Children of the boom: house prices and social mobility

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Abstract

We study the impact of the UK house price boom on the intergenerational persistence of homeownership, housing wealth, location and earnings. Increases in local house prices have a negative effect on homeownership and increase the intergenerational persistence of housing wealth. We show that by age 28 to 27 around 15% of parental housing wealth gains are passed through to children's housing wealth. This effect on housing wealth inequality is explained not primarily by those with wealthier parents being moved into homeownership but by the children of wealthier parents being caused to move to and own a home in London. Moving to this high house price and high earning part of the country comes alongside an effect of parental wealth on occupation choice and a positive effect of parental wealth on the likelihood of having earnings in the top decile. We show that increased parental wealth causes larger wealth transfers to adult children, consistent with at least part of these effects being explained by wealthier parents helping their children overcome liquidity constraints to move to high house price parts of the country.

Keywords: homeownership; social mobility; house prices; intergenerational persistence

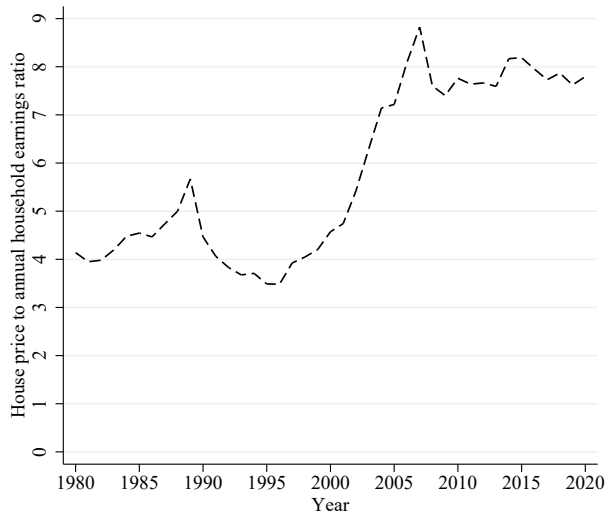
1 Introduction

What is the effect of house price booms on social mobility? Across advanced economies, the half-century from the mid-1970s to 2020 saw a dramatic rise in wealth to income ratios (Piketty and Zucman (2014)). As part of this trend, many countries have seen both rapidly increasing house prices and declines in the homeownership rate of young people. In the

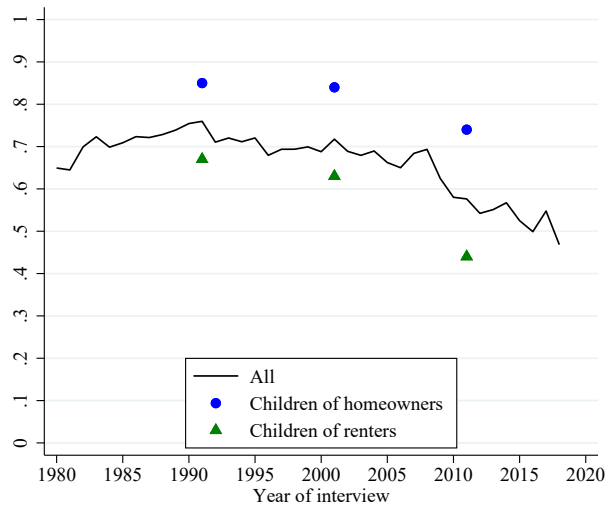
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Figure 1: Trends in house prices and homeownership inequality by parental background

(a) House price to earnings ratio



(b) Homeownership rate for 30-36-year-olds



Source: Family Expenditure Survey (1980-2020) and Bell et al. (2023), using the Longitudinal Study.

UK, house prices approximately doubled as compared to earnings over the period from the mid-1990s to the mid-2000s (Figure 1 (a)). At the same time, the homeownership rate for those aged 30 to 36 fell from around 70% to around 50%. This fall was much greater for those whose parents do not own their home as for those whose parents do own their own home, implying a rise in the intergenerational persistence of homeownership (Figure 1 (b); Bell, Blundell, and Machin (2023)).

In this paper we ask whether the UK house price boom affected inequalities between those from different parental backgrounds. We hypothesise that higher house prices mean that downpayment constraints for home purchase become more difficult to overcome using savings from earnings and consequently the ability to purchase a home may be more related to parental background. Home purchase decisions are often made jointly with those about location of residence and careers meaning that there is a potential for knock-on consequence for earnings. In turn this is important for the allocation of skills and national productivity (Hsieh and Moretti (2019)).

To give quantitative answers to these questions, we combine long-running intergenerationally and longitudinally-linked census data data with the universe of housing transactions, administrative earnings records, and newly-estimated elasticities of housing supply for English local areas. We exploit geographic differences in exposure to the house price boom to quantify the effect of house prices and parental wealth on the homeownership, wealth, location choices, careers and earnings of young adults. We find that young people who face higher house prices that are £100,000 higher are around 16 percentage points less likely to own their home at age 28 to 37. At the same time, higher house prices have a

positive effect on the wealth and earnings of the children of homeowners by increasing the wealth of their parents. As house price increases were unequal and higher for those with high initial levels of wealth, this increased wealth and income inequalities between those with more wealthy and less wealthy parents. This effect on wealth and earnings happens through effects on location, homeownership and career decisions. Those with wealthier parents are more likely to move to London, a high earning and high house price part of the country, and to buy a house and enter certain careers there. We show that parents with higher levels of housing wealth make higher value wealth transfers to their adult children, consistent with parental wealth influencing the decisions of young people by helping them to overcome liquidity constraints to home purchase in high house price areas.

1.1 Related literature

We contribute to the literature which seeks to understand the determinants of social mobility, focusing on housing markets and geographic mobility. The intergenerational persistence of wealth is high by international standards in the US and UK (Charles and Hurst (2003)); Levell and Sturrock (2023)) and the intergenerational persistence of homeownership is increasing (Blanden, Eyles, and Machin (2023). Getz Wold, Are Aastveit, Eylands Brandsaas, Enger Juelsrud, and James Natvik (2023) show the importance of parental assistance for homeownership and wealth accumulation. For the first time, we demonstrate a link between family wealth and location and career choices and quantify its implications for wealth and earnings. These findings relate to our understanding of the relationship between geographic mobility and social mobility. Chetty and Hendren (2018a) and Chetty and Hendren (2018b) show that neighbourhood effects are significant in driving upward income mobility. In the UK, there are strong geographic differences in occupational, educational, earnings, and homeownership mobility (Bell et al. (2023); Van Der Erve, Krutikova, Macmillan, and Sturrock (2024)).

A small number of paper has shown a causal link between family (housing) wealth and child outcomes such as education (M. F. Lovenheim (2011); M. Lovenheim and Reynolds (2013)), fertility (M. F. Lovenheim and Mumford (2013)) and wealth-holding behaviour (Black, Devereux, Lundborg, and Majlesi (2020)). A small number of papers have examined the transmission of housing wealth specifically (Benetton, Kudlyak, and Mondragon (2022); Daysal, Lovenheim, and Wasser (2023)). We relate these intergenerational effects of wealth to broader concepts of intergenerational mobility. Furthermore, we link the intergenerational mobility literature with that which has sought to understand the redistributive effects of asset price shocks (Fagereng, Gomez, Holm, Moll, and Natvik (2022)) and link to those studies that have sought to examine the relationship between parental wealth transfers and

income shocks (Edwards and Wenger (2019); Andersen, Johannesen, and Sheridan (2020); Fagereng, Guiso, Pistaferri, and Ring (2023)) and between parental transfers and homeownership decisions (Boileau and Sturrock (2023); Eylands Brandsaas (2021); Kolodziejczyk and Leth-Petersen (2013)).

2 Data

We draw on several administrative and survey datasets and link these to administrative data on earnings, housing transactions and newly-estimated local elasticities of housing supply. We outline each dataset in turn.

