

Education and Socioeconomic Status of Parents - Factors of Influence For Income Inequality

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Abstract: Analysis of income inequality is a general and constant concern of both the public and researchers and politicians. This subject, though, and has been widely debated, never becomes obsolete and does not lose its importance or valence mobilizing the more as he becomes more present with the onset of the recent economic crisis. This interest framework, on the one hand and the difficult context generated by the economic crisis, on the other hand, bring forward decisions and policy choices implemented or required to restore economic balance and well-being of citizens. Causes (factors of influence) of income inequality differ from country to country, there is dispute among economists on the preponderance of cases compared to the others. However in this paper I will analyze two of these factors: education and socioeconomic status of their parents.

Keywords: education, level of education, skills, abilities, opportunities, social mobility.

Education and income inequality

There are three ways by which education affects income inequality. The first would be that there are differences between individuals involved in working with various

levels of training. The second way by which the inequality has to do with different levels of payments corresponding to a level of education. The third way is the influence of changes in the curricula of schools that may contribute to income inequality.

Literature primarily uses three types of measures to observe different aspects of human capital accumulation¹: the duration of schooling measured in years of schooling (the main advantage of this indicator is that it provides easy data comparability between countries does not take into account the effectiveness these years of training is only a quantitative indicator), the second indicator is based on the level of education attained, capturing the highest level of formal education by an individual² (eg. secondary school to vocational education), a third measure used literature is to measure cognitive abilities of people³ through programs or international tests designed to measure the skills of children and adults in various areas, such as reading and comprehension, math, problem solving etc.

¹ Salverda W., editor (2011). *Inequalities' Impacts*. GINI State of the Art Review 1, pag.23 - available at http://www.gini-research.org/system/uploads/253/original/GINI_State-of-the-Art_review_1.pdf?1308916502 accessed at 28.10.2013

² disadvantage of using such an indicator in the analysis of the country is that the levels, types and duration of specific educational programs depends on the institutional structure of education systems and, given the high degree of differentiation of the educational systems of countries over time, it is difficult building a classification of educational qualification, which is valid and internationally comparable

³ In their paper, Hanushek, E.A. and Woessmann, L. (2008). *The Role of Cognitive Skills in Economic Development*. *Journal of Economic Literature*, vol. 46(3), pag. 607-668, argue that cognitive skills are a more relevant indicator than the level of education attained and that there is a close connection between them and the individual earnings, income distribution and growth.

Barro and Lee's research⁴ provides arguments that the percentage of people who achieve all three levels of education (primary, secondary and tertiary) were recorded over the last decade, an increasing trend in all developed countries.

Economic causes of rising education levels take particular account of the human capital theory, which regards education as a pure investment: if the expected gain of education are large so worth the effort being made to complete a higher level education, when individuals choose to invest more in education, that if they allow.

One of the economy in the last 50 years has been driven by increasing income differences between workers with a higher level of education compared to those with a poor level of training.

There is an opinion that the level of education can lead to greater income disparities. Analyzing the current situation of increasing inequality in most developed societies, there is a high level of education, with schools that are funded by public funds, we can conclude that a young educated workforce will be associated with an increase in inequality income, so education does not reduce social inequality, to reduce inequality the level of education of the working population is high but standardized⁵.

⁴ , R.J. and Lee, J.W. (2010). *A New Data Set of Educational Attainment in the World, 1950–2010*. NBER

Working Papers, No. 15902, National Bureau of Economic Research, Inc.

⁵ Pedro,Telhado , Pereira; Pedro, Silva, Martins, Does Education Reduce Wage Inequality? Quantile Regressions Evidence from Fifteen European Countries, 2002 - available at <http://fesrvsd.fe.unl.pt/WPFEUNL/WP2000/wp379.pdf>, accessed at 29.10.2013

There is a close link between skills and education: the higher the education level of the skills will be stronger impact on revenue because the skills they learn more easily through education. Raising skills is a consequence of a high level of education.

Statistics show that parents with low education levels do not invest too much money in the education of their children, especially their higher studies this phenomenon with the result that there is a distinction between children who do not receive proper education potential of some of them.

The income level is transmitted from generation to generation by parents investment in human capital of children.

Inequality in education is a relatively new form of inequality is clearly interacting with income inequality at both the start and completion / finalization stages of skills training. There is an extensive literature on intergenerational mobility, which reveals a strong link between educational attainment and persistent parents and the children. However, it is unclear whether the education of children affected by parental social conditions through financial resources, cultural resources, or a combination of both. How parents influence the average level of schooling, education levels and target dispersion level of education he wants to touch an individual varies according to country and over time⁶.

Gaps in educational performance tends to persist across generations and is widely known in the literature that socioeconomic

⁶ Ballarino, G., Bogliacino, F., Braga, M., Bratti, M., Checchi, D., Filippin, A., Maestri, V., Meschi, E., Scervini, F. (2012). Drivers of Growing Inequality. AIAS, GINI Intermediate Work Package 3 Report, pag. 20 – available at http://www.gini-research.org/system/uploads/414/original/Intermediate_Work_Package_3_Report.pdf?1364644619

status of the parents is usually a very good preacher of the results of their children. Channels that can occur such persistence can be either a genetic or related to socio-economic context. Although evidence on the causality of such links are often weak, several features of the family environment were shown to correlate systematically with educational attainment of the family (income, family integrity, number of children, juvenile pregnancy, etc.).

