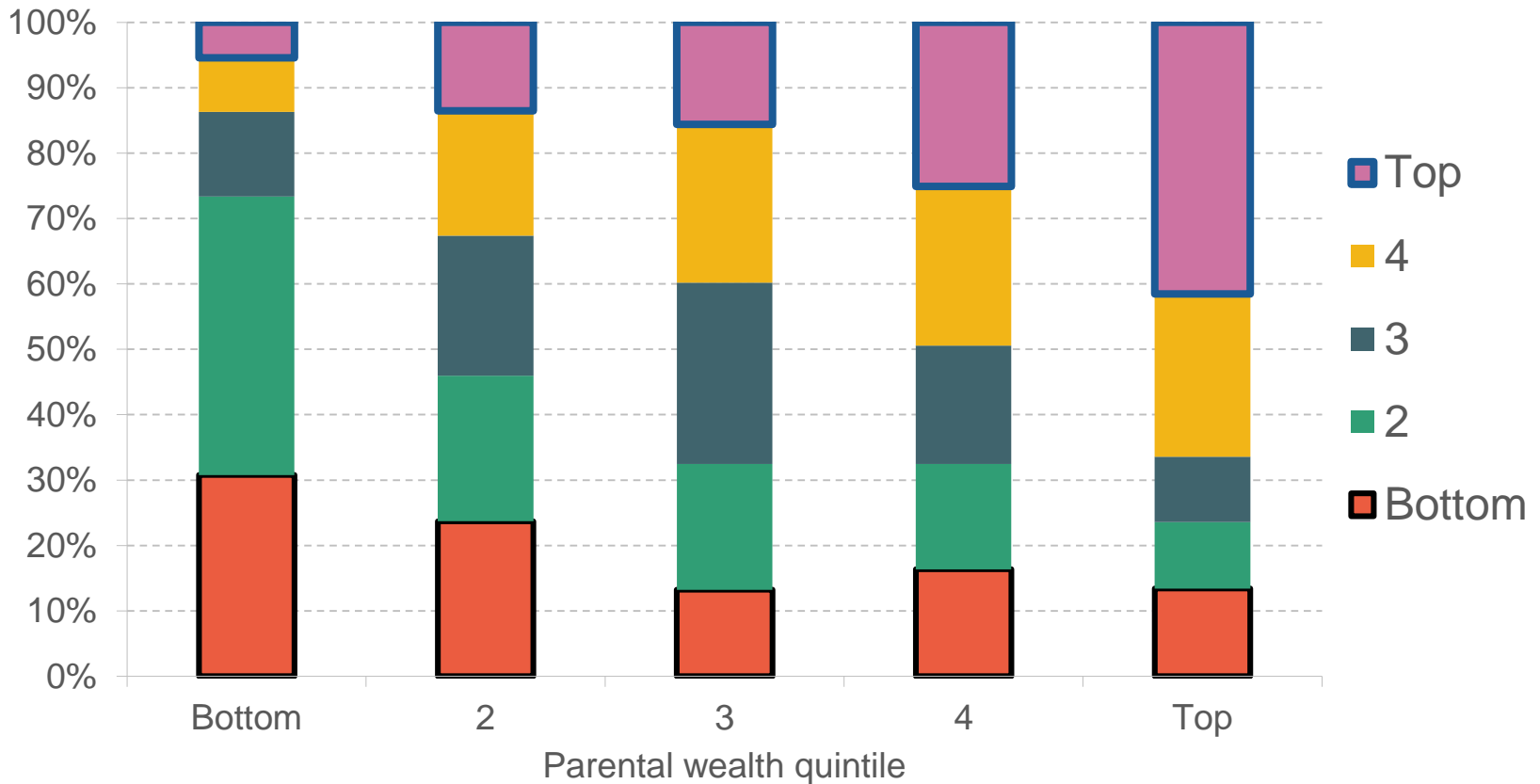
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Growing importance of inheritances



- All these measures look at **early-adult-life outcomes** for ‘children’
 - Before inheritances are received
- **Inheritances** are projected to double as a share of lifetime resources between 1960s and 1980s-born generations
 - Due to each generation of older people being wealthier than the last and having declining numbers of kids
- As a result, inheritances likely to have a growing *negative* effect on **lifetime income mobility**:
 - 1960s generation: inheritances increase rank-rank slope by **19%**
 - 1980s generation: inheritances increase rank-rank slope by **26%**

