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Vierteljahrshefte zur Wirtschaftsforschung

**Provided in Cooperation with:**

German Institute for Economic Research (DIW Berlin)

*Suggested Citation:* Dunn, Thomas A.; Couch, Kenneth A. (1999) : Intergenerational Correlations in Earnings in Three Countries: The United Kingdom, Germany and the United States, Vierteljahrshefte zur Wirtschaftsforschung, ISSN 0340-1707, Duncker & Humblot, Berlin, Vol. 68, Iss. 2, pp. 290-296

This Version is available at:

<https://hdl.handle.net/10419/141252>

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# Intergenerational Correlations in Earnings in Three Countries: the United Kingdom, Germany and the United States\*

By Thomas A. Dunn\*\* and Kenneth A. Couch\*\*\*

## Summary

*We use similarly selected samples from nationally representative longitudinal data sets for the United States, Germany, and the United Kingdom to obtain comparable estimates of intergenerational earnings mobility. The result emerges that the United States and Germany are characterized by very similar degrees of earnings mobility, especially for men and for women with strong attachment to the labor market. Our conclusions for the United Kingdom are more tentative. The relative newness of the sample and the young ages of the children who can be matched to parents leads to very imprecise estimates of intergenerational mobility.*

## 1. Introduction

A well developed literature has investigated the intergenerational correlation of earnings in the United States (Behrman and Taubman 1985; Altonji and Dunn 1991; Peters 1992; Solon 1992; and Zimmerman 1992). Others have calculated the intergenerational correlation of earnings in the United Kingdom (Atkinson 1981; Dearden, Machin, and Reed 1997). Because of the use of dissimilar data sources and methods, a comparison of point estimates from existing United States and British studies may provide misleading inferences regarding relative mobility. Only two prior studies have made direct cross-national comparisons of intergenerational mobility. Couch and Dunn (1997) consider Germany and the United States and provide the first estimates of intergenerational mobility in the literature for Germany, and Björklund and Jäntti (1999) consider Sweden and the United States.

This paper expands the prior literature on comparative intergenerational mobility by providing directly comparable estimates for the United States and the United Kingdom and provides new estimates for Germany using more recent data. Like Couch and Dunn (1997), the strategy of this paper is to use nationally representative longitudinal data from each country during the same period of time to calculate intergenerational correlations in earnings. In handling the data for the three countries, we apply identical sample selection rules and estimation techniques to ensure the resulting estimates are as comparable as possible. We also provide results from a variety of alternatively defined samples to establish the robustness of the findings.

The interest in relative economic mobility is generated by a desire to understand if differences in social organization play an important role in comparative economic dynamics. While historical connections between the United Kingdom

and the United States are arguably more important than between many European countries, the two are nonetheless very different societies. Like all modern industrial nations, the United States, the United Kingdom, and Germany all face a common set of problems, but their policies regarding labor markets nonetheless reflect longstanding differences in American and European viewpoints on the role of government.

Although British and to a lesser extent German provision of benefits such as unemployment insurance, educational stipends, and health insurance may be considered low by European standards, they are generous from an American perspective. The costs of those greater benefits are reflected in the greater marginal rate of taxation faced by the typical citizen from the United Kingdom and Germany. From an American perspective, European societies appear more willing to pay taxes to reduce some of the variance in the typical citizen's economic welfare.

Despite these differences in emphasis upon collective social programs, it is difficult to determine *a priori* which country would be expected to have a more mobile society in terms of earned income. For example, the educational system in the United Kingdom provides for a national examination system for entry into the university system. The system identifies academically qualified students who receive stipends to attend university. One would expect this system to increase income mobility relative to the United States, where access to college is arguably as much a function of access to financing as it is of ability.

On the other hand, labor markets in the United Kingdom and Germany are more heavily unionized than in the United States. The system of craft and trade apprenticeship that accompanies unionization would be expected to make the earnings of parents and their children more similar at any given point in the life-cycle.

Thus, institutional differences among the three countries that would be anticipated to affect earnings do not yield uniform predictions with respect to relative intergenerational mobility. The results of Couch and Dunn (1997) show that the United States and Germany are characterized by a remarkable degree of similarity in intergenerational mobility, especially for fathers and sons. Our goals in this paper are first, to test whether this conclusion still holds using more recent data, and second, to produce a set of comparable estimates for the United Kingdom.

