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Family, Community and Long-Term Earnings Inequality

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Correlations between the earnings of siblings reflect shared family and community background, but evidence is mixed on the relative magnitudes of these influences. In this paper, we develop a model of multi-person earnings dynamics and decompose for the first time the sibling correlation of earnings into family, neighborhood and school effects, taking into account sorting of families into communities. Using administrative data on the Danish population we link individuals to their siblings, schoolmates and teenage neighbors to measure the relative importance of each factor on long-term earnings. We find that: (1) family is by far the most relevant factor that shapes long-term earnings; (2) the contribution of neighborhoods and schools on long-term earnings is overestimated if the family component is ignored, and becomes negligible and not significantly different from zero by age 30; and (3) the importance of family declines over the life-cycle.

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