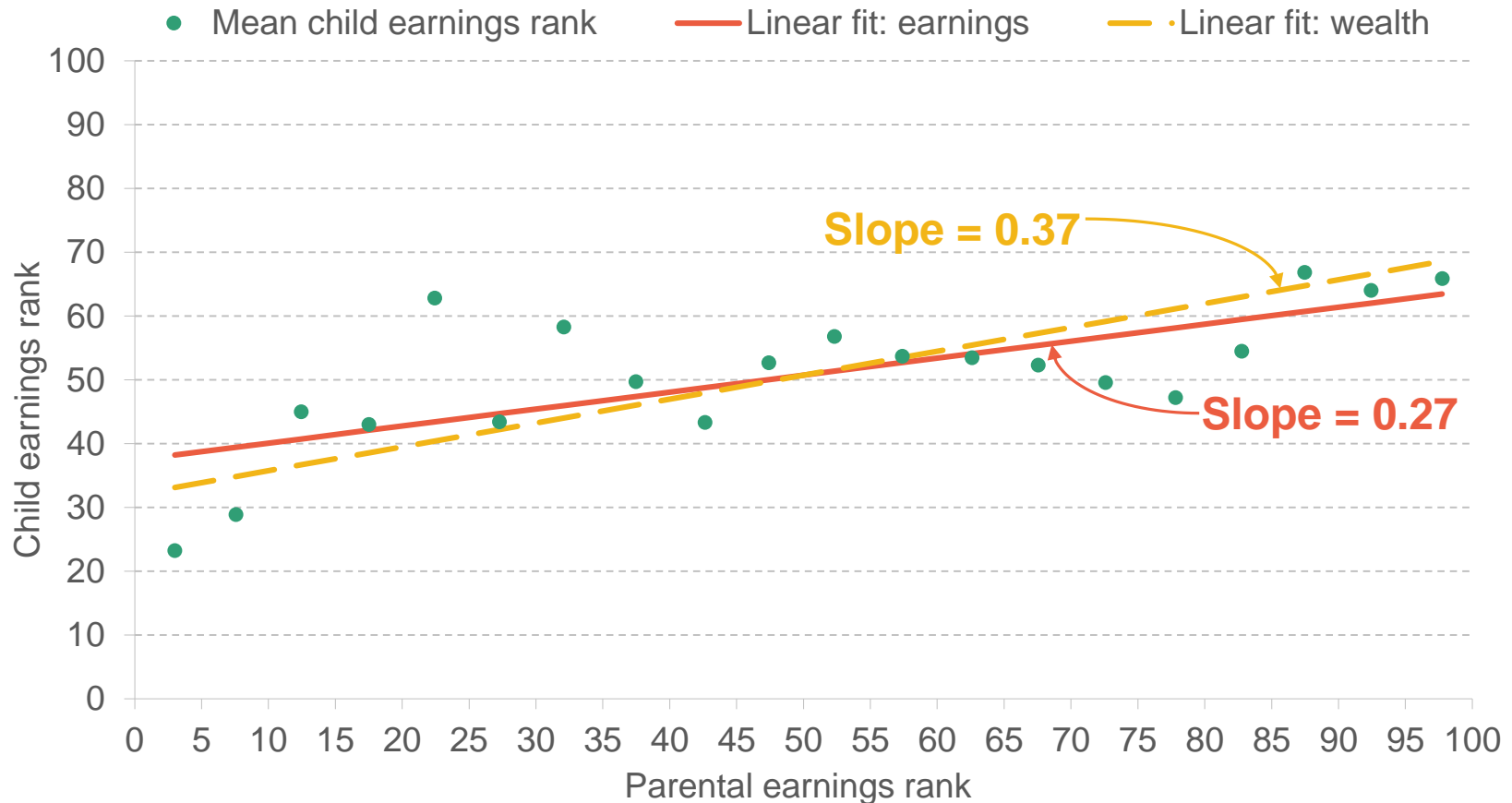
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Intergenerational wealth persistence is higher than intergenerational earnings persistence



