

Intergenerational Determinants of Income Level in Finland

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Extended abstract

Studies of intergenerational income mobility abound – mostly in the field of economics. Parental income level has been shown to have an influence on offspring's income level both in Finland and in other Western countries. However, research on income mobility seldom incorporates information on other socioeconomic and demographic explanatory variables, despite the strong evidence concerning the effects of parental background and personal characteristics on personal income level.

Our aim is to examine the intergenerational association between parents' and offspring's income level in contemporary Finland in a study in which the contribution of other social and family characteristics to this relationship is assessed. We focus on intergenerationality in the highest and lowest income levels in more detail given that the strongest association between parental and personal position is to be found at both ends of the stratification. There are four main aims. The first is to assess the magnitude of intergenerational income mobility by gender. Second, we include other parental characteristics, both maternal and paternal, in the analysis in order to explain the association between parental and offspring income level, concentrating on the lowest and the highest income groups. Third, we assess the extent to which the socio-demographic characteristics of offspring mediate the intergenerationality of income. Finally, we analyze the interaction between parental income level and unemployment, family structure, and the offspring's level of education under the assumption that the effects of parental income level on personal income level differ in accordance with various personal socioeconomic and demographic factors.

A longitudinal register-based data-set obtained from Statistics Finland used in this study is a representative 11 percent sample of the whole population residing in Finland. We selected cohorts born 1973 to 1976 for this analysis. Altogether the analytical data consisted of 12,798 men and 12,041 women. Parental social and family characteristics were assessed between 1987 and 1991 when the participants were aged 13 to 16, and corresponding individual characteristics between 2003 and 2007 at the age of 29 to 32. We used mobility tables to analyse intergenerational associations. Additionally, logistic regression modelling is used to estimate the effects of parental and personal characteristics on entry into the lowest and highest income quintile in adulthood. As a measure of income, we use household taxable income adjusted for household size and composition.

About a third of both men and women originating from the lowest and highest income family backgrounds also end up in the corresponding income level. The overall average of those having the same origin and destination income level is 26 percent. After adjusting for both parental and personal characteristics, the OR of entry into lowest income quintile is

2.51 (before adjusting 3.20) among men and 1.79 (before adjusting 3.20) among women from lowest income family background compared to those with high income background. The intergenerational association is also distinct when examining the risk for entry into the highest income level in adulthood. The OR for people with low income background to enter into the highest income quintile is 0.48 (before adjusting 0.25) among men and 0.50 (before adjusting 0.25) among women compared to those originating from a high income family after adjusting for parental and personal characteristics.

Our results show that the association between personal and parental income level is particularly attributable to parental social class and educational level, especially among men. Offspring's social class and educational level mediate the effects of the parental income level more notably among women than men. Single-parenting increases low income risk among women, and the risk is higher among those men and women with longer periods of unemployment. These other factors explain or mediate approximately half of the intergenerationality of income in the fully adjusted model. Higher achieved level of education offers some protection for those with parents in the lower income groups against entering the lowest income level, whereas offspring, especially women, with parents on the highest parental income level have an overall low risk of entering the bottom income quintile. We found that parents in higher-income groups could not fully protect their offspring from the negative impact of unemployment, single-parenting, and living alone on income level, although those living as couples with or without children benefitted more. Our findings also indicate that intergenerational income mobility from bottom to higher quintile of income distribution is more challenging than to the reversed direction.

Our results show that income level in adulthood is partly attributable to various socio-demographic factors in addition to parental income and that these factors interact in various ways. It appears that the transference of socioeconomic resources from parents to their offspring is an intricate process that is and difficult to disentangle. The association between parental and personal income level remained strong after all our adjustments, thus we can conclude that parental income has an influence on the income level of offspring that we cannot explain with reference only to the other socioeconomic and demographic characteristics we took into account in our analysis. Unmeasured factors such as wealth and favorable genes transferred from generation to generation, as well as an advantageous nurturing environment at home, are notable advantages that open up wider opportunities for those on the receiving end.