Inequality and intergenerational transmission of poverty and benefits (socio-economic status of parents)

Usually it is assumed that an increase in income inequality will inevitably be associated with less mobility between generations, but both theory and empirical analyzes suggest that the relationship is not so simple.

Intergenerational social mobility refers to the relationship between socio-economic status of parents and their children attained the status when they reach adults. In other words, mobility reflects the extent to which individuals move up (or down) the social scale in relation to their parents. A company may be considered more or less mobile, depending on how tight or loose the link between social status of parents and children as adults. In a relatively immobile society, an individual's salary, education or occupation it tends to be closely related to those of the parents. Intergenerational mobility depends on a number of factors that determine individual economic success, some related to inheritance of traits (such as innate abilities), others related to family and social environment in which individuals develops.

Among environmental factors, some are only loosely tied to public policies (such

as social norms, work ethic, attitude toward risk and social networks), while others may be strongly affected by these policies. Typical examples are the policies that support access to human capital formation, such as public support for primary, secondary and tertiary, and redistributive policies that could reduce or raise financial and other barriers to accessing higher education. In an economic sense, social mobility between generations is generally defined as an individual's ability to move up (or down) the scale of wages or income with respect to his parents. This mobility is closely linked to educational outcomes, given the direct link between human capital and labor productivity.

An OECD report⁷ concludes after an analysis comparing data from several OECD countries the evidence is suggestive of a link between low social mobility between generations and increased wage inequality. Policies that facilitate access to education for people from disadvantaged families promote inter-generational wage mobility, and are also likely to positively influence growth. Examples include inter-school practices that group students begin only later in their education so as to encourage social mix in schools, student finance or loans or scholarships that reduce dependence on government supported students' families to finance studies them.

The mechanisms underlying the inequality-mobility relationship are many and varied, and some have received more attention in theoretical and empirical research

than others. The model of Solon⁸, for example, points out that a more unequal distribution of income and higher yields of education offers parents a greater incentive to invest in the human capital of their children.

Other theoretical models suggest quite different mechanisms, and directions for inequality-mobility relationship. Higher incomes and income inequality may have an impact on the economies and the accumulation of financial assets and wealth, and the ability to invest in their children and to transfer assets. An unequal distribution of wealth can be strengthened and perpetuated through generations by positive assortative mating⁹ (where couples meet and match based on education, income or wealth).

In analyzing the relationship between inequality and social mobility, it is difficult to know whether a lower degree of inequality in itself helps promote mobility, or if the same institutions and policies underlying the reduction of inequality also influence and mobility so that inequality low and high mobility are the result of their common. Policies on education, labor market, taxation and social protection affects inequality may also have a direct effect on mobility.

Equalization of opportunities is central to inequality reduction policies pursued primarily through access to education, and this was and is the subject of an extensive

⁸ Solon, G. (2004), "A Model of Intergenerational Mobility Variation over Time and Place", in *Generational Income Mobility in North America and Europe*, M. Corak (ed.), pp. 38-47, Cambridge University Press, Cambridge, England.

⁹ John Knowles, Raquel Fernández, Nezih Guner, Love and Money: A Theoretical and Empirical Analysis of Household Sorting and Inequality, *Quarterly Journal of Economics* Vol. 120, Issue 1 - February 2005. pp. 273 - 344

⁷ OECD (2010). *A Family Affair: Intergenerational Social Mobility across OECD Countries*, available at: <http://www.oecd.org/centrodemexico/medios/44582910.pdf>

literature research. This suggests, for example, the elimination of early and comprehensive introduction to school systems helped promote intergenerational mobility in Sweden, Finland and Norway, primarily by increasing the level of education among the less privileged, Blanden et al argue that education reform in the UK which delayed early orientation also produced a substantial increase intergenerational mobility, primarily for the benefit of children from low-income families.

The rich tend to provide a better education for children and thus increase their chances of getting a high income. Aside from education, most often the rich, give children a legacy consistent, since the concentration of wealth to the next generation. However, it was argued by many sociologists such as Charles Murray that this has little effect on long-term outcome and that innate ability is by far the best determinant for the outcome of one's life.

Focusing on social spending, in a comparison between U.S. states, Mayer and Lopoo¹⁰ believes that states spend more money records greater mobility between

¹⁰ Mayer, S.E and L.M. Lopoo (2008), "Government Spending and Intergenerational Mobility", Journal of Public Economics, Vol. 92., p. 139–158

generations than spending less, but insofar as it is a causal relationship remains unclear. Regarding the design of social protection systems, an empirical comparison of financial support schemes in the United States and Sweden performed Čorak et al.¹¹ suggested that passive programs are more likely to promote transmission of welfare dependency than active.

Conclusions

Gaps in educational performance tends to persist across generations and is widely known in the literature that socioeconomic status of the parents is usually a very good preacher of the results of their children. Channels that can occur such persistence can be either a genetic or related to socioeconomic context. Although evidence on the causality of such links are often weak, several features of the family environment were shown to correlate systematically with educational attainment of the family (income, family integrity, number of children, juvenile pregnancy, etc.).

¹¹ Corak, M., Lietz, C. and Sutherland H. (2005). The Impact Of Tax And Transfer Systems On Children In The European Union. EUROMOD Working Papers EM4/05, EUROMOD at the Institute for Social and Economic Research.

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