Grandparents are fundamental pillars of families and societies. They transmit skills and values to the future generations, invest in parental human capital, provide child-care throughout direct interactions, and are bequest givers.

The aim of this paper is to analyze and quantify the impact of grandparents’ socio-economic situation during different periods of their working age on the income of the two subsequent generations. For doing this, we exploit the universe of the Danish population from 1980 to 2019 and their correspondent detailed individual information on demographics, education, income, wealth, and labor history. We focus on dynasties composed by grandparents, parents, and children.

Inspired by the theoretical model on inequality transmission across multiple generations introduced by Solon (2014), our empirical model studies whether individual income can be explained by the parents’ and grandparents’ income. Using as instrument the firms’ mass lay-off events in the middle of grandparents’ career (i.e., between 45–55-year-old), we find that grandparents’ income has a positive and significant effect on grandchildren’s one and can be quantified in about 25% of the total effect of the intergenerational transmission. This direct effect is beyond the indirect effect of grandparents through parents’ income. In addition, we identify larger effects once maternal grandmothers or retired grandparents living close to the grandchildren are considered.

We contribute an answer to these questions by constructing genealogical trees of three different generations. We link grandparents, parents, and offsprings and we collect yearly individual information on demographics, education, income, wealth, and labor history. These dataset offer an exceptional opportunity for studying intergenerational transmission of income across three different generations. We link grandparents, parents, and offsprings and we collect yearly individual information on demographics, education, income, wealth, and labor history. These dataset offer an exceptional opportunity for studying intergenerational transmission of income across three different generations.

We find that

- Transmission is not memoryless of earlier generations with a positive (although small) direct of grandparents.
- Maternal prevalence in the transmission.
- In addition, time and geography do matter: the effect is larger if the grandparent is living close to the offspring; in addition, it also large if the grandparent is in retirement.

These results are consistent when the grandparents’ income is instrumented by mass-layoffs when grandparents are in the middle of their own labor history (i.e., during the retirement age). This instrument is

- Inspired by Oreopoulos et al. (2008)
- It should be considered exogenous to grandparents’ characteristics since
  1. It is orthogonal to grandparents’ characteristics, as the decision to lay off is a result of external economic shocks in the Danish labor market.
  2. At the same time, Danish labor market is very flexible.

Our research highlights the role of grandparents in the human capital development of their grandchildren. We find that grandparents play a role in the dynamics of intergenerational transmission. In particular, we find that retired grandparents and/or those living next to their offspring tend to have a more significant influence. This research question can be seen as an extension of the Becker and Tomes (1986) model, accounting for grandparent-nephew interactions. This would offer a more complete understanding of family dynamics and human capital accumulation.

Our results are also confirmed when we use mass layoffs as an instrument to identify causal effects.

References