In the remainder of the paper, we first describe the estimation techniques to be used in the study. Then, we discuss the data for the United States, Germany, and the United Kingdom and the samples drawn from each. Next, the estimates for the three countries are presented. The final section summarizes and discusses the findings.

\* We thank Barbara Butrica for assistance with the data.

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## 2. Estimation Methods

There are several established methods of estimating the intergenerational correlation of earnings (see Altonji and Dunn 1991; Solon 1992; and Zimmerman 1992). These methods yield estimated correlations of similar magnitude (between 0.3 and 0.4) when using various sources of panel micro-data on fathers and sons in the United States.<sup>1</sup> As Solon (1989) shows, a simple cross-sectional regression of sons' earnings on fathers' earnings gives an inconsistent estimate of the correlation because of the attenuation bias associated with volatility in reported labor earnings for a single year. Therefore, an approach is needed that reduces the impact of transitory variation.

Like Solon (1989, 1992) and Altonji and Dunn (1991), the approach adopted here exploits panel data to produce a measure of "permanent" earnings for fathers and sons. First, we remove year and age effects from the yearly (log) earnings reports contributed by the fathers and sons who pass the age, enrollment, retirement, and minimum earnings screens. We run one regression combining the fathers' and sons' observations for each country on a set of year dummies and a cubic specification of the individual's age. Every individual contributes an observation to this regression for each year he has a valid labor earnings report. In other words, we do not require that either the parent or the child have a continuous or complete five-year work history over the period of observation. Next, we calculate the time average of the age- and year-adjusted earnings available for each individual to get a more "permanent" measure of earnings. Finally, we regress the sons' time averages on the fathers' averages and a constant. This yields the elasticity of earnings between sons and fathers. We also compute the partial correlation coefficient as the regression coefficient scaled by the ratio of the standard deviation of the fathers' time averages relative to that of the sons. We report both of these mobility parameters to be consistent with the various practices in the existing literature.<sup>2</sup> We repeat this entire series of steps for the mothers and daughters in each data set.

## 3. Data

We use data from three household panel surveys. This section discusses these data sets, our sample selection rules, and the construction of the variables we use in the analysis.

### The BHPS, GSOEP and PSID

The data for Britain are drawn from the British Household Panel Survey (BHPS). The BHPS began by surveying all individuals ages 16 and over in selected households in September of 1991. The initial sample consisted of 5,000 households and more than 10,000 individuals. Residents who leave their original households are followed in subsequent years to their new locations and retained in the sam-

ple (and their new household members are added). Thus, it is possible to match children with their parents and to follow them over time, even when the child leaves the parental home. The sample is nationally representative of households and individuals in all of the United Kingdom in all years of the panel, not accounting for immigration. For a fuller discussion of the BHPS data, see Taylor, Brice, Buck, and Prentice (1999).

The data for Germany are drawn from the yearly surveys of the German Socio-Economic Panel (GSOEP). The GSOEP began by surveying all individuals in selected households in 1984. Individuals who left the original households were followed to their new locations and retained in the sample. Thus, it is possible to match children with their parents and follow them over time. The sample is nationally representative of households and individuals in all of Germany in all years of the panel, not accounting for immigration. Former East Germans were included in the sampling frame beginning in 1990. However, we use data only for individuals from the former West Germany in this study. The main reason for excluding East Germans is that the former German Democratic Republic was a completely different society, not at all a modern industrial society comparable to the United Kingdom or the United States. For a fuller discussion of the GSOEP data, see Wagner, Burkhauser, and Behringer (1993).

The data for the American parents and children come from the Panel Study of Income Dynamics (PSID), a yearly household survey begun in 1968. The PSID is similar in structure to the BHPS and GSOEP in the way individuals and households are followed and in the type of information that is collected annually. In any year of the PSID, the sample is nationally representative of all households and individuals in the United States, not accounting for immigration. Hill (1992) provides a detailed discussion of the PSID. For the United States and Germany we also draw data from the 1998 release of the Syracuse University PSID-GSOEP Equivalent Data File.<sup>3</sup>

### Sample Selection Rules and Earnings Measures

From each data set we extract the following information for each year: the individual's age, whether retired, whether

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<sup>1</sup> Evidence of the sensitivity of estimates of the intergenerational correlation of earnings to alternative sample selection rules is presented in Couch and Lillard (1997). Similar findings are reported in Couch and Dunn (1997).