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

Key questions

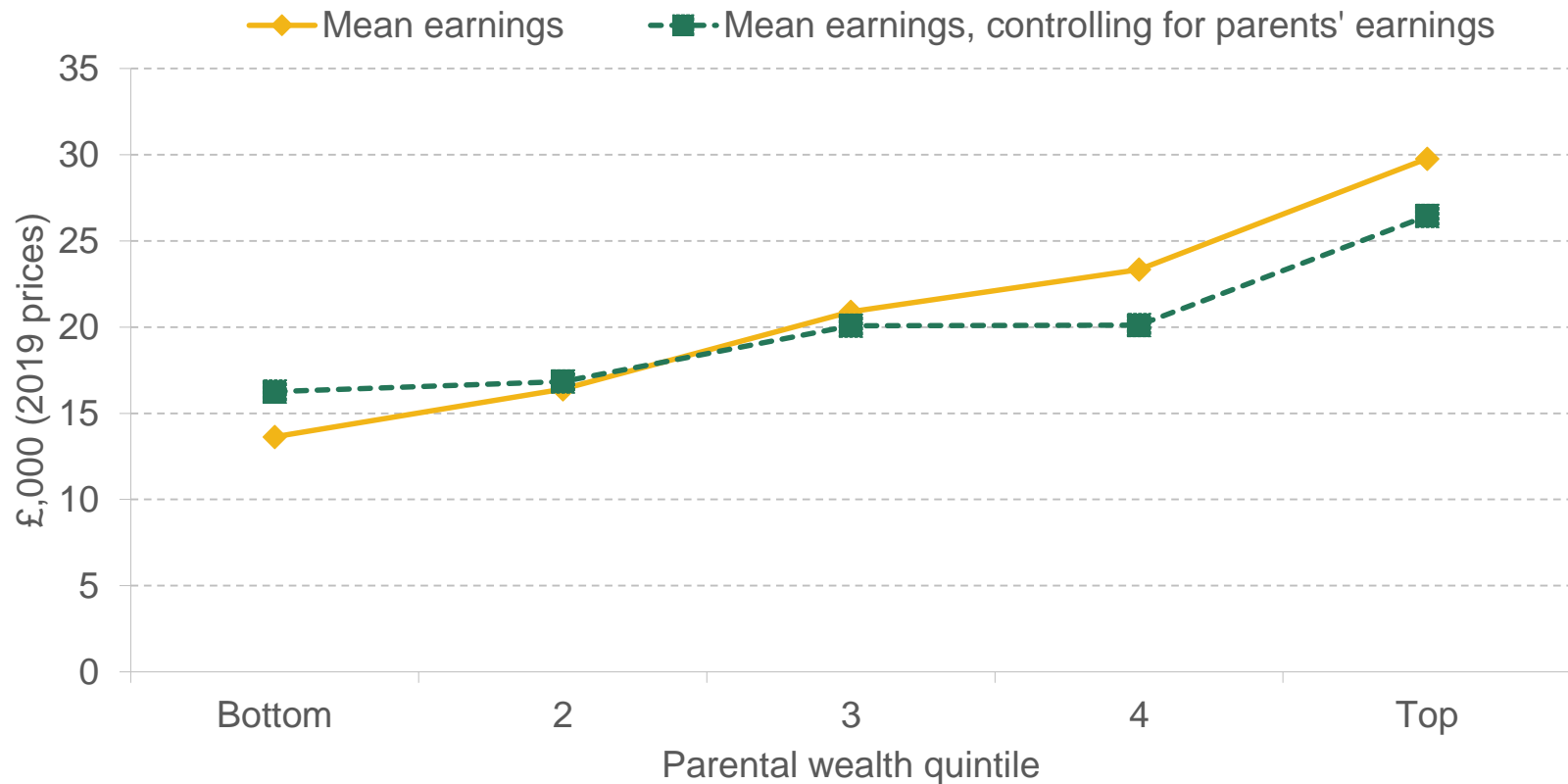
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Those with wealthier parents earn more and have higher education