The Longitudinal Study of Linked Censuses (LS): The LS contains decennial census and life events data for a 1% sample of the population of England and Wales. The LS links all census records from the 1971 census to the 2011 census for people born on one of four selected dates in each calendar year. Linkage across census waves takes place using National Health Service records on name, date of birth and address. New LS members enter the study through birth and immigration if they are born on one of the four selected birth dates. The LS data contains the census records of the LS members and the contemporaneous records of residents of the LS member's household. Consequently, we obtain linked census records of the parents of the LS members from the census waves in which LS member is living with their parents. The LS consequently gives us high-quality intergenerationally-linked administrative data on a wide range of individual outcomes including location, housing, education and occupation. Crucially, the census is mandatory and linkage rates are high. We draw upon three 'cohorts' of individuals from the LS: those born in 1954 to 1963, 1964 to 1973 and 1974 to 1983. These cohorts represent those individuals aged between 8 and 17 in the 1971, 1981 and 1991 census respectively. At these ages, almost all individuals are resident with their parents. We include in our sample those who are observed living with their parents in these census waves and who are also observed in the census wave 20 years later. This is a largely representative sample of those individuals from these birth cohorts who resided in England and Wales in these periods.

The Wealth and Assets Survey (WAS): The WAS is a household panel survey dataset which interviews households every 2 years and elicits detailed information about wealth and wealth transfers. It is the basis for the UK's National Statistics on household wealth. WAS is a representative dataset but over-samples households from high-income postcodes in order to increase the coverage of high-wealth households. WAS has been running since 2006. We use the module of questions on gifts given and received by sample members. Individuals are asked to report all gifts of £500 or more (including both financial gifts and

gifts in kind) received over the previous two years. Since the seventh wave of the survey, all individuals are asked about the purpose and use of the gifts received and the relationship to the giver of the gift. From the seventh wave onwards, there are equivalent questions about gifts given.

The UK Household Longitudinal Study (UKHLS): Also known as Understanding Society, this is an annual representative household panel dataset. Combined with its predecessor The British Household Panel Study (BHPS) this dataset has been running since 1991. The survey asks a wide range of questions across a broad range of topics including housing, wealth, and labour market outcomes, and is equivalent to the US Panel Study of Income Dynamics. All individuals resident in a household at the time it enters the survey, and all children of these original sample members, remain members of the survey in subsequent waves. The UKHLS therefore provides an household panel dataset in which the children of sample members continue to be interviewed when they leave the parental home.

Elasticities of local housing supply: We use the newly-created estimates of the local elasticity of housing supply over the period 1996 to 2021 from Drayton, Levell, and Sturrock (2024). We use the estimates at Local Authority District l(LAD) evel. There are 364 Local Authorities in England. We link these elasticities to the observations in the LS, WAS and UKHLS using location of residence.

Labour Force Survey: This is the largest source of representative data on earnings for the UK. We use this to impute earnings into the LS. We impute earnings as the predicted values from a regression of annual earnings on (a) the interaction of single year and age and level of education (college or no college education) and (b) the interaction of 2-digit Standard Occupational Classification code, gender, full-time versus part-time work and region of residence. The R-squared for this regression is 0.67.

Land registry: This is the universe of housing transactions in the UK since 1995. The data contains transaction date, price, location (allowing us to determine LAD) and property type. We use this to impute property value into the LS using the cells means of property type, year and and LAD. For the 1991 observations of the LS, we impute property value as the 1995 imputed value deflated in line with regional level price growth estimates for the period 1991 to 1995 from Nationwide Bank.

3 Empirical Method

Suppose an outcome y for child i, in time t, who lives area $j(it)$ is determined as follows:

$$y_{it}^{c} = f(\underbrace{X_{i,t}^{c}}_{\substack{\text{child's} \\ \text{characteristics}}} , \underbrace{X_{i,t-s}^{p}}_{\substack{\text{parents'} \\ \text{characteristics}}} , \underbrace{W_{i,t}^{p}}_{\substack{\text{parents'} \\ \text{housing wealth}}} , \underbrace{p_{j(i,t),t}}_{\substack{\text{local house} \\ \text{prices}}} , \underbrace{\lambda_{j(i,t-s),t-s}}_{\text{childhood location}} , \underbrace{\epsilon_{it}}_{\text{taste/ability}}). \quad (1)$$

This says that the outcome depends on the child's characteristics, the child's parents' characteristics, their parents' wealth, house prices in the area the child lives, the area that the child grew up in, and unobserved components like the child's preferences and abilities.

There are several challenges to isolating the effects of house prices and parental housing wealth on children's outcomes. First, individuals may sort into higher or lower house price areas based on unobserved determinants of demand for housing such as preferences. Second, unobserved idiosyncratic factors, such as tastes for housing, could be correlated across generations and drive correlations in the levels of housing wealth of both parents and their children. Third, unobserved local factors, such as the quality of schools or labour market opportunities in the area the child grew up in, are likely to drive house prices and parental wealth and also the child's later life outcomes. All of these considerations would drive correlation between the unobserved components, ϵ_{it} and $\lambda_{j(i,t-s),t-s}$, and our explanatory variables of interest, $W_{i,t}^{p}$ and $p_{j(i,t),t}$ meaning that observed relationships between y_{it} and both $W_{i,t}^{p}$ and $p_{j(i,t),t}$ do not capture causal effects.

Our approach to these challenges is to use variation in price growth across areas to identify the effect of local house prices and to use the combination of parents' homeownership status at the start of the house price boom period and house price growth in their initial area of residence to identify the effect of parental wealth. Specifically, to address the endogeneity of child's later-life location, we instrument for current local prices using current house prices in the area the child grew up in. We instrument for parental housing wealth with the interaction of local house prices and whether the parents were homeowners when the child was young. We control for time and local area fixed effects so that all the variation in prices we exploit is due to variation in house price *growth* across areas. As we have data on multiple cohorts, we can include controls for the interaction of local area and parental homeownership, to account for any time-invariant differences between the children of renters and homeowners across areas. This approach identifies the effects of local house prices based on variation across areas in house price growth and identifies the effects of parental wealth based on the variation in gap in parental wealth between the children of homeowners and the children of renters across high and low house price growth areas.

We estimate the following first stage equations:

$$W^p_{i,t} = \alpha_1 X^c_{i,t} + \alpha_2 X^p_{i,t-s} + \alpha_3 h^p_{t-s} \cdot p_{j(i,t-s),t} + \alpha_4 p_{j(i,t-s),t} + \gamma^W_{j(i,t-s),h^p_{t-s}} + \epsilon_{i,t} \quad (2)$$

$$p_{j(i,t),t} = \delta_1 X^c_{i,t} + \delta_2 X^p_{i,t-s} + \delta_3 h^p_{t-s} \cdot p_{j(i,t-s),t} + \delta_4 p_{j(i,t-s),t} + \gamma^p_{j(i,t-s),h^p_{t-s}} + \epsilon_{i,t} \quad (3)$$

where $X^c_{i,t}$ are predetermined child characteristics (age, gender, ethnicity - all interacted with region of upbringing), $X^p_{i,t-s}$ are parent characteristics when the child is residing with their parents (occupation, social class, employment status, housing tenure interacted with cohort, education and single parent indicator - all interacted with region), h^p_t is parents' homeownership status at time t and $\gamma^W_{j(i,t-s),h^p_{t-s}}$ represent a series of local authority by parental homeownership status fixed effects. The second stage equation is:

$$y^c_{i,t} = \beta_1 X^c_{i,t} + \beta_2 X^p_{i,t-s} + \beta_3 \widetilde{W^p_{i,t}} + \beta_4 \widetilde{p_{j(i,t),t}} + \gamma_{j(i,t-s),h^p_{t-s}} + \epsilon_{i,t} \quad (4)$$