<sup>2</sup> Our method differs from Solon (1992) in that we construct time averages for both the sons and the fathers, whereas he uses a single year of the sons' earnings. While averaging the sons' earnings over time does not result in any additional reduction in the attenuation bias, it does give a better measure of the sons' permanent earnings than a single year's report would.

<sup>3</sup> See Burkhauser, Butrica and Daly (forthcoming) for a discussion of the Equivalent File.

enrolled in school, annual work hours, and annual labor income. We use family identifiers and relationship codes to match fathers with sons and mothers with daughters within each data set. We allow families to contribute as many children to the data sets as meet our screening rules. We use the five survey years of data now publically available from the BHPS, the 1991 to 1995 surveys. We select our United States and German data to overlap as much as possible with the BHPS sample period given current data availability: survey years 1989 to 1993 for the PSID and 1991 to 1995 for the GSOEP. To each of these data sets we apply an identical set of sample selection rules. That is, we keep earnings observations for children only after they reach age 22 and after they last report enrollment in school. We discard observations for parents in years when they are 65 or older or after they first report being retired. We also drop cases in which the difference between the parent's and child's ages is less than 18 years. Later, we experiment with various sample selection rules to test the robustness of the estimates.

All three surveys collect retrospective labor earnings information, although the time coverage is not exactly duplicated due to differences in the sample questionnaires, and the definition of labor earnings is not identical across the three surveys. More precisely, the earnings information for the United Kingdom sample refers to the calendar year beginning in September of the year prior to the survey. We use the measure of annual labor earnings constructed by the research staff in the BHPS, which is calculated using gross rates of pay in the various jobs reported in the past year scaled by the duration of employment in each job during the past year. In the GSOEP, respondents report monthly gross earnings from all employment, including training, primary and secondary jobs, and self-employment. This is annualized in the GSOEP-PSID Equivalent File by multiplying reported monthly earnings from each job by the number of months worked during the year in that job and then adding holiday pay and bonuses. In contrast, PSID respondents report annual labor earnings from all jobs (primary and others, self-employment, bonuses and com-

Table 1

Sample Summary Statistics<sup>a)</sup>

	BHPS	GSOEP	PSID
Mean age sons (standard deviation)	25.2 (3.6)	27.1 (3.7)	29.3 (5.3)
Mean age daughters (standard deviation)	25.1 (3.4)	26.2 (3.4)	30.2 (5.7)
Mean age fathers (standard deviation)	51.7 (5.6)	53.8 (5.0)	54.6 (6.3)
Mean age mothers (standard deviation)	49.5 (5.1)	50.2 (5.6)	53.1 (6.6)
<i>Father-Son Pairs</i>			
Number pairs satisfying age screens	479	630	1,042
Number of pairs lost due to lack of earnings	204	242	257
Number of earnings for child	125	157	34
Number of earnings for parent	43	69	215
Number of earnings for either	36	16	8
Mean number valid observations per child (parent)	2.6 (3.7)	3.5 (4.2)	4.0 (4.0)
<i>Mother-Daughter Pairs</i>			
Number pairs satisfying age screens	426	516	1,737
Number of pairs lost due to lack of earnings	214	276	661
Number of earnings for child	99	83	107
Number of earnings for parent	77	149	470
Number of earnings for either	38	44	84
Mean number valid observations per child (parent)	2.8 (3.9)	3.2 (4.0)	3.8 (4.0)
<p><sup>a)</sup> Children must be at least aged 22 and out of school and parents must be younger than age 65 and not yet retired in order to contribute observations to their time averages. Minimum earnings screens of £ 200, DM 200, and \$100 were imposed. Sample periods are 1991 to 1995 for BHPS and GSOEP and 1989 to 1993 for PSID.  Source: Authors' calculations using BHPS, GSOEP and PSID.</p>			

missions) in the prior calendar year. In all the regressions, we work with the logarithm of earnings to reduce the influence of outlying observations and to correct for the non-normality of the earnings distribution. But first, to be consistent with other studies, we impose a minimum earnings threshold of 200 pounds for the United Kingdom, 200 DM for Germany, and 100 dollars for the United States. Practically, these thresholds have the effect of eliminating earnings reports of zero, since only a very small percentage of individuals in each data set have positive earnings below the thresholds.