Average long-run child earnings, by parental wealth quintile



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

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

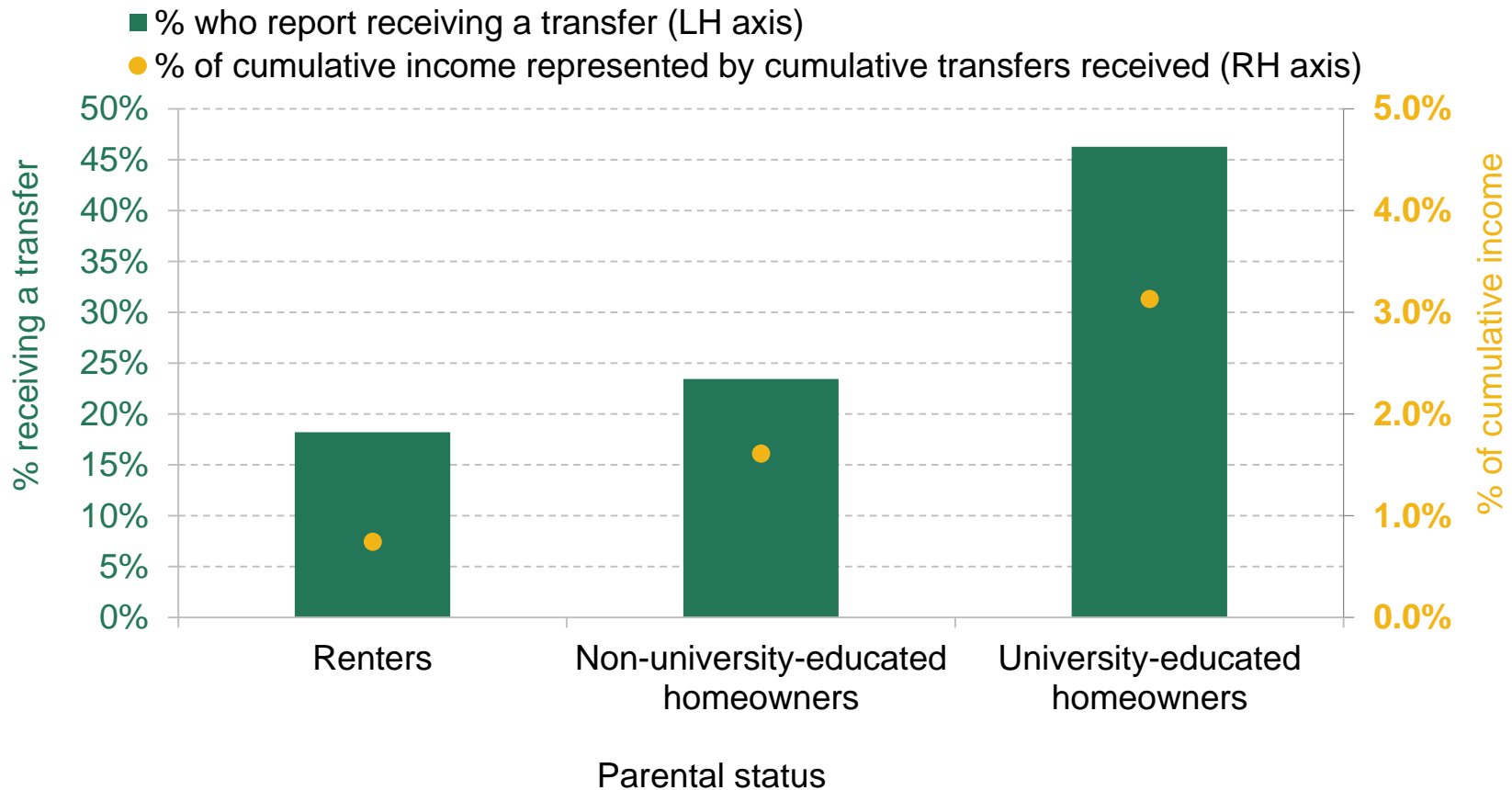
Child saving rate, by parental wealth quintile



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

Those with wealthier parents receive more in financial transfers

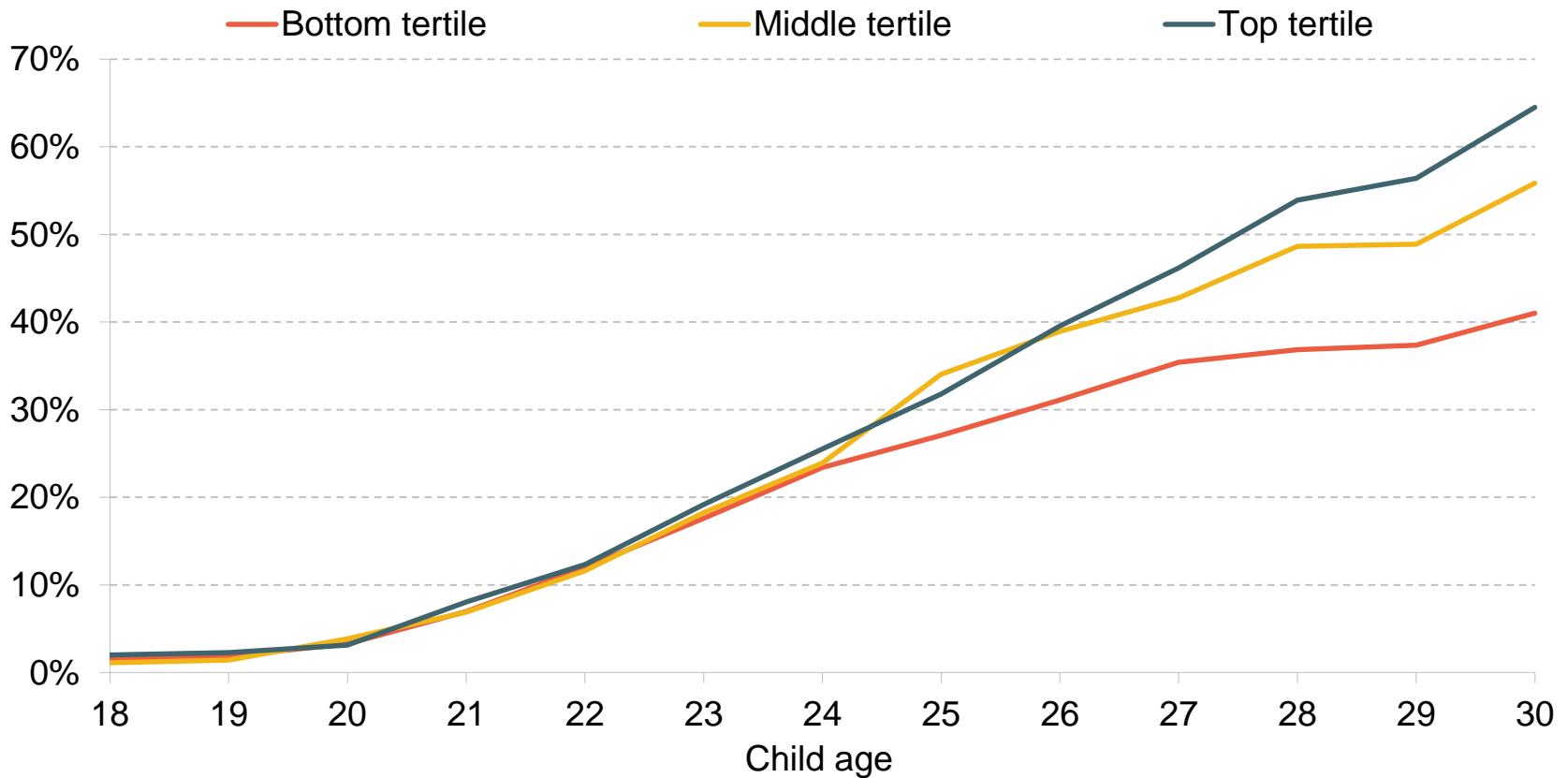
Receipt of family financial transfers over 8-year period in 20s and 30s