Sufficient conditions for identification in this setup are:

$$\Delta E[f'_\lambda(X^c, X^p, W^p, j, h^p_i = 1)] = \Delta E[f'_\lambda(X^c, X^p, W^p, j, h^p_i = 0)] = \Delta \beta_4 p_{jt} \quad (5)$$

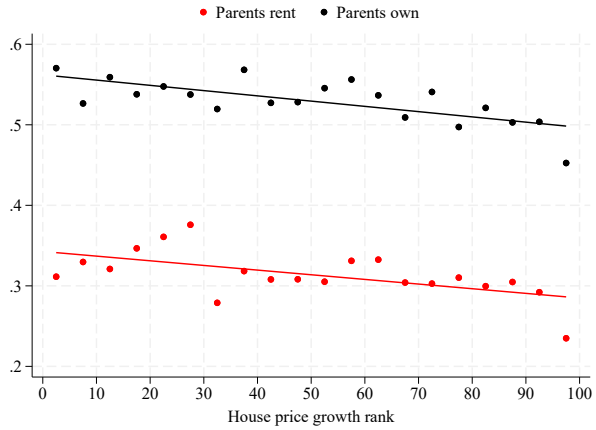
$$E[\epsilon_{it} \Delta p_j h^p_{i,t-s} | X^c_{it}, X^p_{i,t-s}, W^p_{i,t-s}, j = J] = 0 \quad (6)$$

The first condition requires that the change in local area effect is common across the children of renters and owners and is equal to the effect of the change in local prices. In other words, there are no other changes in local area effects that confound the effect of local prices. The second condition requires that any idiosyncratic drivers of our outcomes (like preferences) are not correlated with the interaction of parental housing wealth and local house price growth.

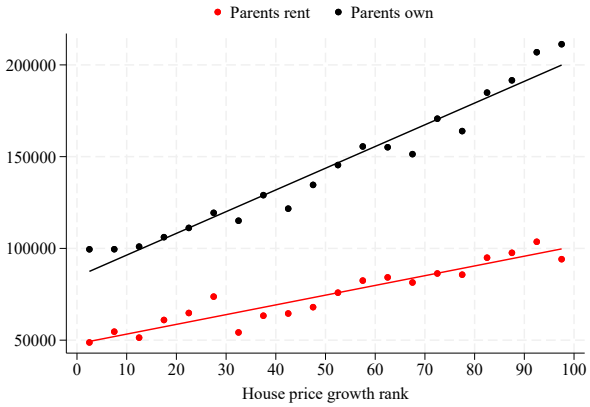
One threat to identification would be if the change in house prices over time in an area is correlated with changes in local conditions that affect our outcomes of interest, like an improvement in school quality. We have two responses to this concern. The first is that we can in additional specifications include local authority by year fixed effects. This captures the effect of any time-varying factors at the local authority level. We cannot then identify the effect of prices in this specification but we will identify the effect of parental wealth making only the assumption given by the first equality in Eq. (5), without requiring the second equality. The second response is that we can use variation in local prices driven by the local elasticity of housing supply. This isolates changes in house prices that are driven by variation in factors like local topography and planning restrictions which are more plausibly exogenous with respect to the outcomes of the children growing up in that area. Specifically, we instrument for prices with the elasticity of housing supply in the local authority in which

Figure 2: Relationship between parent's local house price growth and children's outcomes

(a) Homeowner



(b) Gross housing wealth



Source: Authors' calculations using the ONS Longitudinal Study Note: Both panels shows mean outcomes for the children of renters and the children of homeowners aged between 28 and 37 in 2011, by ventile of the distribution of local house price growth over the period 1991 to 2011 for parents' region of residence in 1991. Panel (a) shows the homeownership rate and panel (b) shows the mean level of gross housing wealth.

the child grew up. We can also instrument for parental housing wealth with the interaction of parental homeownership in the earlier period interacted with the local housing supply elasticity and an indicator for being in the later cohort. Effectively, we exploit variation in the change of the within-area wealth gap between renting and homeowning parents across areas with higher and lower elasticities of housing supply.

4 Results

4.1 Effects on homeownership and housing wealth

Figure 2 illustrates our identification and headline results with regards to homeownership and housing wealth. We show average outcomes for the children of homeowners and renters across the distribution of local house price growth in the parents' initial area of residence. Our identification of the effect of prices exploits the slope of outcomes in local house price growth. Our identification of the effect of parental wealth exploits the differential in this slope between the children of owners and renters.[1] While homeownership rates are lower for those who grew up in areas that saw faster house price growth over the boom period, the *difference* between the children of owners and renters is not substantively changing with price growth. For housing wealth, there is an larger gap between the children of owners and renters among those who grew up in higher house price growth areas.

[1] By pooling data across the 1971 and 1991 cohorts and including local authority by parental homeownership status fixed effects, we partial out any variation in outcomes across local authorities and parental homeownership groups that predates the boom period. Appendix Figure 11 shows that the patterns seen in Figure 2 did not exist before the boom period.

Table 1: Effects on whether child is a homeowner

	Child is a homeowner					
	(1)	(2)	(3)	(4)	(5)	(6)
Parents' housing	0.052***	0.013***	-0.002	-0.001	-0.014	0.029
wealth (£00k)	(0.005)	(0.003)	(0.005)	(0.006)	(0.026)	(0.022)
Local house	-0.055***	-0.019***	-0.008		-0.158†	
prices (£00k)	(0.004)	(0.003)	(0.006)		(0.086)	
Controls	No	Yes	Yes	Yes	Yes	Yes
LA×owner FE	No	No	Yes	Yes	Yes	Yes
LA×year FE	No	No	No	Yes	No	Yes
Instrument	No	No	Δ p	Δ p	Elasticity	Elasticity
Observations	96,051	89,899	89,798	89,797	89,798	89,797

Source: ONS LS. Note: Statistical significance at the 10%, 5%, 1% level and 0.1% levels are denoted by †, *, ** and ***, respectively. Standard errors are clustered at the level of the local authority and shown in parentheses.

Table 1 shows the results of our estimation where the outcome is a whether the child is a homeowner when observed between age 28 and 37. We express the effects of parents' housing wealth and local prices in hundreds of thousands of pounds. Specification (1) shows the OLS relationship of homeownership with parents' wealth and local house prices, controlling only for the year of observation. Specification (2) adds controls for child and parent characteristics, $X^{c}_{i,t-20}$ and $X^{p}_{i,t-20}$, attenuating the effects. The inclusion of LA-by-parental ownership status fixed effects in specification (3) attenuates the effects further. Including LA-by-year fixed effects in specification (4) we rule out substantive effects of parental wealth on homeownership. Specifications (5) and (6) are the equivalent of specifications (3) and (4) but using the local housing supply elasticity rather than the change in local prices as the basis of instrumentation. Results are less precisely estimated. However, they suggest that there is a stronger negative effect on homeownership of growth in local prices driven by low elasticity of housing supply than the growth in local prices overall. This is consistent with some of price growth being driven by demand-side changes such as a growth in local incomes, which, in the absence of any effects on the population or any non-homotheticity of housing demand, would not be expected to be capitalised into house prices but not change the allocation of housing. Conversely, variation in local price growth driven by variation in the responsiveness of local supply to common demand shifts would be expected to have a negative effect on homeownership.