### Sample Summary Statistics

Table 1 displays summary statistics for the samples used in the study. A concern raised by the top panel of the table is the difference in mean ages of children and parents across the three data sets. The sons and daughters in the BHPS are the youngest, around 25 years old, the PSID children are the oldest, averaging around 30 years old, and the Germans fall in the middle. The parents' ages follow a similar pattern, with the mean difference between the PSID and BHPS parents around three years. However, the differences between the ages of the fathers and sons in the each of the samples are more similar: fathers in the BHPS are on average 28 years older than their sons, while the difference is 29 years in the GSOEP and 27 years in the PSID. This is a potentially important point since, as Reville (1995) has shown, estimates of intergenerational earnings correlations are sensitive to the ages at which the fathers' and sons' earnings are recorded: the estimates are found to be larger when the sons are older or nearer to their fathers' age when their fathers' reports were made.<sup>4</sup>

The lower portions of Table 1 provide more detail on our matched parent-child samples. We emphasize here that the survey designs and durations have a large impact on the number and composition of the samples of working parents and children who actually contribute to our regression analysis. Not surprisingly given its duration, the PSID contains the largest number of matches in which both the parent and child meet the age screens. We find 1,042 father-son pairs and 1,737 mother-daughter pairs. These children were identified in original member households in 1968 and followed thereafter as "split-offs", and so they have had time to complete their schooling and begin their working careers by the early 1990s. Time works to the disadvantage of the PSID sample, too, because many of the original parents have entered retirement or stop working for other reasons. Of course, over time new parent-child matches are created as the split-offs begin their own families or move in with existing families, and these pairs are included if they pass the various screening requirements. All this considered, of the 1,042 constructed father-son pairs passing our initial age screens (sons older than 21 and fathers younger than 65), 257 pairs (or about a quarter) fail to enter our regression sample because one of the eligible members does not work in at least one year in the five-year

period. In 34 cases the son does not work or is still in school and in 215 cases the father is retired or does not work. Similarly, a relatively small number of age-eligible mother-daughter pairs (around 40 percent) in the PSID are lost because of nonwork, retirement or schooling. Among those, the large majority (70 percent) of the failures are due to the mother's retirement or non-work.

In contrast, in both the BHPS and the GSOEP the majority (about 60 percent) of the lost father-son pairs are because the son for some reason provides no valid earnings reports over the five-year period of observation. In the GSOEP, mothers' lack of earnings is more serious than in the BHPS, but in both samples the fraction of daughters who are not working or in school is higher than in the PSID. In both surveys, in order to be identified as a son or daughter, the individual had to be a member of the parent's household. Adult children living at home are more likely to be enrolled in school, unemployed, or not working for other reasons than young adults living on their own. Unfortunately, the independent (and more likely employed) young adults cannot be matched to a parent in the data set. This introduces a sample selection problem that tends to understate labor force attachment and earnings of the set of young adults identified as sons and daughters in the data sets. Given its relatively short length, this problem is most apparent in the BHPS. This serves as a caution in the interpretation of the results that follows.

## 4. Results

This section presents our estimates of earnings correlations for fathers and sons and mothers and daughters in each country as described in section 2. We also test the sensitivity of our results to the age screens and to the work history selection rules.

### Fathers and Sons

Table 2 contains the regression results for fathers and sons from the three data sets. In each regression, the dependent variable is the time average of the son's age- and year-adjusted earnings and the dependent variable is the father's time average. The sample in the first column is restricted to pairs of fathers and sons who both worked in all five years of observation, the second column requires at least four years of work from both members, and so on up to the last column, which requires only that each member worked in at least one year. Given the work of Solon (1989,1992) and Couch and Dunn (1997), we expect noisier

<sup>4</sup> Estimates of the correlations of fathers' and sons' earnings when they are at similar ages are preferable and can be constructed using the PSID, given its long history. However, the GSOEP and to a greater extent the BHPS do not allow such an exercise. So, for comparability's sake, we must observe the parents and children over the same calendar period, rather than the same life-cycle period.