Source: Boileau and Sturrock (2023b), Figure 9

Those with wealthier parents get on the housing ladder earlier

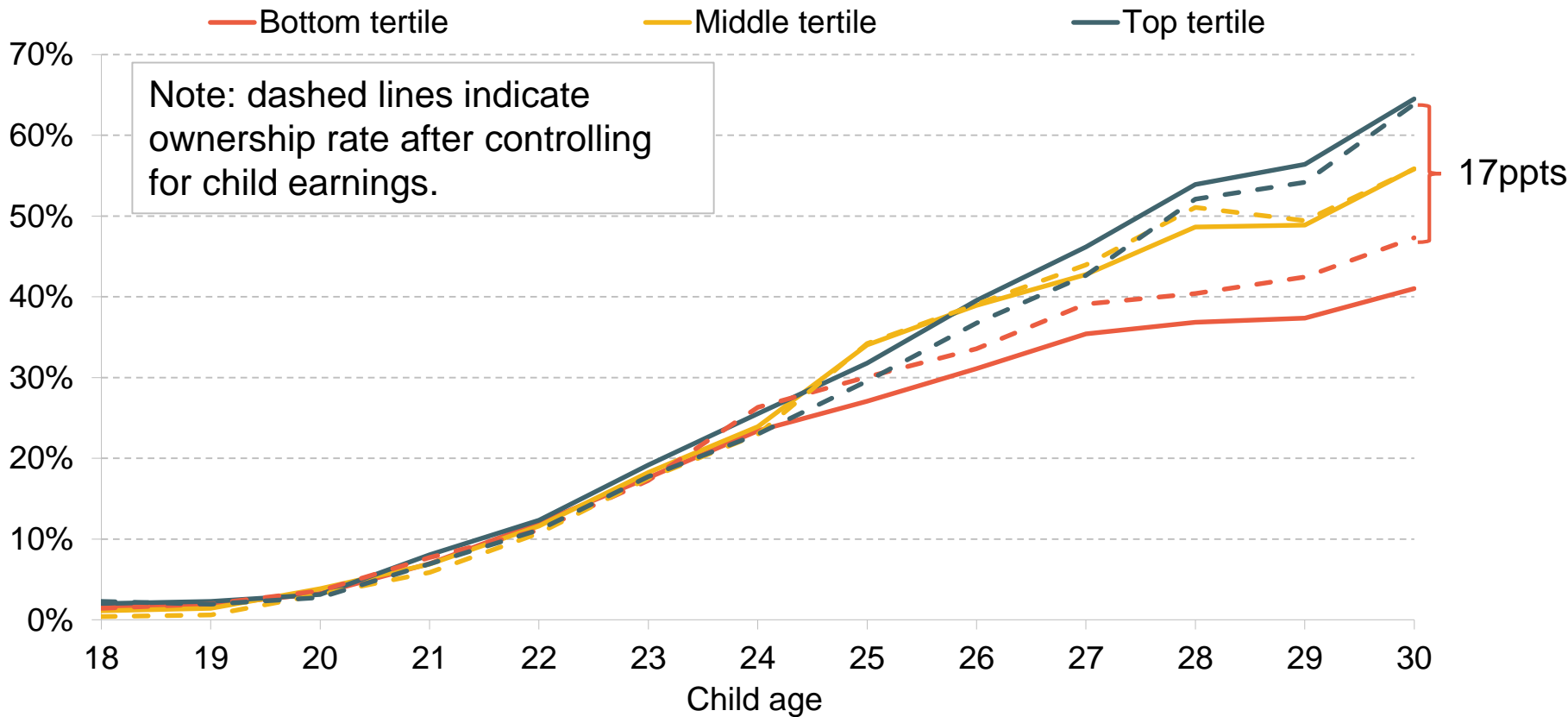
Homeownership rate by age and parental wealth tertile