Table 2 shows an equivalent set of results where the outcome is the child's gross housing wealth. The OLS relationship shows that a children's gross housing wealth is positively related to local house prices and their parents' housing wealth. The addition of controls for individual characteristics and local authority-by-parental homeownership status fixed effects attenuates this such that we find that around 10% of the housing wealth gains of parents are passed through to their children. When using the local housing supply elasticity

Table 2: Effects on child's gross housing wealth

	Child gross housing wealth (£)					
	(1)	(2)	(3)	(4)	(5)	(6)
Parents' housing wealth (£00k)	21,396***	12,587***	10,347***	10,213**	17,803**	19,123**
	(1,259)	(1,619)	(2,988)	(3,659)	(6,450)	(7059)
Local house prices (£00k)	9,276***	6,947***	1,071		-12,676	
	(1,592)	(1,690)	(3,314)		(15,957)	
Controls	No	Yes	Yes	Yes	Yes	Yes
LA×owner FE	No	No	Yes	Yes	Yes	Yes
LA×cohort FE	No	No	No	Yes	No	Yes
Instrument	No	No	Δ p	Δ p	Elasticity	Elasticity
Observations	95,546	89,406	89,306	89,305	89,306	89,305

Source: ONS LS. Note: Statistical significance at the 10%, 5%, 1% level and 0.1% levels are denoted by †, *, ** and ***, respectively. Standard errors are clustered at the level of the local authority and shown in parentheses.

Table 3: Estimated effect of parental wealth on child outcomes

	University degree	Annual earnings	Lives with parents	Moved LA	Lives in London	Owns in London
$\Delta p_j h^p$ as instrument	0.001	101	0.004	0.005	0.007*	0.008
	(0.004)	(130)	(0.003)	(0.004)	(0.003)	(0.005)
Elasticity as instrument	0.035†	1,702**	0.002	-0.059*	0.034*	0.035**
	(0.021)	(621)	(0.014)	(0.029)	(0.014)	(0.011)
Observations	90,823	90,823	90,823	90,823	90,823	90,823

Source: ONS LS. Statistical significance at the 10%, 5%, 1% level and 0.1% levels are denoted by †, *, ** and ***, respectively. Standard errors are clustered at the level of the local authority.

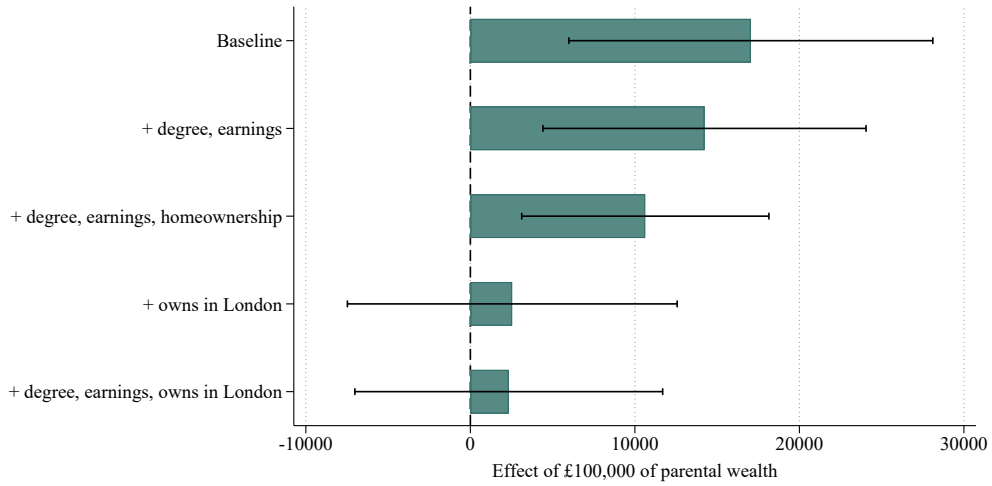
as instrument, we find larger positive effects of parental wealth. This difference would be consistent with house price growth that is driven by shifts in housing demand having a relatively positive impact on the children of renters relative to the children of owners i.e. a violation of Eq. (5).

Table 3 shows the effect of parental wealth on a range of other child outcomes: whether the individual hold a University degree, their annual earnings, whether they live with their parents, whether they moved to a different local authority, whether they live in London and whether they own a home in London. We see that there is some evidence of an effect on education and earnings but only when using the elasticity instrument. There is evidence that those with greater parental wealth are more likely to live and own a home in London. The magnitude of these effects is much larger when using the elasticity instrument. We do not find effects on family composition, including whether the individual has a partner and whether they have children or how many children they have.

4.1.1 Understanding the effect on housing wealth

Figure 3 performs an analysis to assess the mechanisms through which the parental wealth effect may play out. We adds sets of potentially mediating variables to our IV specifications.

Figure 3: Mediation of effects on housing wealth



Source: Authors' calculations using the ONS Longitudinal Study. Baseline estimates are from column (6) of Table 2.

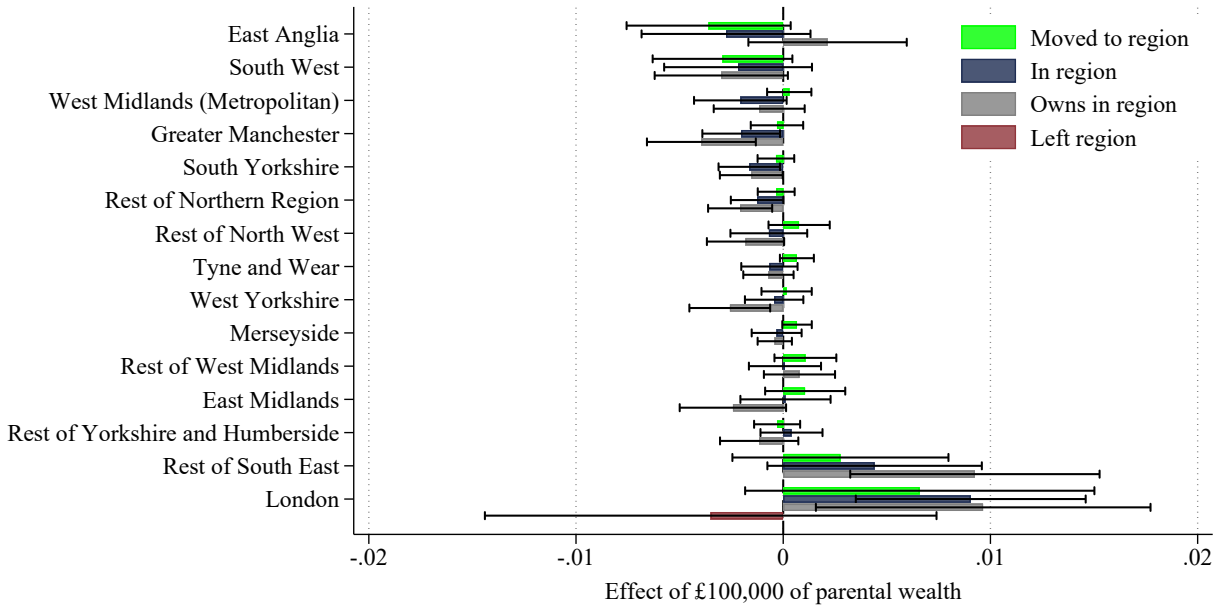
If adding a set of variables reduces the estimated coefficient on parental wealth then these variables are taken as mediating channels of the effect of parental wealth on child housing wealth. The figure shows that 'human capital' channels (university degree level education and earnings) explain only a small part of the effect. Homeownership itself does not explain the effect substantially, either. In line with the fact that there is not a large effect of parental wealth on the extensive margin of homeownership shown above. This implies that parental wealth causes young people to buy more expensive houses. In results not shown here, we show that parental wealth does not cause young people to buy different types of houses. We have seen that young people are caused to buy houses in London, the highest house price city in the UK. Figure 3 shows that this can essentially explain the effect of parental wealth.