Table 2

Father-Son Earnings Correlations Using Various Time Averages<sup>a)</sup>

	5-Year Average	4-Year Average	3-Year Average	2-Year Average	1-Year
Sons at Least 22-Years-Old					
BHPS	0.419 (2.18) 0.42 N = 24	0.121 (1.22) 0.16 N = 59	0.064 (0.79) 0.08 N = 103	0.108 (1.71) 0.13 N = 162	0.039 (0.74) 0.04 N = 275
GSOEP	0.188 (2.30) 0.22 N = 102	0.242 (3.51) 0.28 N = 144	0.183 (3.23) 0.21 N = 218	0.101 (2.16) 0.12 N = 305	0.028 (0.54) 0.03 N = 388
PSID	0.252 (5.34) 0.31 N = 263	0.225 (5.80) 0.28 N = 402	0.279 (7.42) 0.31 N = 499	0.262 (7.05) 0.27 N = 634	0.208 (5.77) 0.20 N = 785
Sons at Least 25-Years-Old					
BHPS	0.452 (7.82) 0.57 N = 8	-0.048 (0.35) -0.07 N = 23	0.098 (0.81) 0.12 N = 43	0.042 (0.39) 0.04 N = 79	0.108 (1.53) 0.13 N = 143
GSOEP	0.357 (3.30) 0.38 N = 64	0.355 (4.47) 0.40 N = 104	0.281 (4.29) 0.33 N = 150	0.128 (2.47) 0.16 N = 238	-0.014 (0.25) -0.01 N = 300
PSID	0.265 (4.36) 0.30 N = 190	0.282 (6.41) 0.35 N = 305	0.348 (8.59) 0.40 N = 391	0.305 (7.87) 0.33 N = 511	0.277 (7.30) 0.27 N = 655
<sup>a)</sup> Cell entries show the regression coefficient (absolute t-value); correlation; and sample size. Sample selections as in Table 1. Source: Authors' calculations using BHPS, GSOEP, and PSID.					

and smaller coefficient estimates when fewer years are included in the time averages due to the effects of the well-known problem of transitory error in earnings reports.

For each of the estimates, we report the regression coefficient, which in this case is an elasticity between the earnings of the sons and fathers, along with the relevant t-statistic. Below that, the corresponding correlation between earnings of the sons and fathers is shown, along with the sample size underlying the estimate.

The top panel of Table 2 imposes a minimum age threshold of 22 years for sons' observations. The first row shows the five estimates for the BHPS men. Notice the small sample size when we require that the father and son both have five valid earnings reports. The estimated elasticity (correlation) is 0.419 (0.42), which is larger than the corresponding German and United States figures and suggests a relatively low degree of intergenerational mobility. However, this proves to be a highly unstable estimate. As we relax the work history requirement the sample size increases, but the estimated coefficients and correlations shrink and become statistically insignificant.

The GSOEP estimates in the first three columns are more stable, yielding a correlation between 0.20 and 0.30, while the last two columns are lower, less precisely estimated, and are more likely to suffer from attenuation bias. Congruently, the PSID estimates are quite stable across all columns and fall in the same range as the GSOEP estimates. These correlations are on the high end of the range of estimates reported by Couch and Dunn (1997) for Germany and the United States using an earlier time period (1984 to 1989). This would be expected given the aging and earning dynamics in the intervening years. Additionally, these new estimates are in line with estimates for the United States in Altonji and Dunn (1991), Solon (1992), and Zimmerman (1992),

Differences in typical school-leaving ages or earnings dynamics across countries may make a comparison of earnings correlations based on the sample of young men questionable. Those who stay in school longer or who have a harder time finding work after schooling is completed may be overshadowed by their counterparts who have less schooling. To test this hypothesis, we re-ran our regres-

sions after raising the minimum age for sons from 22 to 25. These results are presented in the bottom panel of Table 2. Obviously, the sample sizes are smaller, especially so in the BHPS. As expected, the estimated correlations are generally higher than in the top panel, except for the BHPS, where the estimated coefficients are even more unstable due to the small sample sizes. For the PSID and GSOEP, we see higher correlations in the range of 0.30 to 0.40 now that young workers-whose earnings at their first jobs are low and subject to large transitory errors-are eliminated from the sample.

In summary, the measures of intergenerational mobility in German and in the United States are quite comparable. They fall in a range centered around 0.30 and move in the same direction and in the same magnitudes as the sample selection rules change. In contrast, the results for the BHPS are harder to interpret. Generally, the estimated correlations are small and insignificant, but this is most likely attributable to the small sample size and differences in the sample composition. However, the few statistically significant estimates point to less mobility in the United Kingdom.