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



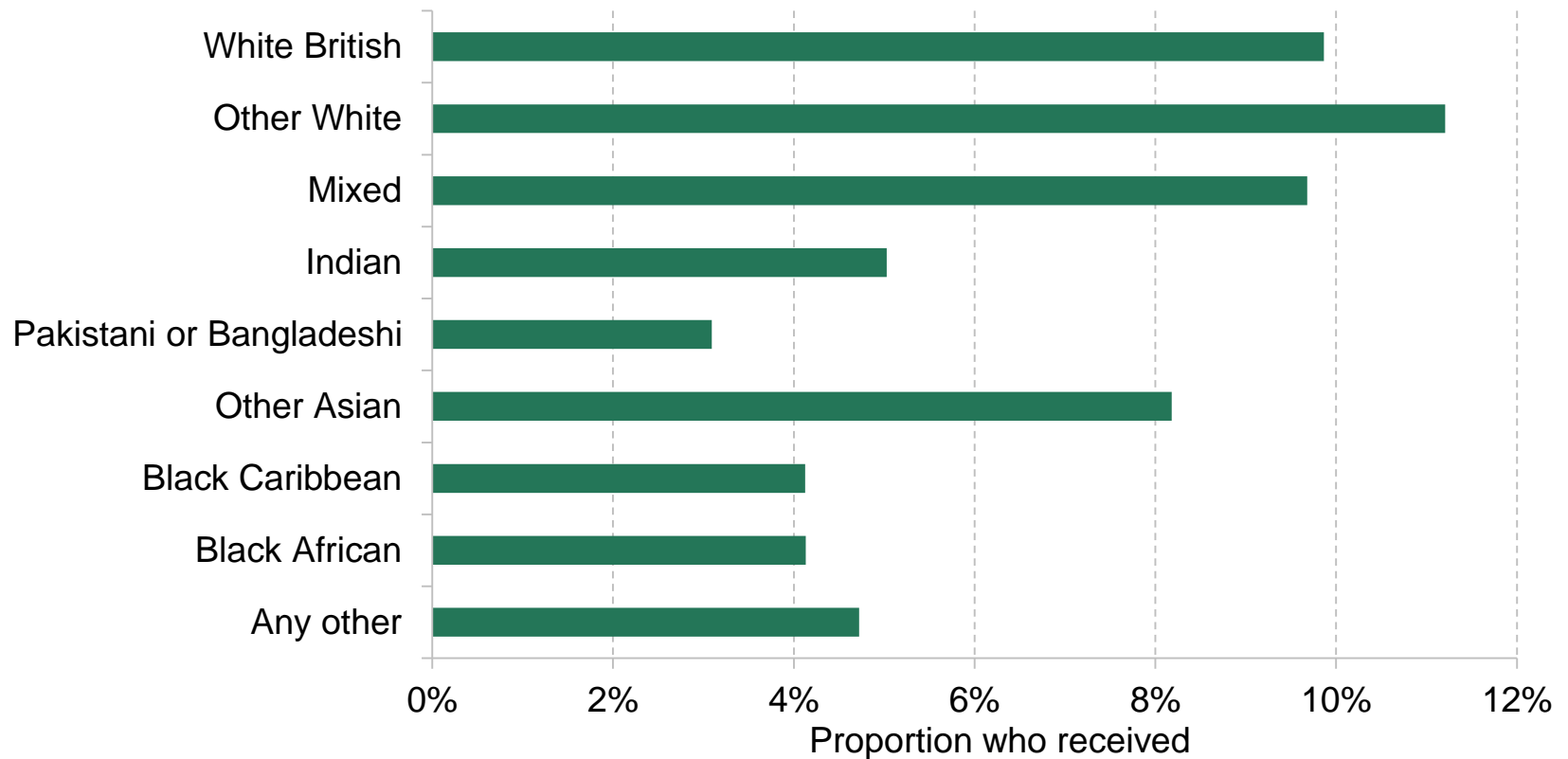
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Low earnings mobility is compounded by low wealth transfers for some minorities