4.2 Effects on location choices

Given the importance of home purchase in London to the effects on housing wealth, we investigate the effect of parental wealth on location choices. Figure 13 shows the results of four sets of IV regressions. We use the equivalent of specification (4) in Tables 1 and 2. In the appendix we show estimates using the elasticity instrument. The effects are larger but less precisely estimated. We examine effects on a series of binary indicators for living in each of 15 English regions.[2] We also show an equivalent set of estimates where the outcome is a binary indicator for living and owning a home in a region. Finally, we show estimates for moving to a region, where the outcome is living in the region concerned and the estimation sample is all those who were observed in childhood living outside the region. For London,

[2]These are the 'government office' regions that form the NUTS1 geography, with some regions separated into their urban and non-urban areas.

Figure 4: Effect of parental wealth on living in, moving to, leaving and owning a home in London



Source: ONS Longitudinal Study

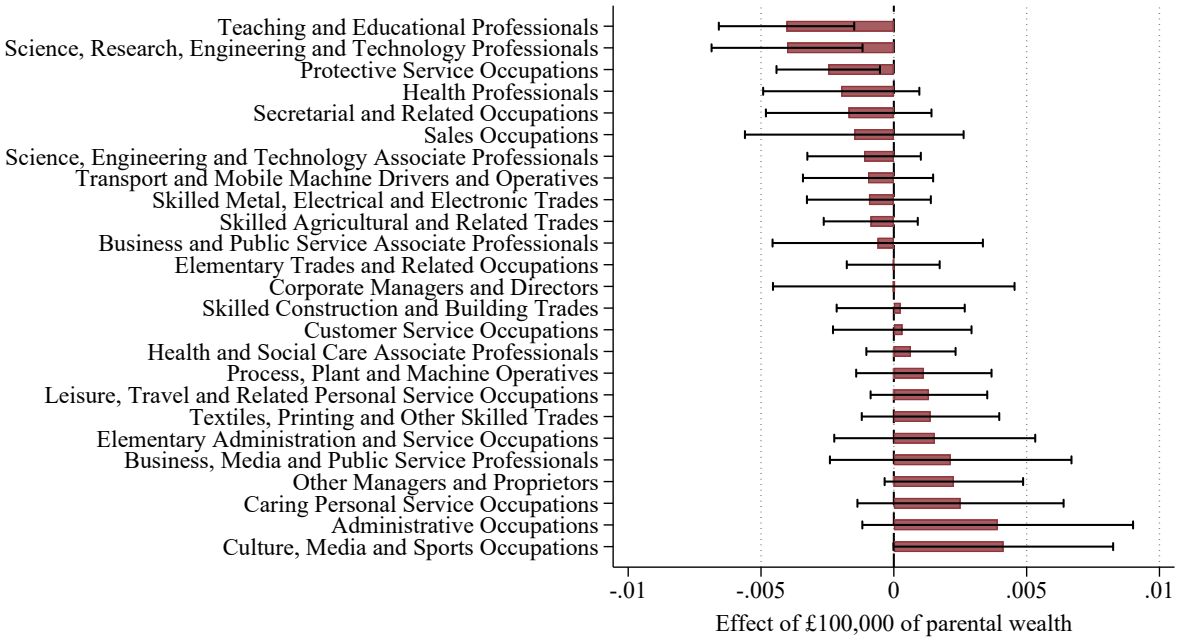
we also show an estimates for the effect on leaving the region, where the estimation sample is those who lived in London in childhood. For regions other than London, the sample size is small and the estimates are imprecise and so we do not show the effects on leaving the region. We see that having higher levels of parental wealth makes individuals more likely to move to London (for those growing up in another region) and less likely to leave the region (for those growing up in London) and more likely to own a home in London.

4.3 Understanding the effects on earnings

The fact that parental wealth drives moves to London, a high earning part of the country, raises the possibility that individuals will see effects on their careers. Figure 14 shows the estimated effect of parental wealth on working in certain occupations (these are the 2-digit groups of the Standard Occupational Classification 2010).[3] We use the equivalent of specification (4) in Tables 1 and 2. In the appendix we show estimates using the elasticity instrument. Parental wealth causes young people to work in occupational groups including 'Culture, Media and Sports Occupations' and to be more likely to work in 'Business, Media and Public Service Professionals' in London. Conversely, parental wealth causes moves out of 'Teaching and Educational Professionals', 'Science, Research, Engineering and Technology Professionals', and 'Protective Service Occupations'.

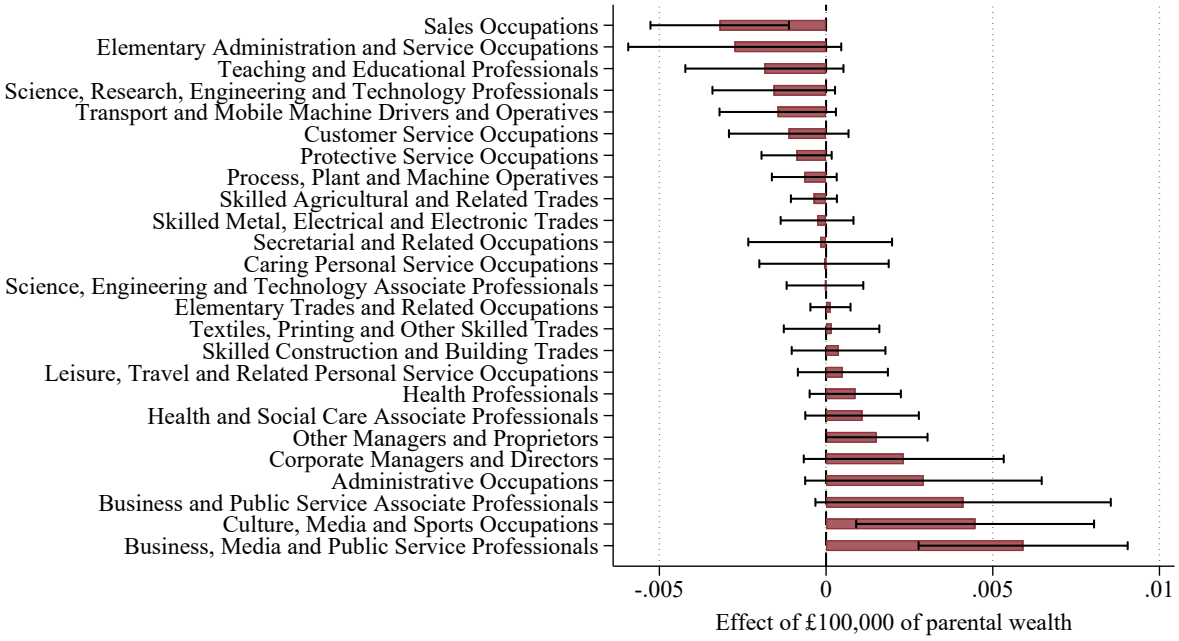
[3] As occupation codes recorded in the census have changed over time we here estimate a specification including only the 1991 cohort.

