

Summary of Week 4 Reading Responses

May 4, 2022

High level summary of comments:

- Several students mentioned their dissatisfaction with the lack of causal interpretation in the Bowles and Gintis (2002) paper exploring mechanisms for intergenerational transmission.
- Students also noted that it was strange that Blundell et al. (2016) left family dynamics (e.g. fertility decisions) to be exogeneous given that certain policies may in effect subsidize certain family structures.
- Some wondered where human capital accumulation dynamics might fit into the models described in the papers
- Many questions about policy implications. Which policies help and how? Students asked about tax credits, WIC programs, educational subsidies, etc. Which policies are most effective and how much do they cost to implement?

1 Selected Student Questions / Discussion

- **Raman Chhina**
 - Comments on the fact that cognitive skills and education have been over-studied as explanations for intergenerational mobility while noncognitive behavioral traits, wealth, and race have been understudied
- **Victor Gamarra**
 - Concerned with the lack of causal interpretation in the Bowles and Gintis paper. Thinks this is good exploratory/descriptive work that provides a starting point, but wonders about more causal work.

- Wonders about the role of taxes and transfers as it relates to the income dynamics and life-cycle inequality of the Blundell (2014) paper. The redistributive role of the state might matter for inequality here. Also notes that there is a gender dimension missing.
- Wonders why male income, fertility, and marriage are exogenous in the Blundell et al. (2016) paper. “Women’s decision to have a baby may be influenced by educational attainment and income, while marriage will also depend on these variables.”

- **Clara Kyung**

- Notes that Blundell (2014) study the role of insurance in mediating the relationship between earnings inequality, income inequality, and consumption inequality. But she is not sure how this affects the intergenerational *transmission* of inequality.
- Notes that Bowles and Gintis and Blundell (2016) do not really look at *mechanisms* for transmission.
- Blundell (2014) doesn’t account for human capital accumulation. Wonders if this is an important omission from the model.
- Not clear on how the joint dynamics of income and consumption inequality are important for intergenerational transmission. “One way I can think of is through human capital accumulation. If schooling is included in consumption (I’m not sure that it is), then the children of families who are less able to insure consumption against income shocks will probably not be able to accumulate as much human capital as the children of better-insured families. Lower income families tend to be less well insured, so the inequality gets transmitted through this channel. However, Blundell (2014) doesn’t have human capital accumulation in his model.”
- What is the most compelling evidence on how welfare affects inequality transmission? Welfare could help people get out of poverty, but could also create dependence on welfare.
- How does home production fit into the discussion of female labor supply? Notes that in some cases, universal childcare programs had negative effects, possibly due to lack of high-quality parental time inputs (Baker et al. 2019). Doesn’t think that Blundell et al. (2016) account for the loss in home production associated with mothers increasing their labour supply.

- **Hugo Lopez**

- About Bowles and Gintis: “One aspect that should receive more attention is how the factors that are transmitted from parent to child interact with the environment in which they operate. One case where this is very clearly the case is in the fact that the effect of race on earnings in an earlier generation is likely different in the present.”
- Interested in how group membership, a latent factor proxied by observables like race, may affect inequality in the Bowles and Gintis framework.
- For Blundell (2014) notes that the CRRA parameterization seems a bit critical for tractability. Also interested in the adjustment of family labor supply as a method of self insurance.
- In Blundell (2014) notes the distinction between durable vs. nondurable goods as particularly important. “This is one reason for considering the state-dependent impulse response approach that is seen in Arellano Blundell and Bonhomme (2017).”

- **Philip Monagan**

- There is an unclear mixture of empirical strategies in Bowles and Gintis. The contributions of each of the 5 decomposed channels of transmission may have no causal interpretation. The interpretation as a whole is unclear because “they appear to derive from a mixture of means obtained from the existing literature, a quasi-experimental approach, and correlational decomposition using standard multiple regression.”
- A better approach in the Bowles and Gintis article that would retain more internal validity would be to try and obtain lower and upper bounds for each mechanism. Also room for more quasi-experimental approaches such as leveraging twins.
- Worries about the assumption in the Blundell et al. (2016) paper that family dynamics are exogenous. Notes that “an important mechanism through which policies affect behavior is by subsidizing specific family structures”.
- About Blundell et al. (2016), he notes “there is a broad literature in social insurance using the marginal rate of substitution as a sufficient statistic to evaluate the welfare implications of employment insurance (Chetty, 2006). It would be interesting to compare the structural estimates derived in this

article to more reduced-form estimates which require fewer assumptions over preferences and constraints.”

- About Blundell (2014) mentions it might be good to supplement the structural analysis with some quasi-experimental estimates in order to validate the structural assumptions made. “For example, Landais and Spinnewijn (2021) use Swedish data to exploit quasi-random variation in eligibility for income assistance and insurance to identify the marginal rate of substitution of consumption across employed and unemployed states.”

- **Miguel Valenzuela**

- Bowles and Gintis: “How can educational subsidies help offset inequality in access to educational opportunities? What about taxes on generational wealth?”
- Blundell et al (2016): “How would expanding the WIC program and offering more subsidized early educational opportunities help to mitigate income inequality and the negative impact of tax credits on women’s choice of schooling?”
- Blundell (2014): “How have tax credits either hindered or helped the ability of low-income individuals to whether shocks that affect earning opportunities?”

- **Ruoxuan (Rebecca) Wu**

- Notes that the results of Bowles and Gintis surprisingly show that IQ is not a major force determining intergenerational transmission of economic status.

- **Xiaoqi Zhou**

- “In Bowles and Gintis (2002), the research shows wealth, race and schooling are closely related to economic status transmission. How does the importance of those explanatory factors vary by country? I.e., developed vs developing countries, eastern vs western countries. Is there a culture component as an even deeper cause?”
- In Blundell et al. (2016) tax credits don’t seem to touch on the root cause of low income for lone mothers. What other policy options are there and how much do they cost relative to tax credits?

- About Blundell (2014): how do the dynamics in the model interplay with the skill type of an individual? For example, how does automation affect the dynamics of this model differently for people of different skill types.