Discussion of "Parental Wealth and Early Labor Market Outcomes"

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The Paper

Introduction

- The literature on intergenerational inequality has largely focused on parental earnings, as data on parental wealth are typically unavailable.
- This paper provides new and fascinating evidence on **parental wealth and children's early-career labor market dynamics**, using rich administrative data from Sweden.
- The authors develop a partial-equilibrium search model (building on Lise, 2013) that incorporates **parental wealth**, **heterogeneous job separation**, and **endogenous quitting** to rationalize the empirical facts and evaluate unemployment benefit policies.
- **Main message:** Parental wealth acts as an insurance mechanism for young workers, enabling them to wait for good jobs (high wage, low separation rate) and to leave bad ones (low wage, low amenity).

Facts

	Across the wealth dist.	
Outcome Variable	Bottom 90%	Top 10%
Av. log earnings	Increasing	Decreasing
Var. log earnings	Decreasing	Increasing*
Var. log earnings growth	Decreasing	Increasing*
Employment	Increasing	Decreasing
Job separation rate	Decreasing	Increasing
Job finding rate	Flat	Decreasing
Cov. wealth and earnings decomp.:	**between**-firm	**within**-firm

Notes:

- Residualized effects on early career children.
- Wealth is family wealth.
- * indicates top 1%.

Mechanisms

- **Insurance channel**: higher wealth $\rightarrow$ higher reservation wage. In a "standard" model, it leads to:
  - lower job finding rate
  - higher quitting rate (when job amenity drops)
  - lower employment rate
  - higher wage cond. on emp but ambiguous earnings effect

Outcome Variable	Bottom 90%	**Top 10%**
Employment	Increasing	**Decreasing**
Job separation rate	Decreasing	**Increasing**
Job finding rate	Flat	**Decreasing**

- Rationalizing the bottom 90% requires *assumption* that **job separation rate decreases in wage**. Then, higher reservation wage leads to
  - Lower job separation rate
  - Higher employment
- UI benefit provides insurance for low-wealth individuals.

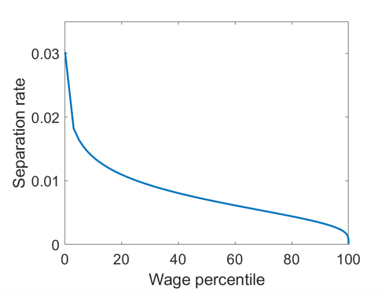
Comments

Overview Comments

1. Job separation rate and wage
2. Top wealth percentiles
3. Parental wealth vs. parental earnings
4. Long-term effects of parental-wealth insurance
5. Minor comments

1. Job separation rate and wage

- Relationship between job separation rate and wage is key to replicating the non-monotonicity in many outcome variables over wealth.
- While can be plausible (e.g., temporary jobs pay less than permanent jobs), the relationship should be externally validated.



- Can this be an endogenous outcome given a joint offer distribution over (w, δ)? What do we miss by making this an assumption?

2. Top Wealth Percentiles

- Individuals in the top wealth percentiles are often entrepreneurs and receive substantial non-labor income (Smith et al., 2019).
- In this paper, earnings refer exclusively to wage income from employees.
- The observed non-monotonic patterns at the top of the wealth distribution may reflect the role of non-labor income and entrepreneurial activity:
  wealthier individuals face fewer credit constraints → are more likely to become entrepreneurs and earn non-labor income → lower employment and labor earnings

3. Parental wealth vs. parental earnings

- The paper shows that parental wealth and earnings have a rank-rank slope of only 0.38. Hence, wealth cannot be proxied by earnings, as is often done in the literature.
- How does parental wealth differ from parental income in explaining intergenerational inequality?
  How would children's labor market outcomes be different if they have high parental wealth but low parental earnings rather than the other way around?
- What aspects of the data highlight the distinction between the two?
- The authors argue that parental wealth matters because it provides insurance value. However, parental earnings may also offer an insurance value.

4. Long-term effects of parental-wealth insurance

- The labor market risks under consideration are short-term, thereby limiting the scope for policy intervention.
- Beyond their insurance value against joblessness, parental wealth plays a crucial role in helping children overcome financial constraints with lasting consequences.
- For example, financial constraints may lead to
  - underinvestment in education and human capital,
  - choosing "safe" rather than "ambitious" fields of study (Almar, Friedrich, Reynoso, Schulz, and Vejlin, 2025),
  - selecting jobs with front-loaded pay and limited training opportunities instead of back-loaded, high-growth jobs.
- In such cases, policies like early-career UI can be important tools to reduce the intergenerational transmission of inequality.

5. Minor comments

- What about the number of children or adults in a household? Are family wealth adjusted for the number of household members?
- Model assumes ψ (the portion of parental wealth that children can access) to be the same for everyone. ψ can potentially vary by parental wealth.
- Disutility of employment u^d can only increase (from 0 to 1) over a job spell. This is an assumption to generate endogenous quitting. However, we know that job separation rate decreases with job tenure. Is this a problem?

Conclusion

- This paper makes an important contribution to our understanding of the intergenerational inequality by examining how parental wealth shapes children's early career dynamics.

- I look forward to reading the next draft!