Figure 5: Effect of parental wealth on working in occupations



Source: ONS Longitudinal Study

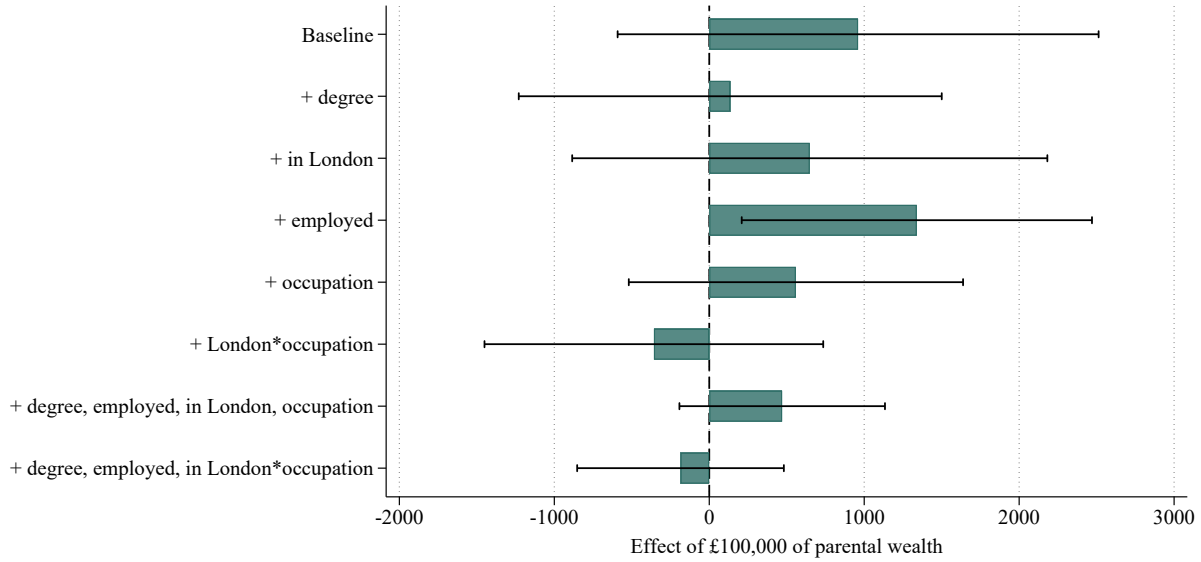
Figure 6: Effect of parental wealth on working in occupations in London



Source: ONS Longitudinal Study

Figure 7 performs a mediation exercise for the effect of parental wealth on earnings, equivalent to that carried out for housing wealth. Controls for having university level education and living in London only explain a small minority part of the parental wealth effect. Employment and occupation are each able to explain around half of the effect. The interaction of being in London and occupation explains the vast majority of the effect and conditional on this, education and employment have only a small further explanatory role. This tells us that the joint decision of location and occupation are the main channel whereby parental wealth affects earnings.

Figure 7: Mediation of effects on earnings



Source: Authors' calculations using the ONS Longitudinal Study. Baseline estimates are from column column 2 of Table 3.

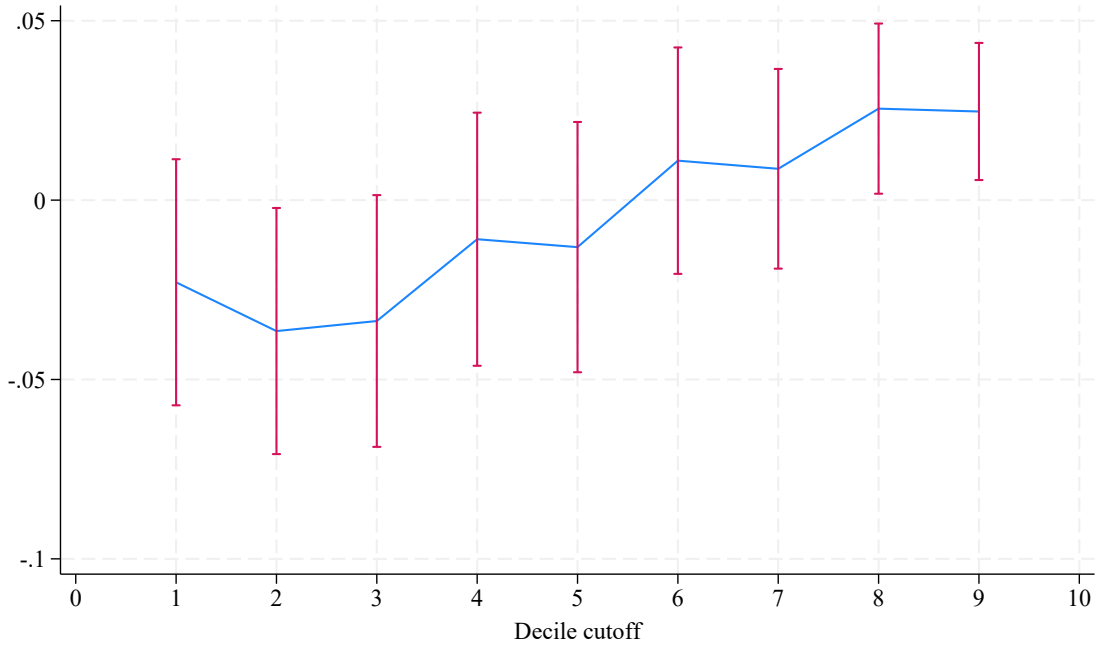
Figure 8 shows the estimated effect of parental wealth on having earnings above certain decile cutoffs in the adult child's generation. We see that there is a decreased likelohood of having earnings above certain lower deciles (i.e. increased likelihood of having low earnings) but also an increased likelihood of having earnings above the 8th decile.

4.4 The role of wealth transfers

How is it that parental wealth affects child outcomes? There are several possibilities. First, parents may make direct transfers of wealth to their children in response to an increase in their wealth. This transfer may be a wealth or liquidity shock for the child (or both). Second, children may make different choices in the knowledge that their parents have greater amounts of wealth which may in future be used to insure them against negative shocks or be transferred to them in the form of inheritances. This may make children more willing to engage in high cost or risky activities.

Figure 9 provides evidence that wealth gains are in part passed on to children in the form

Figure 8: Effect of parental wealth on probability of having earnings above certain deciles



Source: Authors' calculations using the ONS Longitudinal Study.

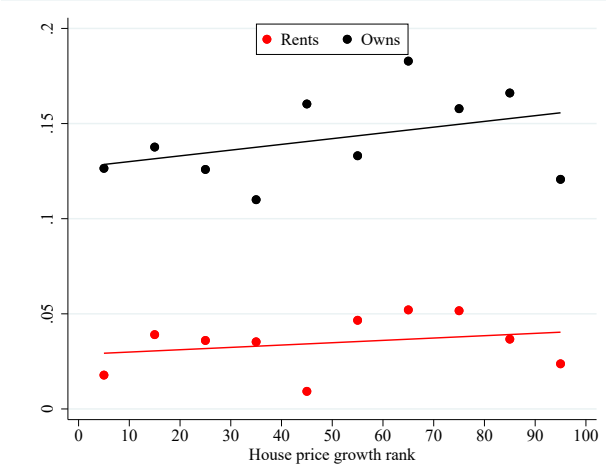
of direct financial transfers. Using the Wealth and Assets Survey, we apply our empirical method to examine the effect of parental house price gains on wealth transfers to children. While panel (a) shows that faster house price growth is not associated with a larger gap between homeowners and renters in the probability of giving a gift to children, it is associated with a larger gap in the *value* of gifts. Parents therefore respond to wealth gains by making higher value transfers to their children. Using the empirical strategy of the previous section, we estimate that £100,000 of additional parental housing wealth causes an additional £1,644 of transfers over a 2-year period.

4.5 Counterfactual

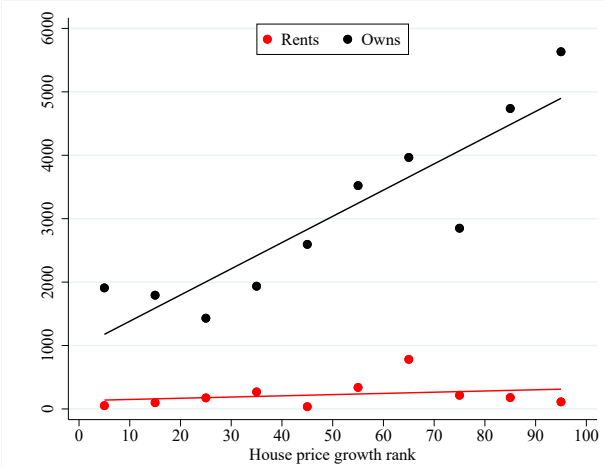
We use our estaimtes from specification (6) in Table 2 to produce a counterfactual for the wealth of children in the 'post-boom' cohort in the case where there had been no housing boom. To do this, we subtract from each observation the estimated effect of the real-terms appreciation in their parents' housing wealth since 1991 on their own housing wealth. As shown in Figure 10, wealth is reduced by a larger amount for those with wealthier parents, Comparing the actual and the counterfactual simulation, we find that the house price boom expands the gap in child wealth between those with parents at the 99th percentile and the median by over 50%.