## Mothers and Daughters

Our parallel analysis of intergenerational earnings mobility for women appears in Table 3. The sample sizes in the BHPS are even smaller now, and the mobility estimates are uniformly tiny (some point estimates are negative) and insignificant whether the age cutoff is 22 or 25 years old. This suggests very different patterns of labor force attachment and earnings for mothers and daughters in the United Kingdom.

The German women's estimates are also less stable than the men's. But for women with strong labor force attachment (see columns 1 and 2), the regression coefficients and correlations are sizable, around 0.27. For women with more spotty attachment, the coefficients are small and insignificant. More dramatically, the estimates for the United States women in the PSID are all highly significant and cluster between 0.20 and 0.25. The strong correlation in earnings is found for women with both strong and weak attachment to the labor force, and the estimates are just slightly smaller than the men's. In comparison, the figures presented here

Table 3

Mother-Daughter Earnings Correlations Using Various Time Averages<sup>a)</sup>

	5-Year Average	4-Year Average	3-Year Average	2-Year Average	1-Year
Daughters at Least 22-Years-Old					
BHPS	0.038 (0.41) 0.08 N = 27	0.011 (0.17) 0.02 N = 56	-0.019 (0.27) -0.03 N = 88	0.011 (0.14) 0.01 N = 127	0.032 (0.55) 0.04 N = 212
GSOEP	0.171 (1.78) 0.27 N = 41	0.174 (2.33) 0.27 N = 72	0.023 (0.31) 0.03 N = 119	-0.023 (0.35) -0.03 N = 176	-0.025 (0.45) -0.03 N = 240
PSID	0.169 (3.31) 0.18 N = 329	0.247 (5.59) 0.25 N = 490	0.205 (5.41) 0.21 N = 643	0.219 (6.25) 0.21 N = 832	0.220 (7.14) 0.21 N = 1,076
Daughters at Least 25-Years-Old					
BHPS	-0.017 (0.06) -0.03 N = 7	-0.065 (0.68) -0.16 N = 19	0.029 (0.26) 0.04 N = 39	0.066 (0.77) 0.10 N = 67	0.019 (0.29) 0.03 N = 122
GSOEP	0.200 (1.40) 0.28 N = 26	0.151 (1.37) 0.22 N = 40	0.020 (0.19) 0.02 N = 73	-0.106 (0.09) -0.11 N = 118	-0.069 (0.93) -0.07 N = 169
PSID	0.181 (2.88) 0.18 N = 240	0.269 (5.45) 0.27 N = 379	0.240 (5.72) 0.24 N = 522	0.234 (5.89) 0.22 N = 686	0.247 (7.17) 0.23 N = 892

<sup>a)</sup> Cell entries show the regression coefficient (absolute t-value); correlation; and sample size. Sample selections as in Table 1. Source: Authors' calculations using BHPS, GSOEP, and PSID.

are larger than Couch and Dunn's earlier earnings correlation estimates for German and United States women (near zero and 0.16 respectively), confirming the corresponding results for men.

### 5. Conclusion

Using similarly selected samples from nationally representative longitudinal data sets for the United States, Germany, and the United Kingdom, this paper provides comparable estimates of intergenerational earnings mobility in the three countries. The result emerges that the United States and Germany are characterized by very similar degrees of earnings mobility, especially for men and for women with strong attachment to the labor market. Our conclusions for the United Kingdom are more tentative. The relative newness of the sample and the young ages of the children who can be matched to parents leads to very imprecise estimates of intergenerational mobility. What

(scant) statistically significant evidence there is points to a very strong correlation in the earnings of fathers and sons. Better estimates for the United Kingdom will be obtained over time as the young adults begin their working lives independent of their parents' households.

Due to data limitations imposed by the survey designs and reporting conventions, we do not argue that we have presented population correlation coefficients for the three countries. We do provide correlation coefficients for each country calculated using similar data sources, identical sample selection rules, and identical estimation procedures. While we understand there are some inherent limitations to this approach, we nonetheless argue that the procedure employed reveals more about relative intergenerational mobility and labor force attachment than is possible by comparing independent point estimates across studies where no attempt has been made to standardize the samples or estimation techniques employed.

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