

Intergenerational Wealth Persistence in Great Britain

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Understanding the barriers which significantly affect living standards, prevent equality of opportunity and establishing the extent of inequalities in areas such as health, income and wealth have come to the forefront of the policy agenda (Saez and Piketty, 2014; Black et al. 2020). From an intergenerational perspective the scale and nature of wealth (compared to even income) means significant differences in holdings among parents can have far-reaching implications for their offspring's living standards and intergenerational social mobility more generally. Indeed, to understand the determinants of living standards one has to consider both income and wealth. Previous research has demonstrated the importance of the former (Gregg et al. 2017) whereas wealth has received far less attention even though recent evidence shows wealth has grown more rapidly than incomes (Advani, Bangham and Leslie, 2020). Whilst the general pattern in wealth inequality has been well documented in the UK (Cowell, Karagiannaki and McKnight, 2018), relatively few studies have sought to shed light on the scale and speed at which the association between parent and offspring wealth is changing.

Such evidence is important for several reasons. As a cumulative stock wealth can be easily transferred to successive generations via inter vivo transfers or inheritances. Research based on UK data show the size of these transfers is non-trivial and suggests that individuals have a strong bequest motive (Palomino et al., 2020). Thus, implying a strong correlation between parent and offspring wealth. Parents can also use their own wealth during their own lifetime, for example to act as collateral and facilitate major lifecycle decisions such as their offspring's first house purchase or in the form of early life investments such as their children's education which in turn influences their earnings and savings (Pfeffer, Killewald and Siliunas (2016); Davenport, Levell and Sturrock, 2021). Indeed, one recent estimate based on UK data found intergenerational transfers contribute 33% of total wealth inequality, falling to 23% after controlling for family background and highlighting the importance of attributes such as parental education (Palomino et al., 2020).

As a general pattern, people in the UK accumulate wealth primarily through housing and pension wealth up to around age 64 (retirement) and then consume some portion of that wealth through to death. As such assessing intergenerational wealth offers a number of distinct challenges compared to that for earnings or incomes. Being a cumulative stock, the ideal age to assess wealth is just before retirement (mid-60s), as this represents the cumulative life-time position from working life and the potential for future consumption in retirement, unlike earnings which are an annual flow. In the absence of very long panel data it is relatively easy to observe wealth in the current population at age 64 or so, but the harder part is establishing the wealth of parents of the current

population approaching retirement, as the parents retired 25 to 30 years in the past. Alternatively, we can look at wealth holdings of current offspring, with parents at around age 64. Here the parental wealth measure is at the ideal age but the offspring are young, around their mid-30s. In this second case the current information of wealth of offspring is reliable and valuable but there is a substantial life-cycle bias issue when observing people at young ages for the purposes of wealth accumulation and intergenerational associations in wealth holdings.

The Wealth and Assets Survey (WAS) does not collect direct measurement of parents' wealth (unless offspring and parents live in the same household). However, WAS offers retrospective markers about offspring's parent's circumstances when they were adolescents and hence parents are likely to have been aged around 40. Importantly, this includes home ownership, education, economic status and family structure. It does not include, however, parental age or, perhaps most importantly for housing wealth, region of residence. Hence, we have markers related to parental wealth not true measures. Two stage two sample least squares (2S2SLS) estimation is used to address this issue and assess the intergenerational wealth persistence of wealth and explore key contributions of housing and pensions. We consider various ways to address the fact that beyond age 45 selection driven by parental death will affect our estimates.

The results suggest average intergenerational wealth persistence in Great Britain is high. Across all current age groups between 28 and 64 we estimate an intergenerational wealth elasticity (IWE) of 0.35 and a rank-rank association of 0.3 in 2012. This lies between values seen in the US and Italy on the one hand and Scandinavian countries (Bloise and Ratano, 2019). At ages around 40, the estimate is very similar to that for gross earnings in the UK at 0.4 and 0.3 respectively for a cohort born at the same time (Gregg et al. 2017). A major finding of the research is that current wealth persistence is higher for those aged 30-45 than those aged over 55 and this is despite a life-cycle bias, clear in the short panel, which means that persistence is lower at the younger ages for any cohort. A second contribution of our work is to show how the IWE is changing across time. Given the data available we do this for individuals at the same age born six years apart. The result is striking. We find wealth inequality using this measure is increasing by 1.26 percentage points every two years. There is, thus, very strong evidence of higher wealth intergenerational persistence in younger age cohorts. As it is already higher than for older cohorts and rising rapidly. By 2018 for those aged 32-44 the IWE had risen to 0.44 (the rank measure rises only slightly, however, showing the rise is about inequalities not ordering). This is striking in its magnitude and suggests that even on conservative assumptions of life-cycle effects, the IWE will exceed 0.5 when these cohorts reach age 64 (20 points higher than for those of that age now). The implications for wealth inequalities are profound and equally concerning is how policymakers among others, will address this issue. Simply put, wealth has increasingly beget wealth.