Figure 9: Wealth transfers from parents to children

(a) Whether gives a gift to a child

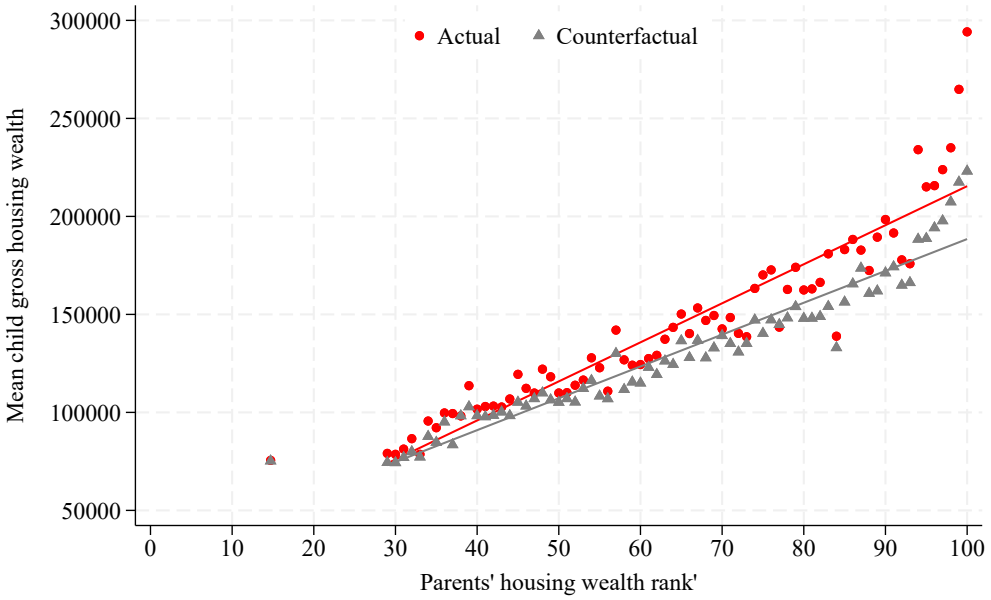


(b) Value of gifts given over 2 years (£)



Source: Wealth and Assets Survey, round 8. Panel (a) shows the proportion of individuals giving one or more gifts of £500 or more to a child over the two year period up until the date of interview. Panel (b) shows the mean cumulative value of gifts given to children over the same two year period.

Figure 10: Counterfactual simulation of average housing wealth by parental housing wealth rank



Source: Authors' calculations using the ONS Longitudinal Study. Counterfactuals are based on estimates are from column column 4 of Table 2.

5 Conclusion

We have shown that the UK house price boom has increased the integenerational persistence of wealth and earnings. Higher prices directly reduced the homeownership rate of young people. At the same time, the increased levels of parental wealth had a positive effect on the wealth and earnings of the children of homeowners. As house price increases were unequal and higher for those with high initial levels of wealth, this increased wealth and income inequalities between those with more wealthy and less wealthy parents. This effect on wealth and earnings happens through effects on location, homeownership and career decisions. Those with wealthier parents are more likely to move to London, a high earning and high house price part of the country, and to buy a house and enter certain careers there. Further work could proceed along three lines: First, an estimated model of location, housing and career choice can be used to quantify the implications of these effects for inequality and social mobility over the lifecycle. Second, there are several channels through which parental wealth could affect children's choices and further research could disentangle the roles of direct parental wealth transfers (which we show are important) and effects through two types of expected future wealth transfers: the provision of parental insurance of income and wealth shocks and increases in the expected value of inheritances received when parents pass away. Finally, further research could study the impact of policies on the process investigated in this paper, including those policies aiming to alleviate liquidity constraints for home purchase, the taxation of wealth and wealth transfers, and policies that increase the supply of housing.

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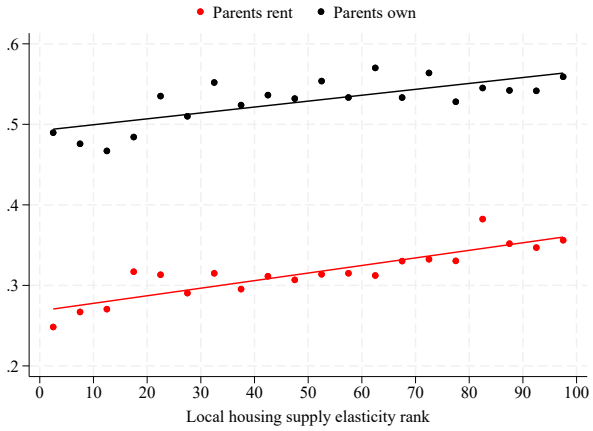
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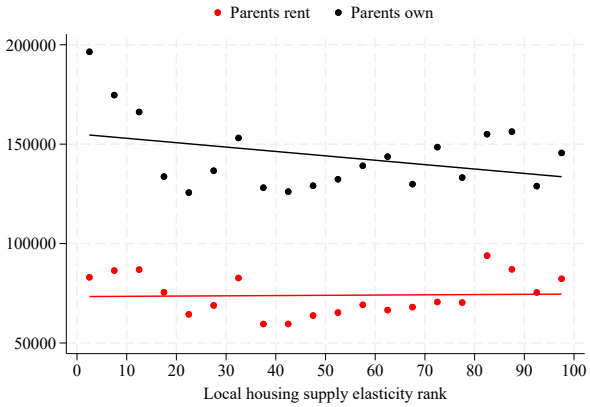
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Figure 12: Relationship between parent's local housing supply elasticity and children's outcomes in pre- and post-boom generations

(a) Homeowner



(b) Gross housing wealth

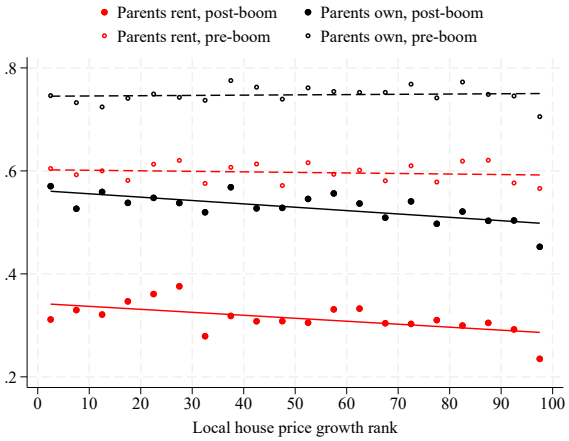


Source: Authors' calculations using the ONS Longitudinal Study

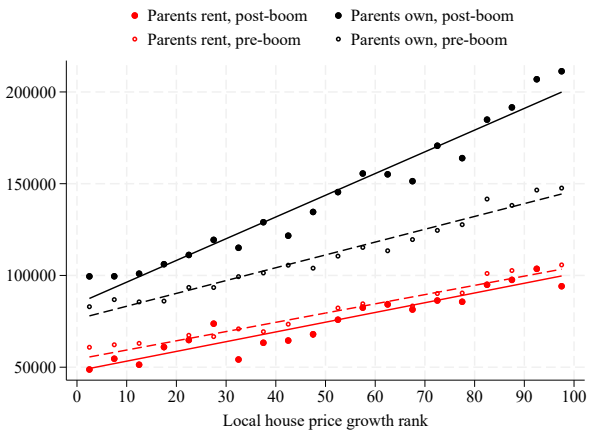
A Supplementary figures

Figure 11: Relationship between parent's local house price growth and children's outcomes in pre- and post-boom generations

