Scientific abstract

This thesis is about the influence of family characteristics on child outcomes. It examines mechanisms that explains why economic prosperity tends to persist across generations and how this matter for policy.

The first chapter shows that within the same institutional setting, i) parental earnings causally affect child earnings, and ii) parental unearned income does not affect child earnings. This apparent puzzle is hard to explain using the standard model of intergenerational transmission of human capital. I show how relaxing the assumption that ability is perfectly observed before investing in human capital can resolve the puzzle. When ability is complementary to human capital and partly inherited across generations, parents rely on their own outcomes to infer their child's ability. This channel implies a causal link between parent earnings and child human capital since parents cannot distinguish between luck and ability perfectly. Lucky (unlucky) parents attribute their good (bad) outcomes to ability and thus overestimate (underestimate) their child's ability.

Motivated by surveys and experiments that suggest people hold workers more responsible for wage gains stemming from factors indicative of merit, the second chapter shows how to design redistributive income taxes that account for workers' merits. First, we introduce meritocratic social welfare functions that accommodate individual preferences and hold workers responsible for the part of their wage stemming from merit. Second, we show how to map primitives of these social welfare functions into empirically measurable primitives and exploit long-run comprehensive Norwegian income and family relations data to examine the relationship between merit and wages. Third, we simulate linear and non-linear optimal income tax implications of the meritocratic social welfare functions, given our measurement of the role of merits. The result shows that accounting for merit leads to lower optimal marginal income tax rates than the utilitarian criterion recommends. However, the difference is smaller when workers are not held responsible for merits explained by circumstances.

The third chapter re-examines the measurement of welfare and inequality when households have different needs. First, we axiomatically characterize two families of criteria depending on whether households are considered responsible or should be compensated for their different needs. While the difference is of first order importance for social welfare, we prove that this ethical choice has generally a minor role for the measurement of inequality. Second, we extend the results to partial compensation for differences in needs and multidimensional commodity spaces, providing ready to use criteria for the analysis of taxation and redistribution policies.