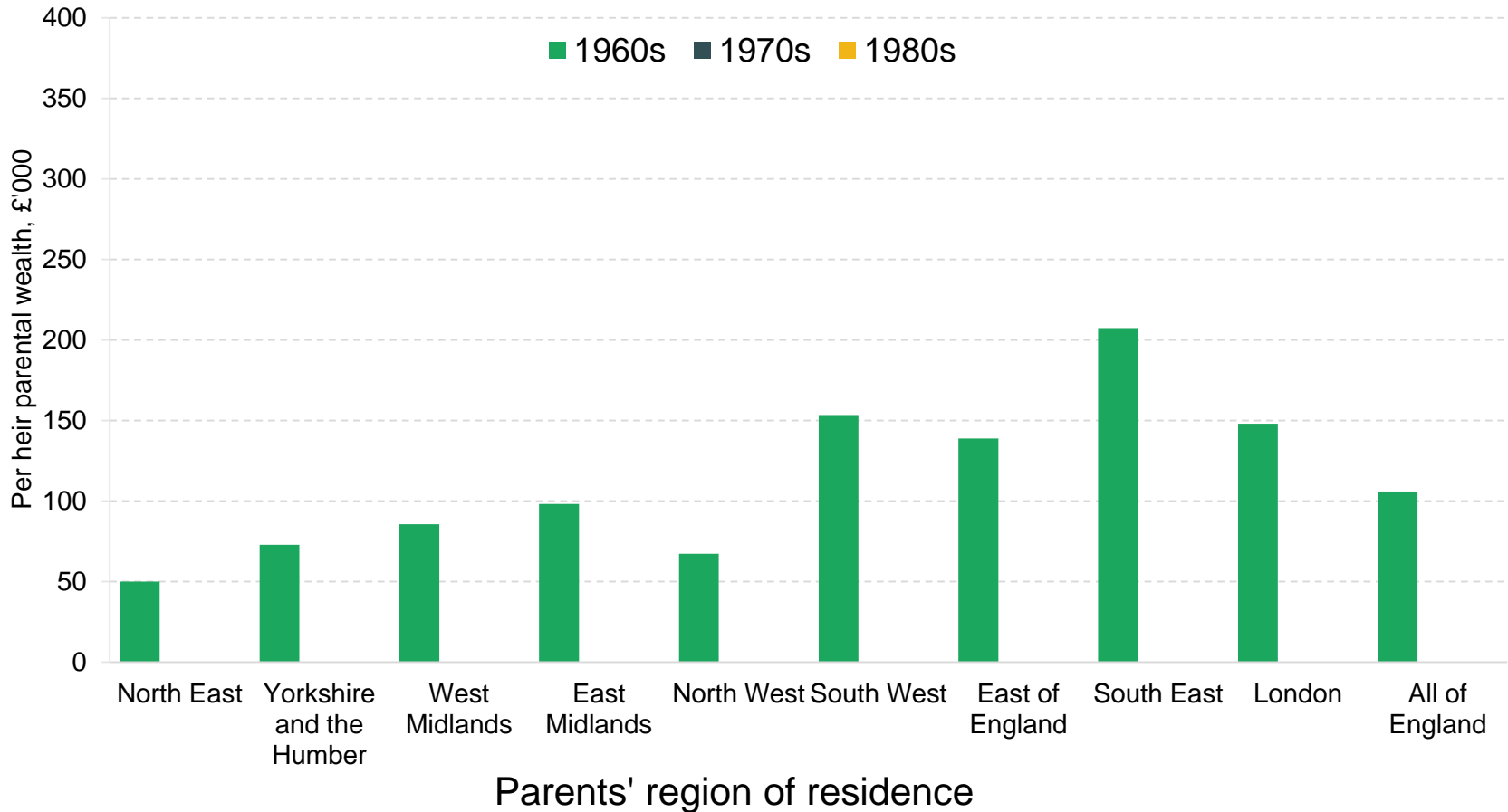
Proportion of 20-39-year-olds who received a gift in the past 2 years, by ethnic group



Source: Boileau and Sturrock (2023)