(a) Homeowner

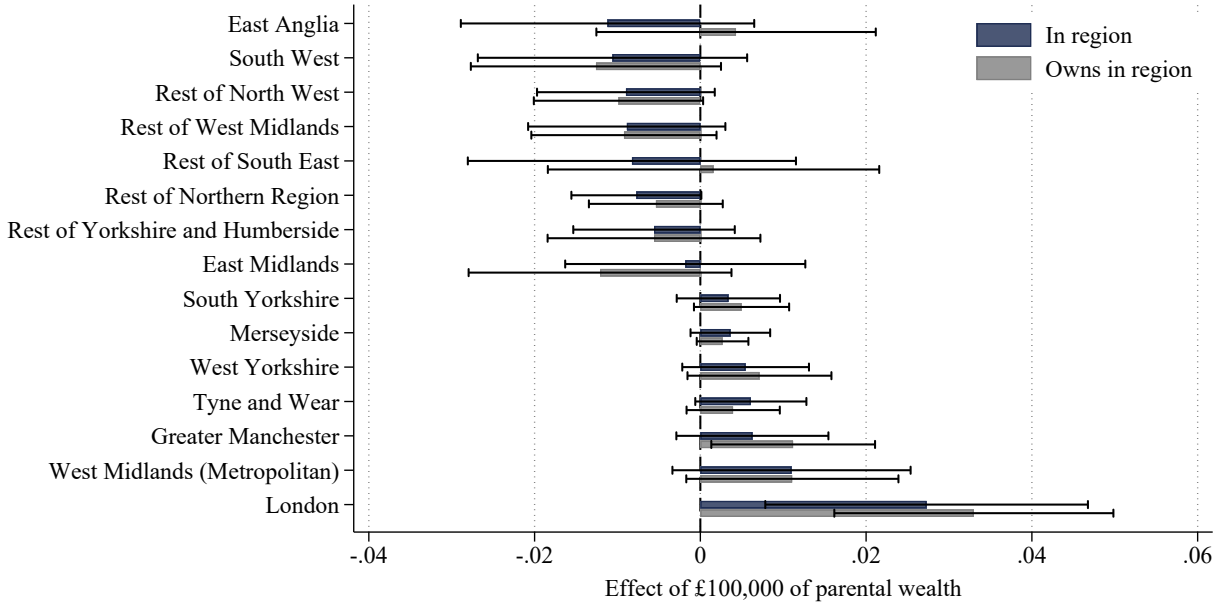


(b) Gross housing wealth



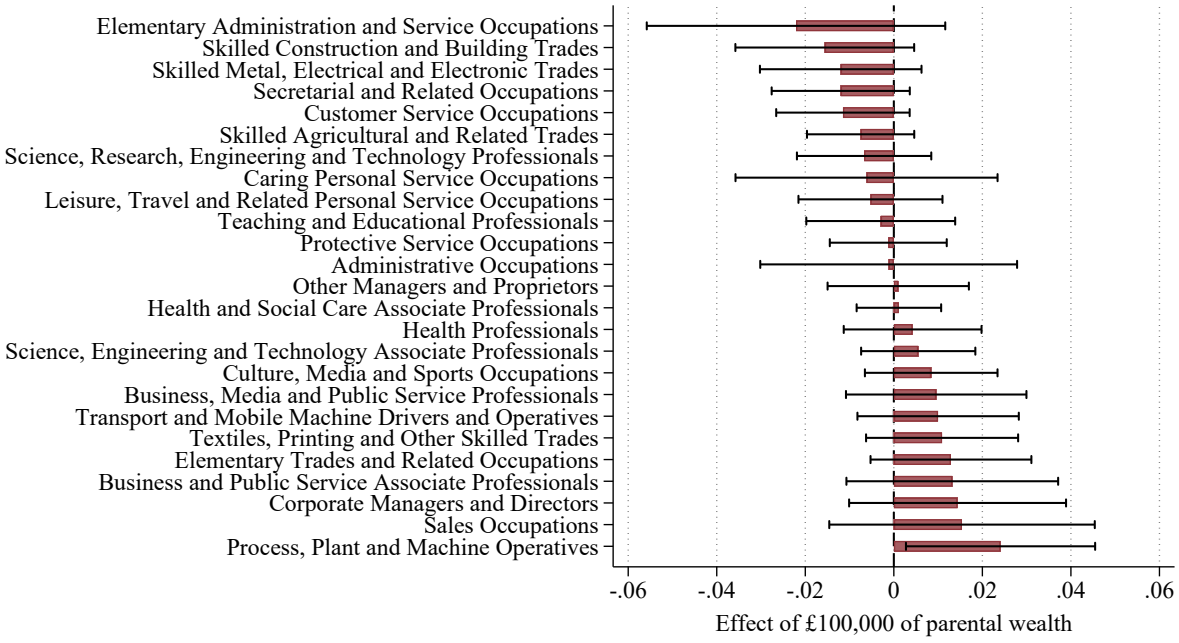
Source: Authors' calculations using the ONS Longitudinal Study

Figure 13: Effect of parental wealth on living in, moving to, leaving and owning a home in London



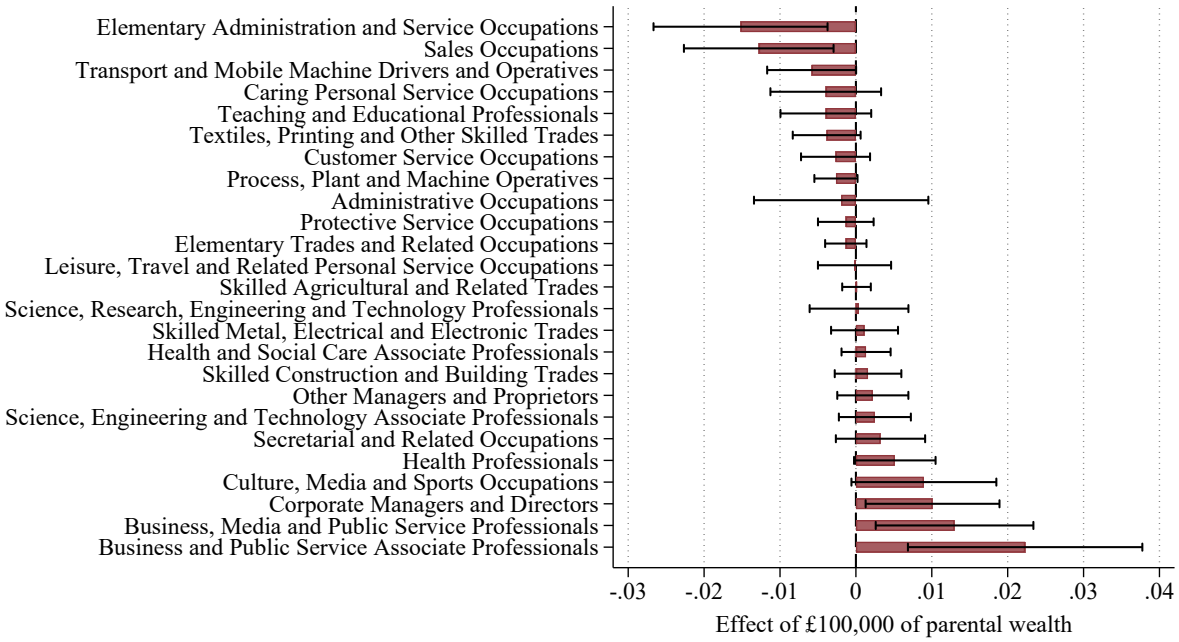
Source: ONS Longitudinal Study

Figure 14: Effect of parental wealth on working in occupations



Source: ONS Longitudinal Study

Figure 15: Effect of parental wealth on working in occupations in London



Source: ONS Longitudinal Study