Large regional differences in wealth will pass down generations

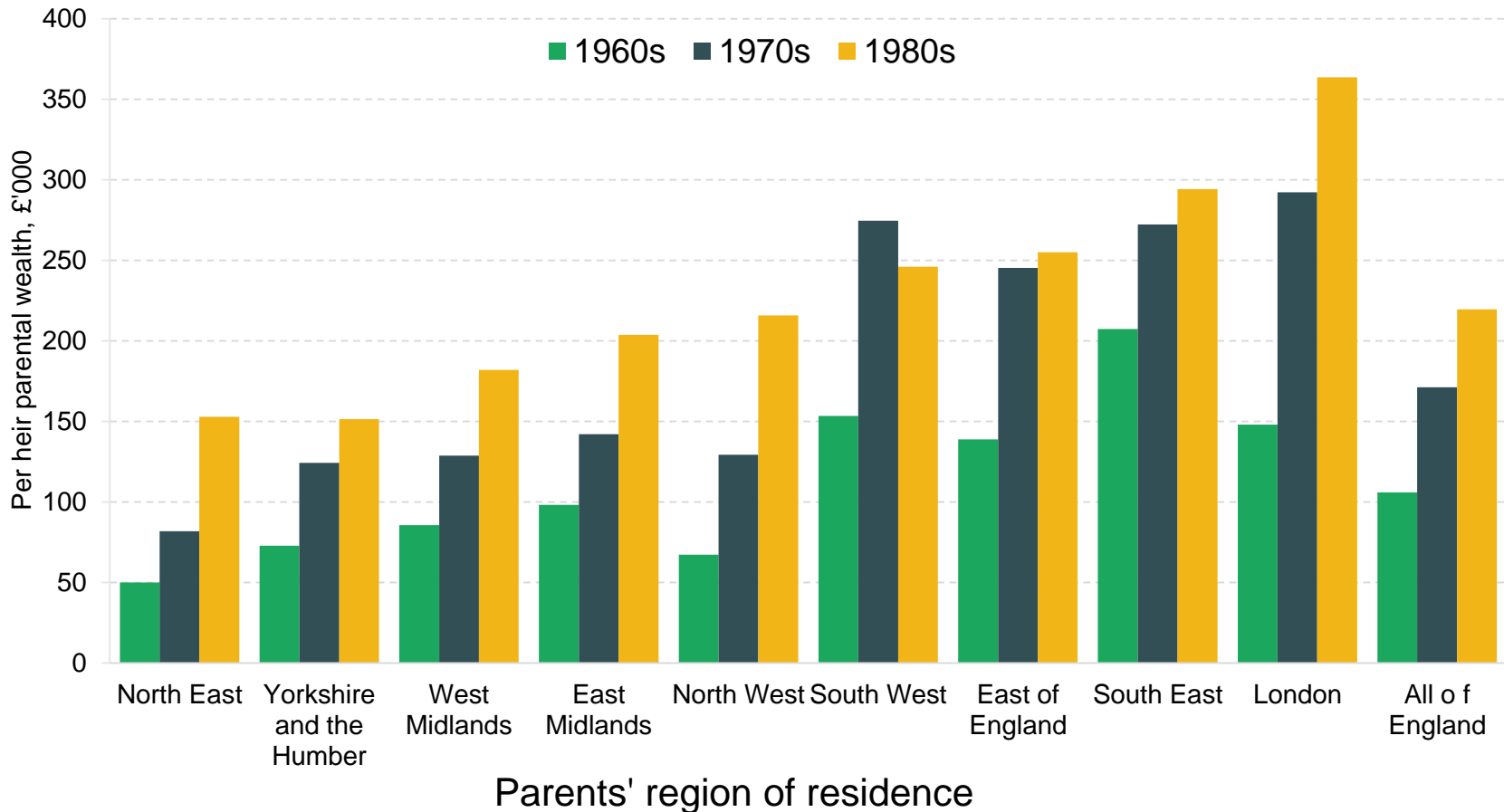
Wealth 'per-heir', by child's decade of birth and parents' region of residence



Source: van der Erve et al (2023)

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Source: van der Erve et al (2023)

For understanding social mobility:

- Intergenerational wealth persistence is high relative to other countries and not all driven by earnings persistence
- The growing importance of inherited wealth is likely to reduce social mobility further in the coming decades
- Groups with low parental wealth will find it harder to earn their way up the lifetime income distribution
 - Those from Black, Pakistani & Bangladeshi backgrounds
 - From the North and Midlands

For policy:

- Improving educational progression and labour market outcomes for those with low-education and low-income parents would not equalise wealth outcomes between those with wealthier and poorer parents
- Interaction of parental transfers and housing markets likely to be key

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What channels drive intergenerational wealth persistence?

